

GST/HST Info Sheet

Harmonizing the Administrative Provisions Respecting Standardized Accounting

December 2006

This info sheet explains how several of the new standardized accounting provisions in the *Budget Implementation Act, 2006* will have an impact on the administration of the goods and services tax/harmonized sales tax (GST/HST).

Background

The purpose of the standardized accounting initiative is to simplify tax compliance for business by harmonizing various accounting, interest and penalty provisions of the federal acts that the Canada Revenue Agency (CRA) administers. These include the *Excise Tax Act* (ETA), the *Income Tax Act* (ITA), the *Excise Act, 2001*, and the *Air Travellers Security Charge Act* (ATSCA).

The *Budget Implementation Act, 2003* began the implementation of the federal government's standardized accounting initiative by harmonizing a number of accounting, interest, penalty, and related administrative and enforcement provisions of the ETA (non-GST/HST), the ITA, the *Excise Act, 2001*, and the ATSCA.

The standardized accounting provisions included in the *Budget Implementation Act, 2006* combined with those already contained in the *Budget Implementation Act, 2003* provide an integrated set of rules for payment dates, interest and penalties that will simplify the system for both business and government.

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The standardized accounting provisions in the *Budget Implementation Act, 2006* become effective April 1, 2007. They will have an impact on the administration of the GST/HST as follows:

- The date that interest begins to accrue on GST/HST refunds and rebates will change.
- Interest at a new prescribed rate will be paid on GST/HST refunds and rebates.
- A person will not be paid a GST/HST refund or a rebate if the person has overdue returns under the ETA, the ITA, the *Excise Act, 2001*, or the ATSCA.
- A GST/HST refund or rebate owing to a person may be automatically offset by amounts that the person owes under the ETA, the ITA, the *Excise Act, 2001*, or the ATSCA rather than paid to the person.
- The 6% penalty charged on overdue amounts will be eliminated.
- A new prescribed interest rate will apply on overdue amounts.
- There will be a new penalty for filing a return late.
- The penalty charged for failing to file a return when required pursuant to a demand will be reduced to a flat \$250.
- A 10-year rolling window will be set for fairness requests to cancel or waive penalty and interest.

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La version française du présent document est intitulée
*Harmonisation des dispositions administratives visant la
comptabilité normalisée.*

Canada

- Penalties and interest will not apply until after the extension of time for filing a return or the extension of time for remitting or paying net tax or tax has expired.

These changes are explained below.

The date that interest on GST/HST refunds and rebates begins to accrue

Refunds

Currently, interest on a refund of net tax or a refund of an overpayment of net tax for a reporting period is paid beginning on the day that is 21 days after the later of:

- the day that all returns have been filed for that reporting period and for previous reporting periods, and
- the day that the return in which the refund is claimed is filed,

and ending on the day that the refund is paid.

Under the new legislation, for a net tax refund or a refund of an overpayment of net tax for a reporting period that ends on or after April 1, 2007, interest will be paid beginning on the day that is 30 days after the later of:

- the day that the return in which the refund is claimed is filed with the CRA, and
- the day following the last day of the reporting period,

and ending on the day that the refund is paid.

Rebates

Currently, when a rebate is paid to a person, the CRA will pay the person interest on the rebate beginning on the day that is:

- in the case of a rebate filed by
 - a public service body,
 - a non-registrant with respect to a sale of taxable real property,
 - a non-registrant in relation to the redemption of real property,
 - an administrator of a provincial legal aid plan, or

- a person with respect to modification of a qualifying motor vehicle

21 days,

- and in any other case, 60 days,

after the application in which the rebate is claimed is filed with the CRA and ending on the day the rebate is paid.

Under the new legislation, interest on all these rebates will be paid beginning on the day that is 30 days after the day the application in which the rebate is claimed is filed with the CRA, and ending on the day the rebate is paid.

In the case of public service body rebates, rebates for printed books, or rebates for multi-employer plan trusts, this provision applies where the claim period for the rebate ends on or after April 1, 2007. For all other rebates, it applies to a rebate claimed in an application filed with the CRA on or after April 1, 2007.

New prescribed rate of interest for GST/HST refunds and rebates

Currently, the prescribed interest rate paid on refunds and rebates is determined by reference to the rate charged on 90-day Treasury Bills and is adjusted quarterly.

Effective April 1, 2007, the *Interest Rate (Excise Tax Act) Regulations* will be amended so that the prescribed interest rate paid on a refund or rebate will be the basic rate, plus 2%. The term “basic rate” will be defined in the Regulations as the average rate charged on 90-day Treasury Bills, adjusted quarterly, and rounded up to the nearest whole percentage (expressed as a percentage per year).

Restrictions on the payment of GST/HST refunds or rebates

Effective April 1, 2007, a person will not be paid a net tax refund at any time until the person files all returns of which the CRA has knowledge that are required to be filed up to that time by the person under the ETA, the ITA, the *Excise Act, 2001*, or the ATSCA.

Beginning April 1, 2007, a person will not be paid a refund or rebate until such time as the person has filed all returns of which the CRA has knowledge that are required to be filed under the Acts listed above.

Automatic offsets of GST/HST refunds or rebates

Beginning April 1, 2007, any refund or rebate owing to a person will not be paid to the person if the person has any amounts owing under the ETA, the ITA, the *Excise Act, 2001*, or the ATSCA. Instead any refund or rebate owing to a person may be automatically offset against a debt the person owes to the Receiver General under any of these Acts.

Example 1 – Refund of net tax

On July 31, 2007, ABC Corporation (ABC) files a GST/HST return with a net tax refund of \$5,000 for its monthly reporting period of June 1 to June 30, 2007. ABC is late in filing its corporate income tax return for the previous taxation year. It files this return on October 10, 2007. ABC has an unpaid balance of \$3,000 (including assessed penalties and interest) with respect to this corporate income tax return. As a result:

- ABC will not receive its net tax refund until its outstanding corporate income tax return is filed in October 2007.
- ABC will receive prescribed interest equal to the basic rate, plus 2%, calculated on its net tax refund of \$5,000.
- The interest on this net tax refund will accrue beginning 30 days after July 31, 2007, which is the day that ABC filed its return for that reporting period, and ending on the day the refund is paid.
- ABC will be paid an amount equal to the net tax refund of \$5,000, plus the accrued interest on this \$5,000, less the \$3,000 amount owing on its corporate taxes.

Eliminating the 6% penalty charged on outstanding amounts

If a person owes an amount before April 1, 2007, both interest at a prescribed rate and the 6% penalty apply to the amount, beginning the day after the amount was due and ending on the day the amount is paid. Effective April 1, 2007, this 6% penalty no longer applies to outstanding amounts. Instead, a new prescribed rate of interest will be charged.

The ITA will be amended so that for taxation years beginning on or after April 1, 2007, the 6% penalty

paid or payable under Part IX of the ETA will not be deductible for income tax purposes.

New prescribed rate of interest on overdue amounts

Currently, the prescribed rate of interest is determined by reference to the rate charged on 90-day Treasury Bills and is adjusted quarterly.

Effective April 1, 2007, the prescribed interest rate charged on an overdue amount will change. The *Interest Rate (Excise Tax Act) Regulations* will be amended so that the prescribed interest rate charged on an overdue amount will be the basic rate, plus 4%. The term “basic rate” will be defined in the Regulations as the average rate charged on 90-day Treasury Bills, adjusted quarterly, and rounded up to the nearest whole percentage (expressed as a percentage per year).

The ITA is amended so that for taxation years beginning on or after April 1, 2007, arrears interest paid or payable under Part IX of the ETA will not be deductible for income tax purposes.

New penalty for filing a GST/HST return late

A failure to file (FTF) penalty will be charged on a return that is filed late with an unremitted or unpaid amount. The new penalty is equal to:

- (a) 1% of the amount overdue on the return, plus
- (b) one quarter of the amount calculated in (a), times the number of complete months the return was overdue, to a maximum of 12 months.

The new FTF penalty applies in respect of:

- any return that is required to be filed on or after April 1, 2007, and
- any return that is required to be filed before that date if it is not filed on or before March 31, 2007, in which case the return is deemed to be required to be filed on or before March 31, 2007, for the purposes of calculating this penalty.

In addition, the legislative provision authorizing the CRA to waive or cancel interest and the 6% penalty charged on overdue amounts is amended to include the FTF penalty.

The FTF penalty will not be deductible under the ITA.

Example 2 – Return due after April 1, 2007, filed after April 1, 2007

Company D is required to file a return for the quarterly period May 1 to July 31, 2007, on or before August 31, 2007. The company files this return on October 22, 2007. The unremitted net tax on this return is \$1,000. As a result:

- Company D will be assessed a FTF penalty of \$12.50 for this overdue return filed late. $[(1\% \times \$1,000) + (25\% \times \$10.00 \times 1 \text{ month})]$.
- This penalty is calculated effective August 31, 2007.
- Company D will be charged interest at the basic rate, plus 4%, on the outstanding \$1,000 net tax, plus the \$12.50 FTF penalty, beginning September 1, 2007, and ending on the day these amounts have been remitted or paid.

Example 3 – Return due before April 1, 2007, and filed after that date

On September 17, 2007, XYZ Company (XYZ) files its outstanding return for the reporting period January 1 to January 31, 2007, which was due on February 28, 2007. The amount of unremitted net tax on this return is \$1,000.

- The \$1,000 unremitted net tax from the return for the January 1 to January 31, 2007, reporting period will be subject to interest at the current prescribed rate, plus a penalty of 6%, from March 1 to March 31, 2007.

Effective April 1, 2007:

- The 6% penalty will no longer be charged on the outstanding amounts.
- XYZ will be assessed a FTF penalty = \$22.50. $[1\% \times \$1,000 + (25\% \times \$10.00 \times 5 \text{ months})]$
- XYZ will be assessed prescribed interest on the outstanding amount equal to the basic rate, plus 4%, until such time as all amounts of net tax are remitted and penalties and accrued interest are paid.

Penalty for failing to file a GST/HST return pursuant to a demand to file

Currently, when a person fails to file a return within the time specified in a demand for a return served by

the CRA, the person is liable to a penalty equal to the greater of \$250 and 5% of the outstanding tax payable or net tax remittable for the period or transaction designated in the demand that was unpaid or unremitted on the day that the return was due.

For any demand served by the CRA on or after April 1, 2007, this penalty is reduced to a flat \$250.

New 10-year rolling window for fairness requests

Consistent with the previous amendment to the fairness provisions in the ITA, a 10-year rolling window will be set for fairness requests for the waiver or cancellation of interest or penalty. The CRA may waive or cancel interest and the 6% penalty payable by a person for its reporting period, or the FTF penalty in respect of a return for a reporting period, on or before the day that is 10 calendar years after the end of the reporting period. This change is effective April 1, 2007.

Extending the time for filing a return or extending the time for remitting or paying net tax or tax

Currently, the CRA may extend the time for filing a return, or extend the time to remit or pay net tax or tax. The accrual of the 6% penalty is suspended during the extension period. However, interest on any amount payable continues to accrue throughout the period of extension.

For any extension of time that expires on or after April 1, 2007, the FTF penalty in respect of the return, the 6% penalty or any interest on the amount required to be remitted or paid will not apply until after the extension period expires, and will only apply in respect of the period after extension.

The information in this info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact a Canada Revenue Agency GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the “participating provinces”) at the rate of 14%. The rate of the goods and services tax (GST) is 6%.