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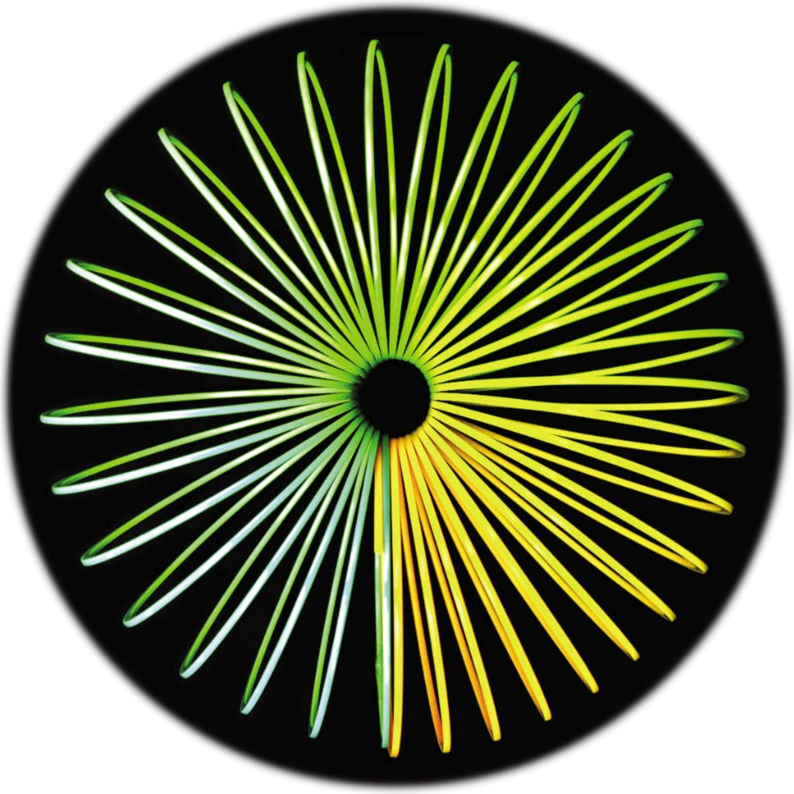

Canadian indirect tax news

Reminder to calculate the GST/HST and the QST due on employee benefits!

February 1, 2018

At the end of each calendar year, an employer is required to calculate the taxable benefits that should be reported on an employee’s T4/Relevé 1 for the year. However, often employers forget that there may be a requirement to remit goods and services Tax/harmonized sales tax (GST/HST) and the Quebec sales tax (QST) on these taxable benefits.

What is a taxable benefit?

Generally, where a benefit is taxable for income tax purposes, a GST/HST and QST registered employer is considered to have made a supply of the property or service that gave rise to that benefit to the employee.

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Most employee benefits have no impact on employer GST/HST and QST remittances or their input tax credits (ITCs) and input tax refunds (ITRs), since the majority of these are either exempt or zero-rated. However, non-cash taxable benefits, taxable allowances and employee reimbursements may have GST/HST and QST implications. Examples of taxable benefits that may have a GST/HST and QST implication include: automobile benefits (i.e., standby and automobile operating charges), non-cash prizes and awards, holiday vacations, employee counselling services, uniform and special clothing, and board and lodging on a short term basis.

Is a taxable benefit subject to GST/HST/QST?

Where a taxable benefit is subject to GST/HST/QST and the employer has taken an ITC (or an ITR), then generally the employer must self-assess the GST/HST/QST on the amount of the taxable benefit. The GST/HST/QST due is generally assessed based on the province in which the employee normally works.

The GST/HST/QST rate for businesses that are not large businesses for purposes of the Excise Tax Act or the Act concerning the Quebec Sales Tax would be as follows:

Province in which the employee normally works:	Standby charge or other benefits other than automobile operating expense benefits	Automobile operating expense benefits
Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador	14/114	11%
Ontario	12/112	9%
Other provinces and territories	4/104	3%
Quebec – QST	9.975/109.975	6%

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For large businesses who are subject to the recapture rules, the HST the rates would be as follows:

Province in which the employee normally works:	Standby charge or other benefits other than automobile operating expense benefits	Automobile operating expense benefits
Ontario	10/110[1]	7.8%[2]
Prince Edward Island	4/104	3%

For Quebec, the impact of the gradual phasing out of the ITRs restrictions for large businesses needs to be taken into account when calculating the QST to be remitted with respect to a taxable benefit. Indeed, this means that a large business would need to remit 25% of the QST calculated on the taxable benefit for fiscal year 2018. As a reminder, the ITR restrictions phasing out started on January 1, 2018. The rates of the ITR claimable with respect to restricted expenses are 25% for 2018, 50% for 2019, 75% for 2020 and 100% for 2021 onward. This should be taken into consideration going forward.

Remittance of GST/HST/QST

The GST/HST/QST due on an employee's taxable benefit supplied during the year ended December 31st should be reported on the employer's GST/HST/QST return for the reporting period that includes the month of February.

Deloitte's Indirect Tax professionals can help you identify whether the above-mentioned requirements may affect your business and your GST/HST remittances.

If you have any questions on any of the above, please reach out to your Deloitte representative.

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[1] As related to a benefit for a qualifying motor vehicle that is subject to the ITC recapture for the provincial component of the HST. For 2018 and subsequent years, the rate will be 12/112.

[2] In Ontario, the recaptured ITCs will be phased out as of July 1, 2018. Therefore, for 2018 the rate will be 8.4% and for 2019 and subsequent years the rate will be 9%.