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TaxNewsFlash
Canada

GST and Customs — Overview of 2019 Changes

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As the end of 2019 approaches, corporations should take stock of changes related to indirect tax, trade and customs announced throughout the past year. Businesses in all sectors across Canada face new sales tax obligations and deadlines as a result of ongoing GST/HST, QST and other indirect tax changes. In addition, many companies should be preparing for the impending ratification of Canada's new trade deal with Mexico and the United States. As a result of some of these changes, companies will have to continue to contend with uncertainty and adjustments to systems and processes.

To help you consider how you may be affected by recent GST/HST, QST and other indirect tax changes, we have summarized some of the most significant new rules and developments from the past year. In light of these changes, businesses should take proactive steps to manage their indirect tax compliance obligations, risks and unrecoverable tax costs.

2019 indirect tax and other related changes
This *TaxNewsFlash-Canada* provides a quick overview of the following significant indirect tax and other related changes that were announced over the past year, among others:

Trade and customs changes

- Importers and exporters — Canada, U.S. Mexico Agreement (CUSMA) and other trade tariffs

Indirect tax changes

- Large businesses — Phase-out of RITC rules and of ITR restrictions
- Holding corporations — New ITC relief
- Businesses outside Quebec — Register and collect QST
- Businesses outside Saskatchewan — Register and collect PST
- Newfoundland and Labrador residents and businesses — Eliminated tax on automobile insurance premiums

Other measures

- Cannabis industry — New tax regimes
- Health care industry — GST/HST measures

Trade and customs changes

Importers and exporters — CUSMA and other trade tariffs

While the new North American free trade agreement (called USMCA in the U.S. and CUSMA in Canada) is expected to be ratified soon, there are still issues to be resolved before ratification across all three countries is complete and the countdown to the effective date starts, which is expected to be sometime in 2020.

Although Mexico was the first to ratify the deal earlier this year, it has raised new objections to the draft of the U.S. Bill to be passed by the U.S. Congress. It is expected that those concerns will be worked out shortly, as the business communities of all three countries continue to push for ratification to add certainty to the business environment. Once these concerns are resolved, it seems likely that CUSMA will come into effect sometime next year. The exact effective date for the new trade deal is set to be 90 days after the last country advises the other two countries that it has ratified the deal , making a spring or summer 2020 start date possible.

Canadian companies who rely on trading with the U.S. and Mexico as part of their business model need to ensure they understand how the new trade agreement will affect their company. The CUSMA is not merely a tweaked version of NAFTA, but contains numerous technical changes that should be carefully reviewed by importers and exporters across all industry sectors.

Also in 2019, the United States lifted the 25% steel tariff and 10% aluminum tariff that it imposed on imports from Canada during trade negotiations. The U.S. tariffs were eliminated effective May 20, 2019, and Canada cancelled its own retaliatory countermeasures imposed against U.S. imports. However, Canadian businesses should be aware that either country may re-impose duties if imports of steel or aluminum "surge" beyond historical levels.

For details, see *TaxNewsFlash-Canada* 2019-58, "Canada's Trade Deal with U.S. and Mexico Ready to be Ratified", and *TaxNewsFlash-Canada* 2019-22, "U.S. Removes Tariffs on Canadian Steel and Aluminum".

Indirect tax changes

Large businesses — Phase-out of RITC rules and of ITR restrictions

Many large businesses across Canada continue to be affected by the phase-out of the recapture input tax credit (RITC) rules under the Prince Edward Island HST and the phase-out of the input tax refunds (ITR) restrictions under the Quebec QST. Prince Edward Island reduced its recapture rate to 50% (from 75%) on April 1, 2019, while Quebec continued the phase-out of its ITR restrictions by increasing the ITR claim rate to 50% (from 25%) which is used by large businesses to claim ITRs on goods and services subject to the ITRs restrictions. The phase-out period will continue in Prince Edward Island and Quebec in 2020.

Affected large businesses must ensure that they update their accounts and calculations related to the specified goods and services that are subject to the RITC rules and ITR restrictions. Employers should carefully review how the phase-out of the RITC rules and ITR restrictions will affect the GST/HST and QST owed related to their employees' 2019 taxable benefits.

For details, see *TaxNewsNow* "Quebec — Phase-Out of ITR Restrictions Continues in 2019".

Holding corporations — New ITC relief

Finance proposed changes to the GST/HST rules in 2019 related to holding companies' ability to claim input tax credits (ITCs) for expenses related to operating corporations they own, in certain limited circumstances. Essentially, the proposed changes provided limited relief from new restrictions on the amount of ITCs that holding corporations may be eligible to claim for GST/HST paid on expenses related to holding shares or debt of related corporations, which were previously introduced in 2018. ITC eligibility was also expanded to allow partnerships and trusts used as holding company vehicles to claim ITCs for expenses related to operating corporations they own in certain limited circumstances.

As a result, businesses should review transactions by their holding corporations to determine whether the proposed changes will affect the ITC eligibility of these corporations. These changes may affect many businesses as holding company structures are common in Canada in a wide range of industries, including mining, manufacturing and private equity.

For details, see *TaxNewsFlash-Canada* 2019-24 "Holding Companies — Prepare for New GST/HST Rules".

Business outside Quebec — Register and collect QST

Certain businesses located outside of Quebec were required to register and collect QST starting January 1, 2019. Quebec implemented new QST rules for businesses located outside of Quebec and certain operators of digital platforms that require these entities to register and collect QST on sales of intangibles, services, or in some cases goods, to specified Quebec consumers. The new rules apply as of January 1, 2019, March 1, 2019 or September 1, 2019 depending on the facts and circumstances of the suppliers.

For details, see *TaxNewsFlash-Canada* 2019-21, "Canadian Businesses — New QST Rules Coming September 1" and *TaxNewsFlash-Canada* 2019-06, "Electronic Platforms — New QST Rules Now in Effect".

Businesses outside Saskatchewan — Register and collect PST

Certain businesses located outside of Saskatchewan may be required to register and collect the PST in that province. The amended PST, which may have retroactive application as of April 1, 2017, essentially requires businesses that do not have a physical presence in Saskatchewan but are selling taxable goods, services and contracts of insurance to clients located in the province to register and collect PST. All businesses outside Saskatchewan that are not currently registered for PST in Saskatchewan should review the amended PST rules to ensure they are meeting their PST obligations.

For details, see *TaxNewsFlash-Canada* 2019-02, "Businesses — Are You Meeting Saskatchewan PST Rules?".

Newfoundland and Labrador residents and businesses — Elimination of tax on automobile insurance premiums

Newfoundland and Labrador eliminated the 13% retail sales tax payable on automobile insurance premiums in the province, retroactive to April 16, 2019. Taxpayers who renewed their insurance between April 16, 2019 and July, 2019 are eligible for a rebate of the tax paid.

For details, see *TaxNewsFlash-Canada* 2019-20, "Highlights of the 2019 Newfoundland and Labrador Budget".

Manitoba — Sales tax rate reduced to 7% (from 8%)

Manitoba decreased its general retail sales tax rate to 7% (from 8%), effective July 1, 2019. Businesses must determine how the reduction applies to their transactions and what processes and systems must be adjusted to reflect the upcoming rate increase.

For details, see, *TaxNewsFlash-Canada* 2019-05, "Highlights of the 2019 Manitoba Budget" and *TaxNewsFlash-Canada* 2019-27, "Manitoba – Prepare for RST Reduction Transition Rules".

Other measures

Cannabis industry — Excise duty changes

Finance amended the excise duty framework for cannabis products by imposing excise duty on edible cannabis, cannabis extracts (including cannabis oils) and cannabis topicals, effective May 1, 2019. As a result, the combined federal-provincial-territorial excise duty rate is $0.01 per milligram of total tetrahydrocannabinol (THC) contained in a final product. The THC-based duty is imposed on cannabis licensees at the time of a product's packaging, and becomes payable when it is delivered to a non-cannabis licensee (e.g., a provincial wholesaler, retailer or individual consumer).

For details, see *TaxNewsFlash-Canada* 2019-09, "2019 Federal Budget Highlights".

Health care industry — GST/HST measures

Finance extended GST/HST relief to certain biologicals, medical devices and health care services in the 2019 federal budget. Specifically, Finance:

- Relieved GST/HST on supplies and imports of human ova and imports of human in vitro embryos for supplies and imports made after March 19, 2019
- Added licenced podiatrists and chiropodists to the list of practitioners on whose orders supplies of foot care devices are zero-rated, effective for supplies of these items made after March 19, 2019
- Exempted the supply of certain multidisciplinary health services from GST/HST for supplies made after March 19, 2019.

For details, see *TaxNewsFlash-Canada* 2019-09, "2019 Federal Budget Highlights".

We can help

Your KPMG adviser can help you manage the impact of these and other recent indirect tax changes that may affect your business. We can also help you determine how indirect tax rules in other jurisdictions apply to your business, and assist you in managing your related compliance obligations and in ensuring that you are not missing refund opportunities. For details, contact your KPMG adviser.
