

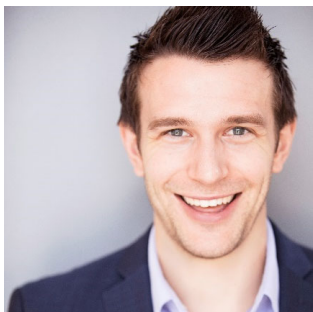


CANADIAN GST/HST RULES ARE CHANGING ON JULY 1

Is your business ready?

June 7, 2021

Today's speakers



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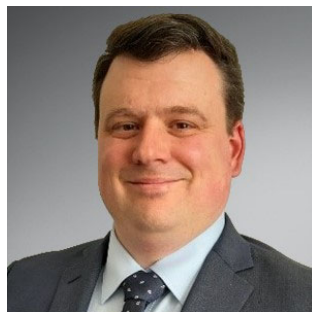
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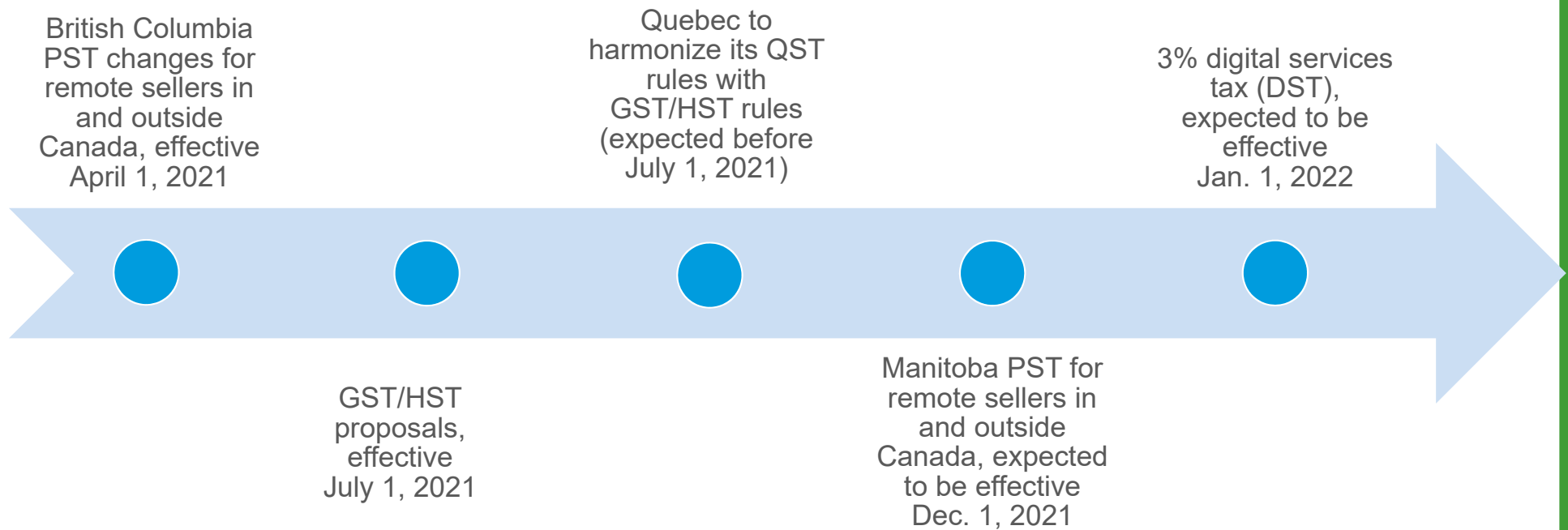
Agenda

- Overview of changes
- Policy rationale
- Rules for nonresidents of Canada (pre-July 1)
- Services & digital products
- Tangible goods
- Online accommodation platforms
- Quebec sales tax and other provincial sales tax
- Digital services tax
- What does this all mean?



OVERVIEW OF CHANGES

Overview of changes



POLICY RATIONALE

Addressing the tax challenges of the digital economy

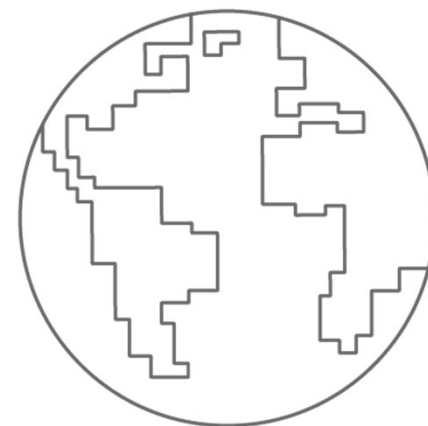
- Action 1 of the BEPS (Base Erosion and Profit Shifting) initiative was released in October 2015
- It provided two main recommendations from a value-added tax (VAT) perspective, both under the concept of the “destination principle” of consumption or enjoyment

Digital services in a B2C context: Taxing these supplies via a nonresident registration mechanism

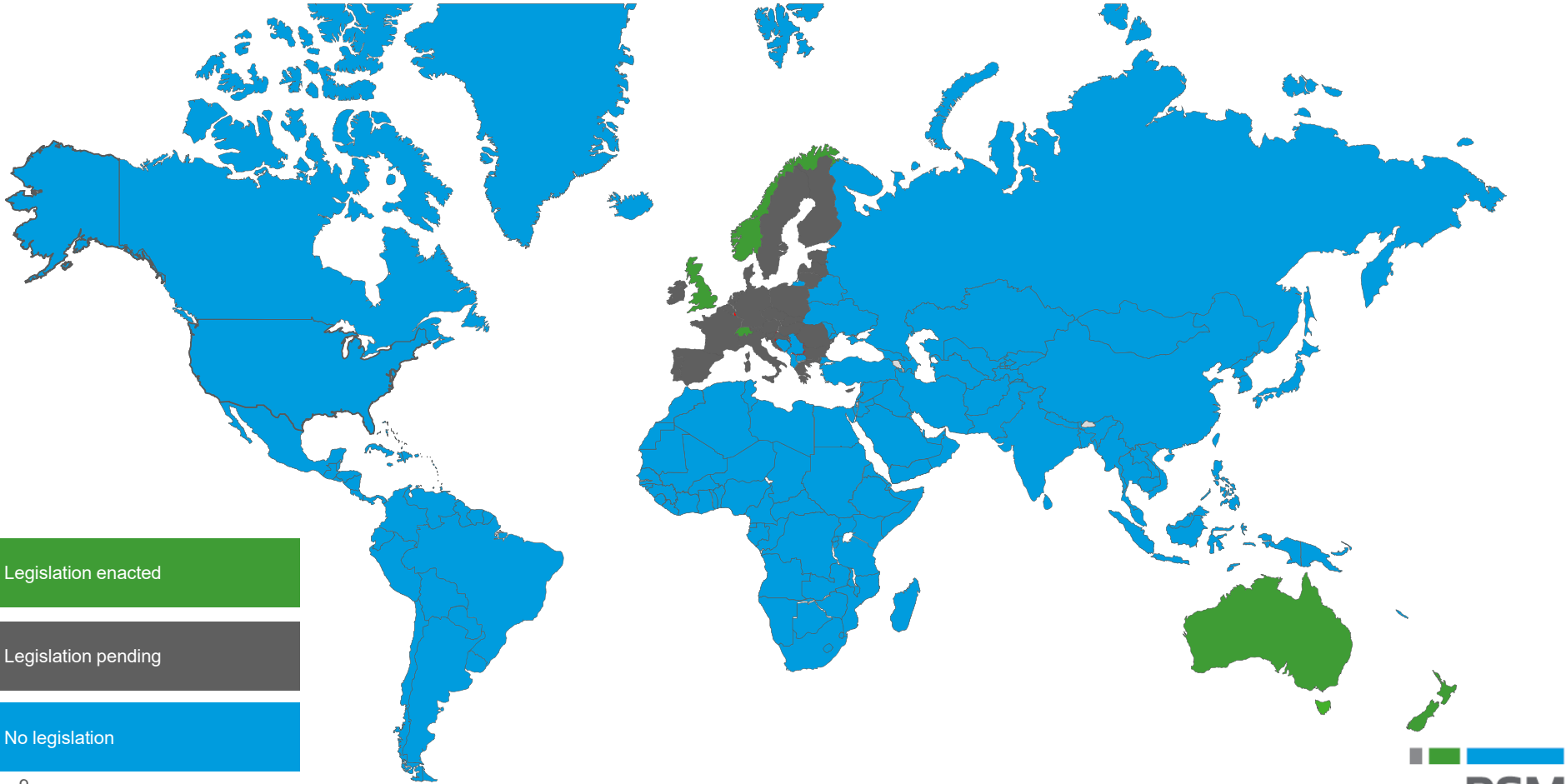
Cross-border e-commerce (physical goods): ensuring the efficient collection of taxes, particularly around “low value goods” being shipped cross-border

Addressing the tax challenges of the digital economy

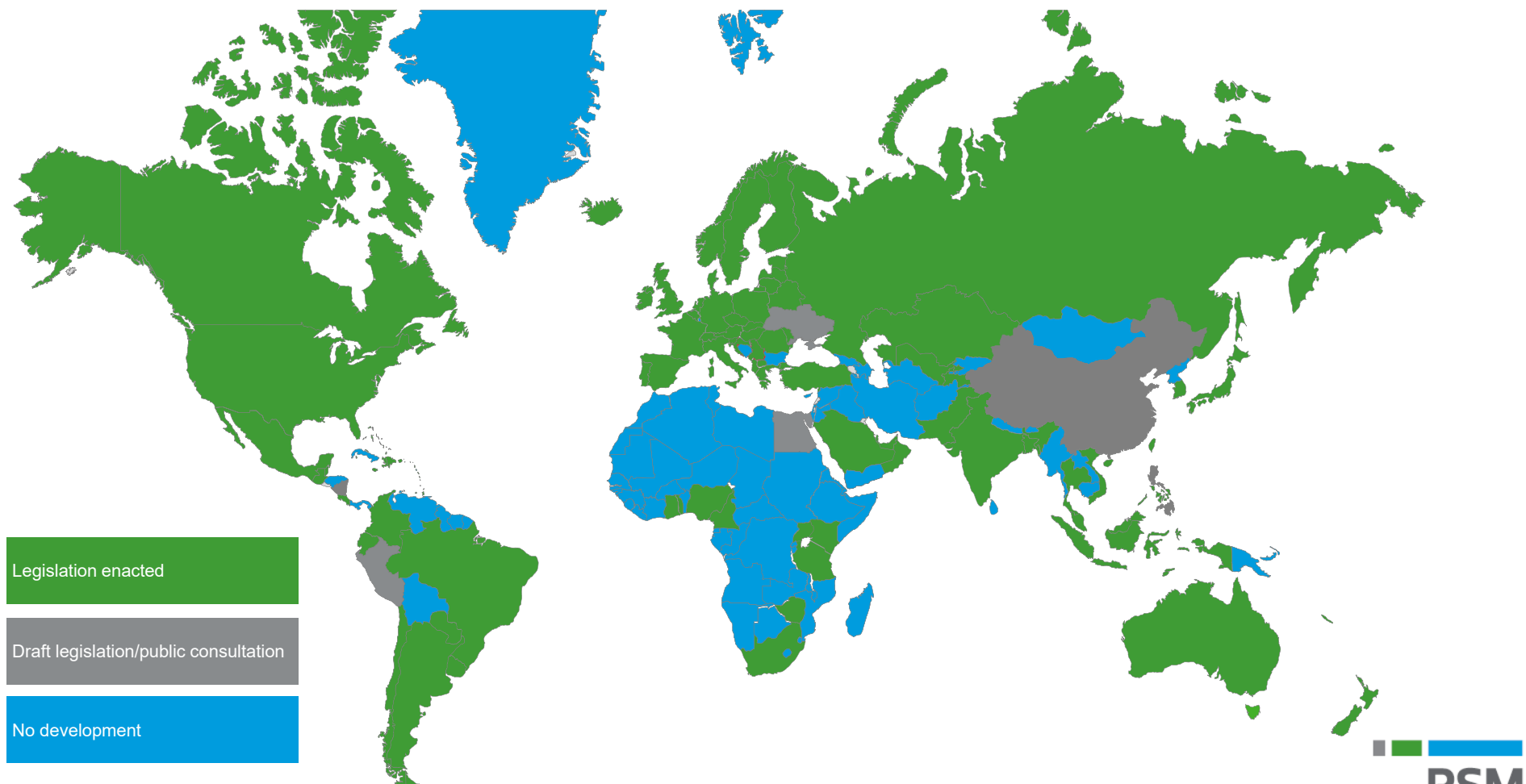
- Since 2015, numerous global VAT authorities have introduced new legislation to tackle these issues.
- Digital services rules now exist in some 90+ countries around the world
- Specific rules around low value goods are still fairly limited, but jurisdictions like the U.K. and E.U. have recently legislated “marketplace” facilitator rules



Overview of cross-border B2C “low value goods” rule



Overview of cross-border digital services rules



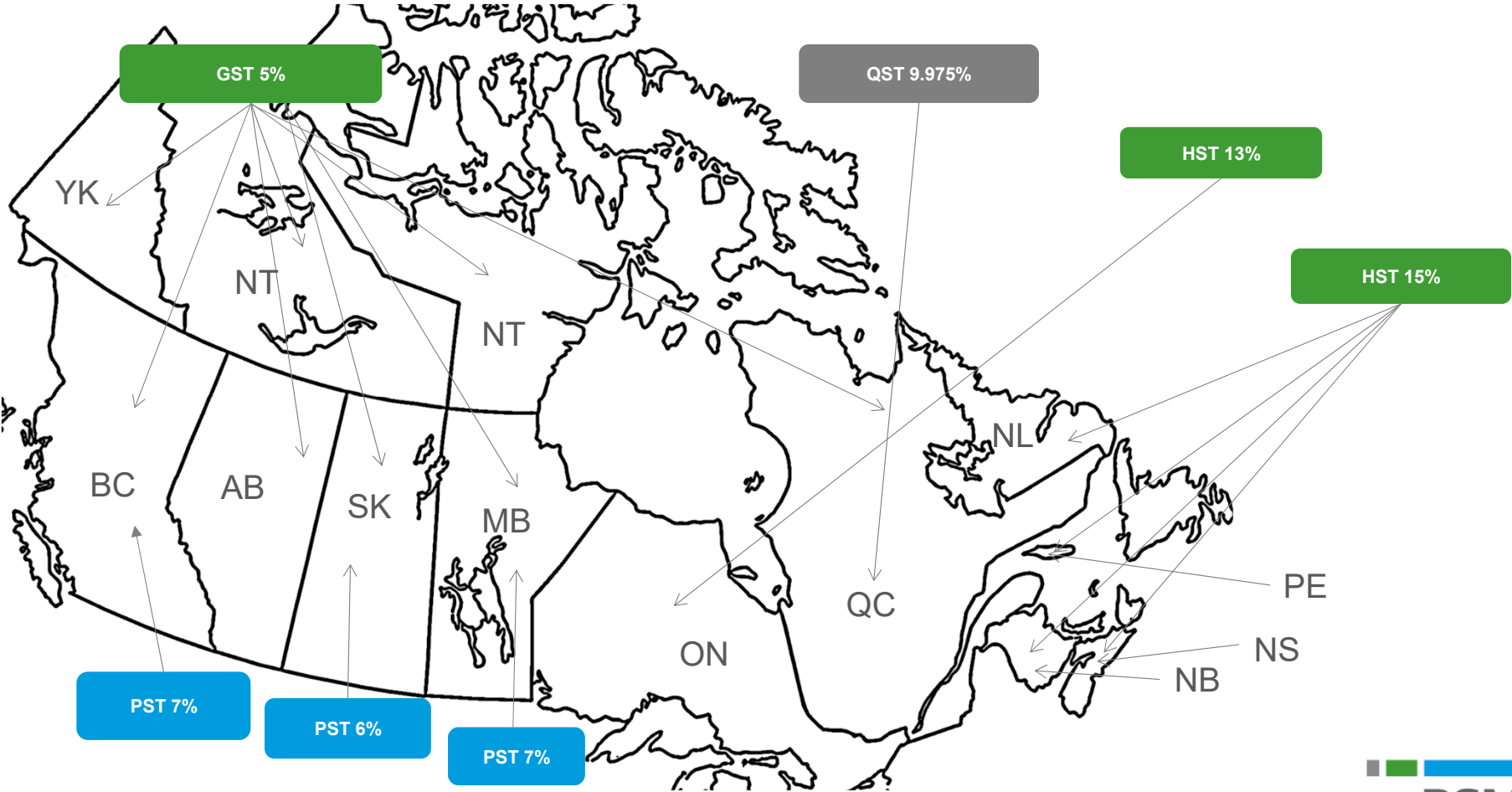
What will these changes achieve in Canada?

- Reduce tax gap and increase competitiveness of domestic suppliers required to collect tax
- Shift burden to large platforms, where possible
- Information returns from digital platforms and fulfilment warehouses will increase transparency
- Increase tax base from large digital service businesses
- Provide more certainty around specific business models to remove ambiguity from the “carrying on business” test



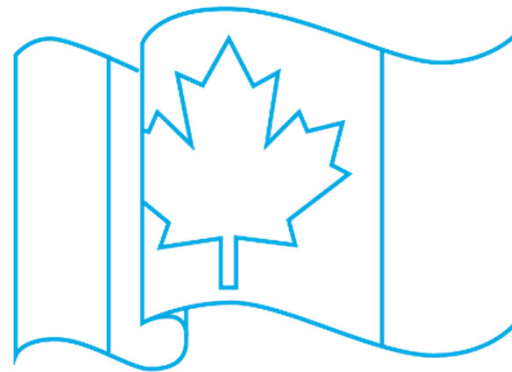
RULES FOR NONRESIDENTS OF CANADA (PRE-JULY 1)

Sales tax rates in Canada



Rules for nonresidents of Canada (pre-July 1)

- Generally, GST/HST registration is required if nonresident is “carrying on business” in Canada
- Nonresident PST registration generally not required if not carrying on business in the province except in Saskatchewan and since April 1, 2021, British Columbia
- Nonresident QST registration generally only required if “carrying on business” in Quebec or selling B2C services or digital products

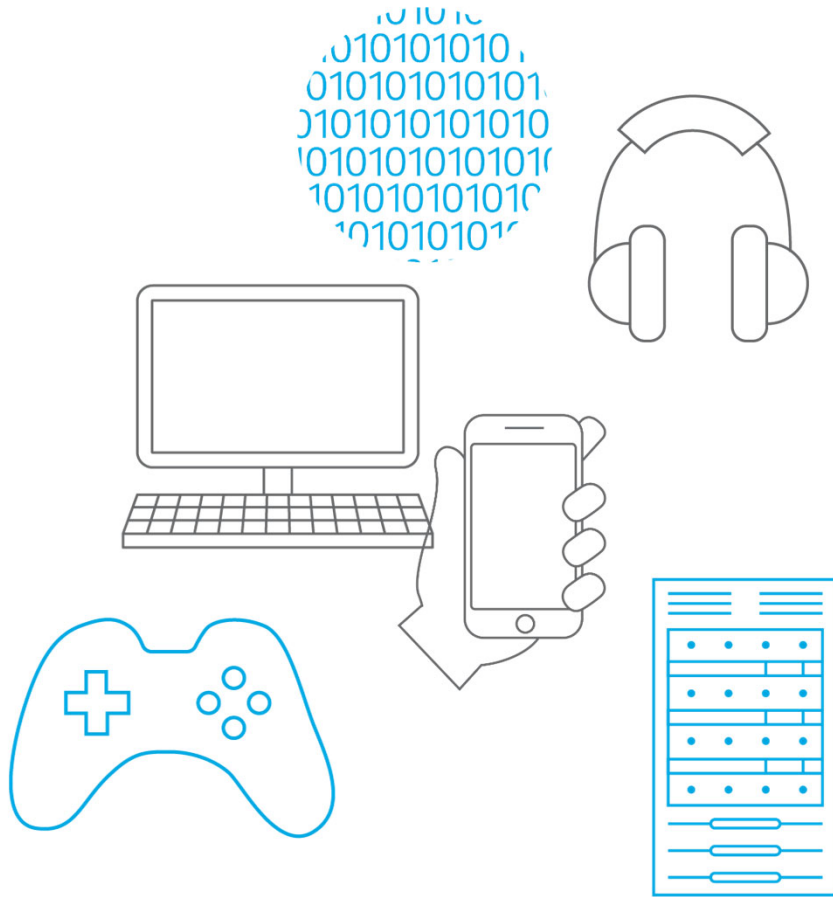




SERVICES & DIGITAL PRODUCTS

GST / HST

What is considered a service or digital product?



- Mobile apps
- Music and video streaming or downloading
- Online courses and e-learning, live and on-demand
- Video games
- Digital healthcare and therapy
- Remote monitoring services
- E-books, online journals, newspapers
- Online dating services and online gambling
- Accounting, consulting, and legal services
- Investment management services
- Memberships in non-profit organizations

Registration requirements for nonresident suppliers

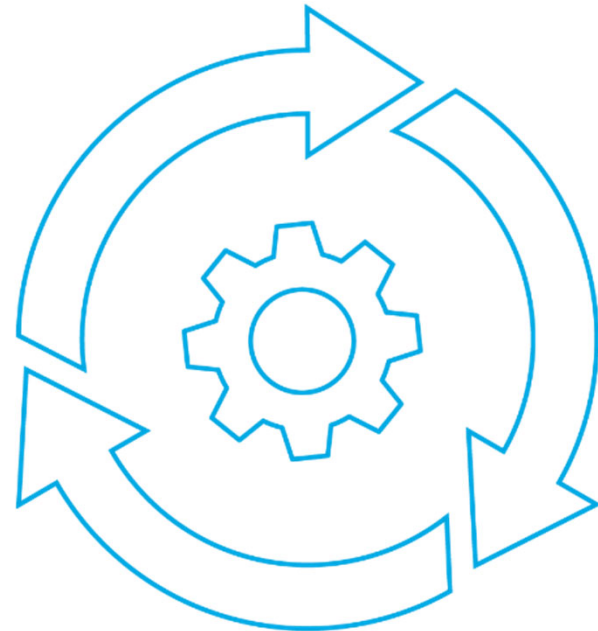
- Registration required where:
 - \$30,000 CAD in sales in 12-month period by supplier to persons who are:
 - resident in Canada
 - not registered for GST/HST
- Generally captures B2C sales, with important exceptions
- All suppliers should track GST/HST registration status of customers

Registration requirements for distribution platform operators

- Registration required of distribution platform operators (DPOs) where threshold exceeds \$30,000 CAD in 12-month period
 - Sales by non-resident, unregistered vendors to persons who are:
 - Resident in Canada; and
 - Not registered for GST/HST
- Where supplier is nonresident of Canada and not registered for GST/HST under existing rules, tax collection and reporting shifts to DPO
- Detailed definition for “distribution platform operator” in respect of supplies of property or services made through digital platform
- “Excluded operator” is not a DPO

Simplified process

- GST/HST applies on taxable sales to purchasers that don't provide GST/HST registration number
- Apply to report and remit in certain foreign currency
- No ITCs claimable by registrant under simplified registration system
- Nonresident security deposit not required



Practical considerations

- Determine if required to register for GST/HST
- Determine which registration method to use
- Billing system or tax engine changes
- DPOs also to track residence and registration status of vendors using platform
- Communication to customers and vendors



Polling question 1

True or false: Businesses who only make B2B sales of services or digital products do not have any GST/HST obligations starting July 1, 2021.

- a) True
- b) False

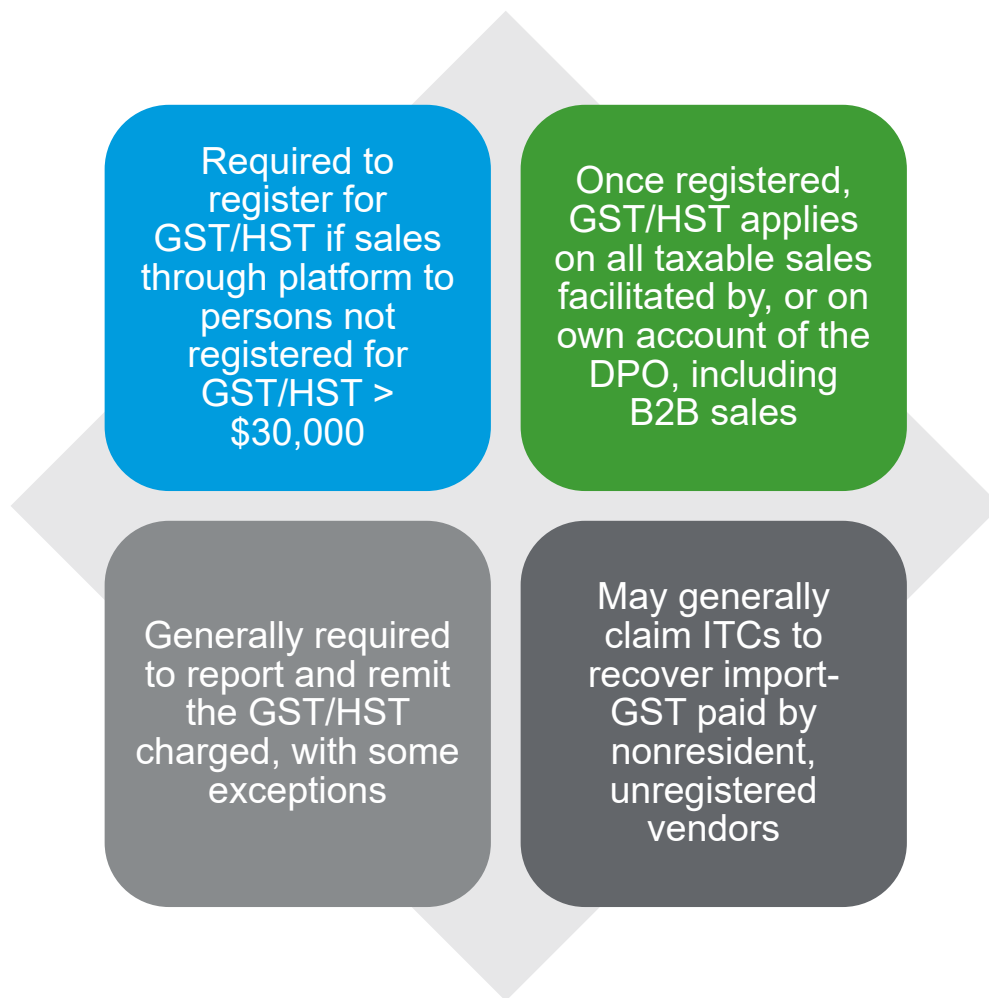
TANGIBLE GOODS

GST / HST

Overview of new rules

- New rules intended for:
 - DPOs and nonresidents selling taxable goods to Canadian consumers (any person not registered for GST/HST) from within Canada
- DPOs generally deemed as supplier of goods sold through their platforms, with few exceptions
- Goal to increase transparency and reduce tax gap

Application of rules to DPOs

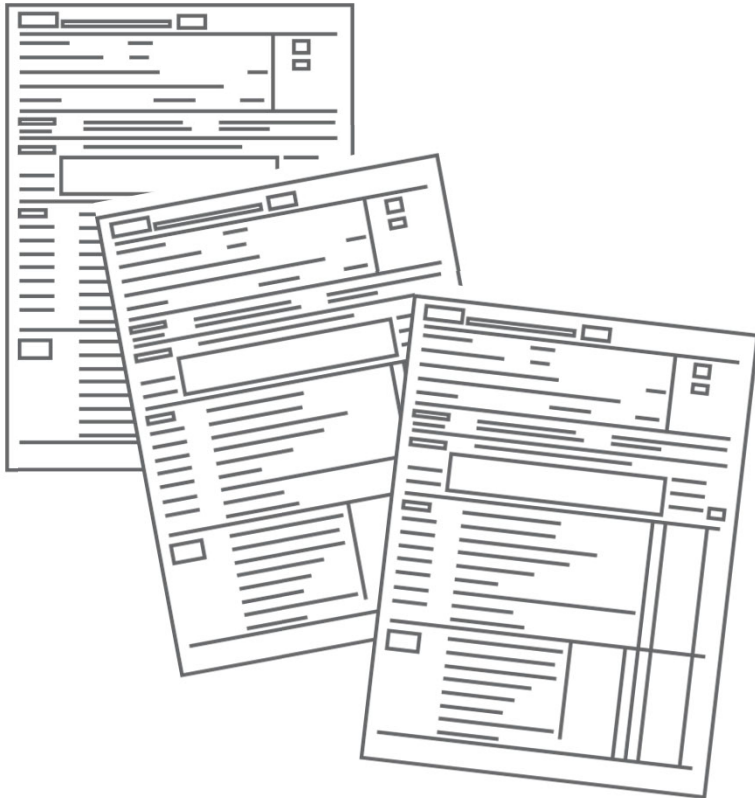


Requirements for vendors selling directly

- Non-resident vendors selling directly must register for GST/HST if threshold exceeds \$30,000 CAD in 12-month period
- Threshold calculation:
 - Taxable goods delivered or made available in Canada, if goods are:
 - Not sent via mail or courier from outside Canada
 - Sold to purchasers who are not registered for GST/HST
- Once registered, GST/HST applies to all taxable sales delivered or made available in Canada



Taxes collected at time of import by CBSA



- Businesses who are not registered for GST/HST are not required to charge and collect tax on sales to individuals via mail and courier
 - Payable to CSBA along with PST and QST, if applicable
- CBSA policy vs. new GST/HST legislation could exacerbate instances of double taxation

Practical considerations

- Several considerations for businesses selling goods remotely to Canadian customers and DPOs facilitating such sales
- DPOs and fulfillment warehouse operators required to file an annual information return in respect of third-party sellers using DPO or fulfillment warehouse

Polling question 2

True or false: Nonresident businesses who only make B2B sales of taxable goods sold from warehouses in Canada can ignore the GST/HST.

- a) True
- b) False

ONLINE ACCOMMODATION PLATFORMS

GST / HST

Online accommodation platforms

Accommodation platform operators (APOs) must register and charge GST/HST on short-term accommodations of nonregistered owners to persons not registered for GST/HST

Simplified registration available for certain nonresident accommodations platform operators (APOs)

No ITC availability for APOs using simplified registration system

Online accommodation platforms (continued)

Services fees charged by APO to nonregistered owners not subject to GST/HST

Guest fees charged by APO taxable along with accommodation charges

APOs required to file information return regarding property owners using platform

Polling question 3

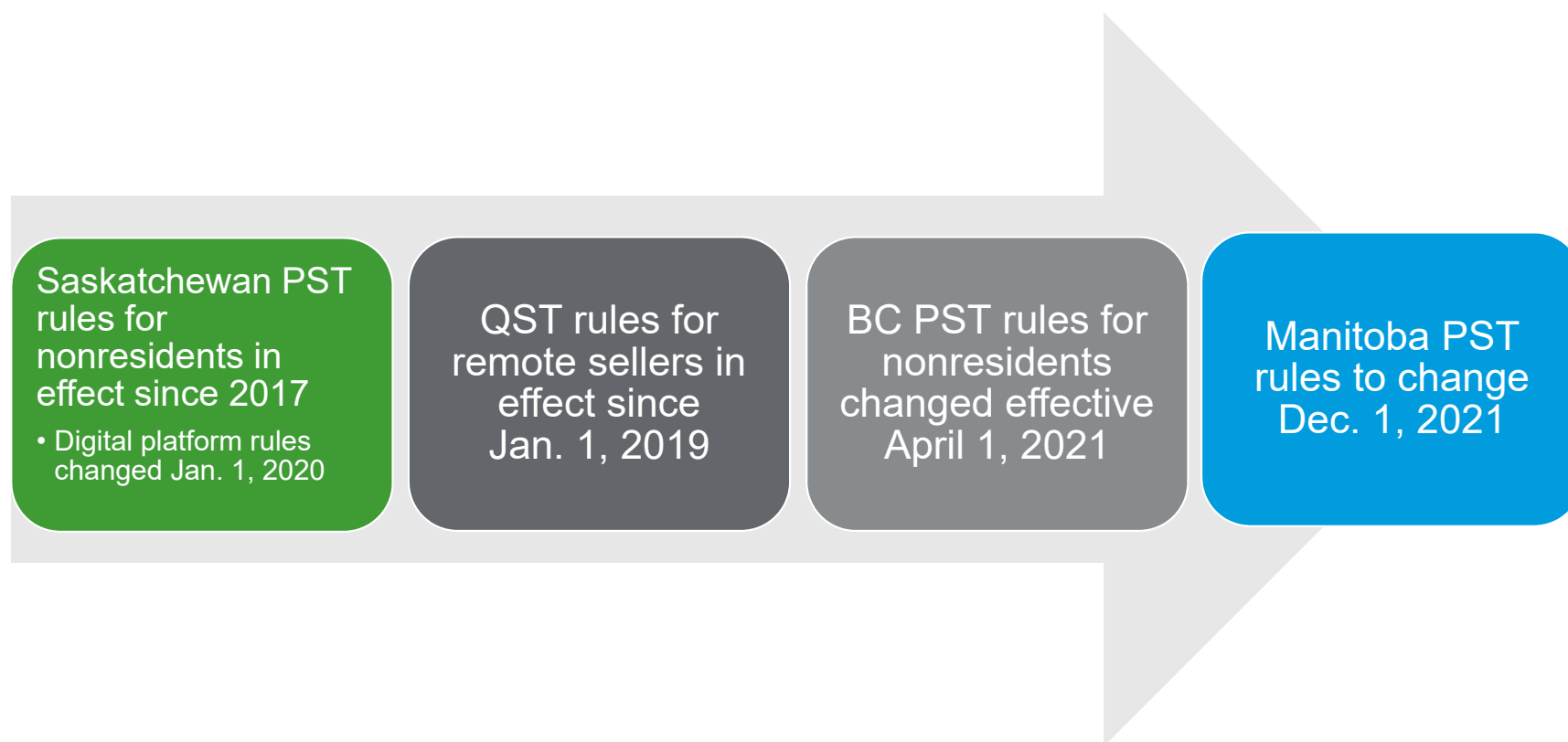
When do the new GST/HST rules for services, digital products, tangible goods, and digital accommodation platforms take effect?

- a) June 30, 2021
- b) July 1, 2021
- c) Jan. 1, 2022
- d) July 1, 2022



QUEBEC SALES TAX AND PROVINCIAL SALES TAXES

Quebec sales tax and provincial sales taxes



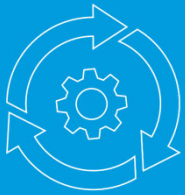
Polling question 4

Would you like RSM Canada to contact you regarding these Canadian sales tax changes?

- a) Yes
- b) No

DIGITAL SERVICES TAX

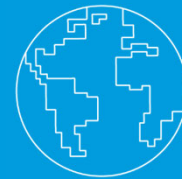
Digital Services Tax



3% digital services tax (DST) on revenues from digital services reliant on the engagement, data and content contributions of Canadian users



DST would apply to Canadian revenues exceeding the \$20 million threshold

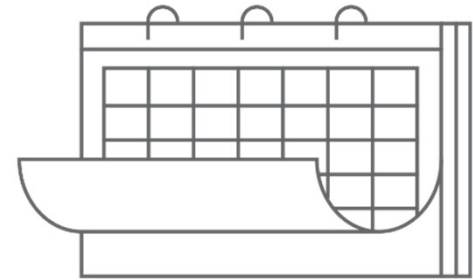


DST applies to business group where:

- Global revenue of €750 million
- in-scope Canadian revenue over \$20 million

DST legislation and consultations

- Coming into force on Jan. 1, 2022
- Legislation not released yet
- Department of Finance accepting comments until June 18, 2021



WHAT DOES THIS ALL
MEAN?

Impact of changes

- Significant increase of Canadian sales tax net
- What to consider if selling to Canada:
 - Increased sales tax cost of products and services for Canadian consumers
 - If registration required for any or all sales taxes, managing charging, collection and remittance
 - ERP, billing system or tax engine changes
 - Tracking additional information about customers
 - Filing of returns, dealing with one or multiple regimes
 - Increased liability for DPOs and APOs



THANK YOU
FOR YOUR TIME
AND ATTENTION

QUESTIONS AND ANSWERS



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