

SECTION 4

TAXATION OVERVIEW



An Overview of Taxation Policies

The following information has been taken from the Federal Government's website and was current at the time this handbook was printed. It is important that you refer to the website regularly for any changes or updates to the regulations. Here is the link to that website:

www.cra-arc.gc.ca/E/pub/gi-067/-e.pdf

What is GST/HST?

Supplies of goods and services made by businesses are usually taxable. However, the rules for charities are different in that most supplies made by charities are exempt.

Do charities have special GST/HST rules?

Some GST/HST rules that apply to charities are very different from those for businesses. For example:

- most supplies made by charities are exempt while most supplies made by businesses are taxable;
- many charities are not required to register for GST/HST purposes while most businesses are required to do so;
- most businesses can recover the GST/HST paid or payable on their business purchases by claiming input tax credits (ITCs), while charities are restricted in the ITCs that they may claim; and
- where ITCs are not available, charities can recover a percentage of the GST/HST paid or payable on their purchases (subject to certain exceptions) by claiming a public service bodies' (PSB) rebate.

Does a charity have to register for GST/HST purposes?

A charity cannot register for GST/HST purposes if it:

- provides only exempt property and services.

A charity may voluntarily register for GST/HST purposes if it:

- provides taxable property and services in Canada; and
- is a small supplier.

A charity is required to register for GST/HST purposes if it:

- provides taxable property and services in Canada; and
- is not a small supplier.

When is a charity a small supplier?

A charity qualifies as a small supplier under either of the following tests:

- the \$250,000 gross revenue test; or
- the \$50,000 taxable supplies test.

When determining its status under these tests, a charity has to consider its activities as a whole.

The \$250,000 gross revenue test

The limit for the gross revenue test for a charity for a fiscal year is \$250,000. Gross revenue is generally the total of business income, donations, grants, gifts, property income, investment income, any amount considered a capital gain from the disposition of property for income tax purposes and any other revenue of any kind less any amount considered a capital loss from the disposition of property for income tax purposes. If you decide to register, you have to collect ST/HST on your taxable supplies and file GST/HST returns to account for that tax. Some charities would be eligible to claim ITCs.

Subject to a few exceptions, you would still be eligible for a public service bodies' rebate of 50% of GST/HST that you pay or owe but cannot recover by claiming ITCs. For more information, see "GST/HST public service bodies' rebate" on page 9.

Most charities do not have to register for GST/HST or charge tax on their supplies since they are mainly providing exempt goods. If your charity provides taxable goods and services, but it still qualifies as a small supplier, it will not have to register for GST/HST. However, the charity may choose to register voluntarily.

The \$50,000 taxable supplies test

The taxable supplies limit is \$50,000 for a charity. Total revenues from taxable supplies include a Charity's worldwide revenues (and those of its associates) from supplies of property and services subject to the GST/HST, including zero-rated supplies.

To determine if a charity is a small supplier under this test, the charity calculates:

- its total revenue from taxable supplies in the current calendar quarter; and
- its total revenue from taxable supplies in the last four calendar quarters.

If both of these amounts are \$50,000 or less, the charity is a small supplier and does not have to register for GST/HST purposes.

When all of your supplies are exempt

If you make only exempt supplies of goods and services:

- you cannot register for GST/HST;
- you do not charge tax on your exempt supplies;
- you cannot claim ITCs to recover GST/HST you paid or owe on your purchases; and
- you are eligible to claim a public service bodies' rebate of 50% of GST/HST you paid or owe on your eligible purchases and expenses.

Exemptions for charities

The following are examples of goods and services that are exempt when charities provide them:

- most services;
- supplies of used or donated goods;
- short-term residential accommodation (less than one month of occupancy);
- meals-on-wheels programs. This exemption is for a supply of food or beverages to seniors, underprivileged individuals, or individuals with a disability, under a program established and operated to provide prepared food to such individuals in their places of residence. Any supply of food or beverages made to a charity for these programs is also exempt from GST/HST;
- parking space rentals;
- facility rentals (for example, halls for weddings); and
- catering services for private functions (for example, wedding receptions).

Other exemptions

Fund-raising activities ...Most goods and services you sell or provide for a fund-raising activity, that are not covered under the exemptions described above, are exempt unless:

- you sell these goods or services regularly or continuously throughout the year, or a significant part of the year; or
- your clients are entitled to receive these goods or services regularly or continually throughout the year, or a significant part of the year.

Examples of sales that are exempt under this exemption include:

- greeting cards in the Christmas season; and
- chocolate bars in an eight-week fund-raising drive.

Gambling events

- GST/HST does not apply to revenues you receive from sales of lottery, break-open, or raffle tickets. However, lottery tickets you sell for a provincial or inter-provincial lottery corporation are taxable, and the tax is included in the price of the tickets. Lottery corporations will tell you how to treat the proceeds from these lottery tickets.
- If you operate bingo games or casino nights, the fees you charge for the sale of bingo cards or the taking of bets during a casino night are exempt.
- If you run a bingo game, casino night, or other gambling event and charge admission, the admission is exempt if you meet the following conditions:
 - volunteers run the event and take the bets; and
 - for bingo and casino nights, the event is not held in a commercial hall or temporary structure (such as a bingo tent put up on a fair ground) used mainly for gambling activities.

What is the PST?

The following information explaining what the PST is, and how it applies to Thrift Stores, Service Clubs, and Charitable Organizations has been taken from the Government website and was current at the time this handbook was printed. It is important that you refer to the website regularly for any changes or updates to the regulations. Here is the link: www.sbr.gov.bc.ca

Organizations and Societies - Registration and Sales

Registration:

You must register as a PST collector if you regularly sell taxable goods at a for-profit or non-profit thrift store, or at an auction, flea market, bazaar or similar location. If you make taxable sales from these locations, you **do not qualify** for optional registration as a small seller because you are selling from established commercial premises.

You may also be required to register as a collector if you regularly make sales of taxable goods at craft shows or events that are sponsored by your club, organization or society. For more information about who must be registered, please see **Bulletin PST 001**, Registering to Collect PST. Here is some information on the rules as they apply to small sellers, drawn from **Bulletin PST 003**:

Small sellers are required to charge PST when you sell new, used or donated taxable goods, even if the funds are used for charitable purposes.

However, some items are exempt from PST, such as:

- used clothing and footwear sold for under \$100 per item
- child-sized clothing and footwear
- adult-sized clothing and footwear purchased for children under 15 years of age (purchasers of these items must complete a certification form – please see **Bulletin PST 201**, Children’s Clothing and Footwear)
- books, newspapers, and periodicals (please see **Bulletin PST 205**, Books, Magazines, Newspapers and Other Publications)
- Remembrance Day poppies and wreaths
- natural cut evergreens sold as Christmas trees
- non-motorized bicycles, and non-motorized tricycles where the diameter of each wheel is at least 350 mm (please see **Bulletin PST 204**, Bicycles and Tricycles)

If you only sell items that are exempt from PST, you do not need to register as a PST collector.

Raffles, Prizes and Gifts

Raffles and Contest Prizes

If you sell raffle tickets for prizes of taxable goods, such as televisions or computers, or give away taxable goods in a contest, bingo or related activity, you do not charge the PST on, or include the PST in the ticket price or the cost of participating in the contest, bingo or related activity. However, as the provider of the prize, you must pay PST on your cost to acquire the taxable goods you raffle or give away in a contest, bingo or related activity. The prize winner does not pay PST on the cost of the prize.

Please note: Special rules apply where the prize is a vehicle, boat or aircraft.

For more information on the PST rules applicable to prizes received as a result of a raffle, draw or award, please see **Bulletin PST 312**, Gifts.

Gifts Given by Charities in Exchange for a Donation

If you are a registered charity, you do not charge PST on goods such as ribbons, key chains, pins or similar items of a nominal value that you provide as gifts in exchange for a donation. However, you must pay PST on all taxable items you purchase and give away.

