SLFI Returns Due June 30 — Claim Missed ITCs

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Many selected listed financial institutions (SLFIs) only have until June 30, 2017 to claim missed eligible credits related to their 2014 fiscal year. SLFIs that have a December 31 year-end and that are annual filers must file their 2016 GST/HST and/or QST final returns by June 30, 2017. These entities should ensure to include in their 2016 returns all their input tax credits (ITCs), including missed ITCs for 2014 and 2015, as well as their 2016 deductions and SAM adjustment.

In addition, June 30, 2017 is also the last day that certain SLFIs can change their ITC allocation method for 2016. This deadline applies to SLFIs with annual reporting periods that have a December 31 year-end and that are not qualifying financial institutions. Qualifying financial institutions (i.e., certain banks, insurers and security dealers) with a December 31 year-end that want to renew or apply for authorization to use particular allocation methods for their 2018 fiscal year must file an application no later than 180 days before the first day of the qualifying financial institutions’ fiscal year.

In general, a SLFI is a listed financial institution that has a permanent establishment, as defined in the GST/HST SLFI regulations, in an HST-participating province and a permanent establishment in another province. Similar rules apply for QST purposes. A listed financial institution includes many entities, such as investment plans (e.g., pension plans and master trusts), credit unions, brokers, insurers and segregated funds of insurers.
Changes that may affect 2016 SLFI returns

Before you file your 2016 SLFI returns, you should carefully review if your GST/HST and QST SAM calculations and adjustments take into consideration:

- The recent QST regulations related to the QST SAM adjustments which apply retroactively to January 1, 2013 (see TaxNewsFlash-Canada 2017-28, “Quebec’s New QST Regulations – Review SLFI Returns” for details)

- The 2016 HST rate increases in three HST participating provinces (i.e., New Brunswick, Newfoundland and Labrador and Prince Edward Island)

- The proposed amendments released on July 22, 2016, where applicable

- The reduction of the RITC recapture rate to 50% (from 75%) under the Ontario HST.

The CRA has said it will apply non-compliance holds on refunds to all GST/HST registrants that have any outstanding tax returns as of May 2017. For details, see Canadian Tax Adviser, “CRA to Put Holds on Refunds for GST Non-Compliance”, dated April 25, 2017.

Background — Final SLFI return

All SLFIs across Canada with a December 31 year-end must file an annual GST/HST and/or QST final return for SLFIs by June 30, 2017 regardless of whether they are registered for GST/HST and/or QST purposes (i.e., form GST494, “Goods and Services Tax/Harmonized Sales Tax (GST/HST) Final Return for Selected Listed Financial Institutions” or form RC7294 “Goods and Services Tax/Harmonized Sales Tax (GST/HST) and Quebec Sales Tax (QST) Final Return for Selected Listed Financial Institutions”).

ITCs — Don’t miss claim deadline

SLFIs should review their ITC allocation methods before their filing deadline to help reduce their unrecoverable GST/HST and QST costs. These SLFIs should also capture all of their commercial activities, and include GST paid in the proper tax pool to ensure that ITCs are calculated using the proper percentages. Some SLFIs should also remember to take advantage of notional ITCs and ITRs related to various special provisions.

Many GST/HST and QST provisions can affect the timing to claim ITCs and missed provincial component of the HST (referred to as PVAT) and QST, including:

- The two-year limitation period for claiming ITCs

- Filing requirements for particular methods for financial institutions that are "qualifying financial institutions"
• The possibility that a financial institution may no longer qualify as a "qualifying financial institution"

• The requirement to determine ITC allocation method by the first return for a particular year for non-qualifying financial institutions

• The possibility to include missed PVAT and eligible QST for two prior years in SAM calculations.

**SAM calculations — Review your SAM adjustment**

In general, the SAM rules calculate an adjustment that must be included in the net tax of a SLFI for the particular reporting period. Similar rules apply for QST purposes.

The following is a quick overview of items to consider in your SAM calculations:

$$[(A - B) \times C \times (D / E)] - F + G$$

The element “A” is generally the GST and the federal part of the HST paid or payable in the year. SLFIs should ensure that they track all the GST and the federal component of the HST paid or payable in their systems.

The element “B” is the allowable ITCs for the GST and the federal part of the HST. A SLFI may include, in its 2016 SAM calculations, the amounts of eligible ITCs for the years 2014, 2015 and 2016 that are claimed in its 2016 final return. The 2016 return is the last return in which SLFIs may claim missed ITCs related to their 2014 fiscal year.

The element “C” is the provincial attribution percentage for each HST-participating province and for Quebec. The calculations of these percentages are based on the specific type of financial institution and must be recalculated each year. The complexity of these rules and the detailed information required for these calculations continue to lead to errors, such as including certain “excluded” amounts.

The element “D” is the PVAT rate of the HST-participating province or the QST rate in Quebec, while element “E” is the 5% GST. SLFIs must ensure they adjust the PVAT rates in their calculations for the three HST-participating provinces that increased their HST rate in 2016 (i.e., New Brunswick, Newfoundland and Labrador, and Prince Edward Island).

The element “F” is the provincial component of the HST (also known as “PVAT”) paid or payable or the QST paid or payable during the reporting period or in a prior reporting period subject to a two year limitation as discussed above. SLFIs should ensure that they have tracked all the PVAT and QST paid or payable in their system. Errors in tracking these amounts of tax will increase the tax payable for the SLFI.

The element “G” is an aggregate of multiple complicated positive and negative adjustments. For example, this element includes many adjustments related to elections and transactions.
between closely related entities, recaptured ITCs and transitional adjustments related to HST rate changes. Also, SLFIs should ensure they review the recently released QST regulations which include various adjustments under QST SAM calculations. While a SLFI’s adjustments related to element G depend on the type of entity and its particular facts, many errors arise from the calculations of these adjustments including potential liabilities and missed opportunities.

KPMG observations

SLFIs may wish to review the following key considerations concerning their upcoming filing obligations. SLFIs may want to:

- Review their ITC allocation methods
- Ensure that the calculations of the SAM formula and the element “G” adjustments for 2016 and prior years reflect the new QST regulations, particularly where the entity is a SLFI for QST purposes only (and not for GST/HST purposes)
- Ensure “prescribed amounts” are not included in GST/HST and QST SAM calculations (e.g., claims related costs)
- Ensure that the calculations of the SAM formula and element “G” adjustments include ITCs on section 150 election flow through, as well as ITCs for current year and missed ITCs for two prior years if those amounts are included in the return
- Ensure provincial allocation percentages are calculated according to the GST/HST and/or QST rules (for some financial institutions these rules are different compared to the rules for income tax allocations)
- Capture any missed PVAT and QST for current and two prior years
- Review calculations for errors related to recapture ITCs and restricted ITRs.

We can help

KPMG can help you determine if you have missed eligible ITCs, ITRs, and other deductions and adjustments. We can assist you with your indirect tax compliance obligations, including your GST/HST and/or QST final return and your annual information return. We can also help identify areas where certain tax costs may be managed.

KPMG’s Financial Institutions Indirect Tax Compliance Centre has a team of multi-disciplinary professionals who specialize in indirect tax compliance requirements for the financial services sector. These professionals use sophisticated proprietary compliance software developed specifically for financial institutions with partly exempt activities to help
you extract the required data from your systems, fulfill your filing requirements and perform checks to help manage compliance indirect tax risks.