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TaxNewsFlash

Canada

GST and Customs — Overview of 2020 Changes

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Canadian and non-resident businesses should take stock of tax changes announced during the past year. In particular, many Canadian and foreign businesses face new and recent sales tax changes and deadlines as a result of ongoing GST/HST, QST and other indirect tax-related developments. As the end of the year approaches, businesses may want to review all their 2020 sales tax obligations and ensure that they have properly filed all their indirect tax returns that were subject to relief due to COVID-19. Affected companies should also ensure that they are meeting all their new obligations under the ratified trade deals between Canada, Mexico and the United States. As a result of some of these changes, many businesses will continue to contend with upcoming new obligations, and uncertainty and adjustments to systems and processes.

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

Developments in 2020 — Overview
This *TaxNewsFlash-Canada* provides a quick overview of the following significant indirect tax rules and developments, among others:

Indirect tax changes

- Non-resident businesses and digital platforms — Upcoming GST/HST changes

- Retail businesses — New zero-rating GST/HST measures for face masks and face shields
- Large businesses — Phase-out of RITC rules and of ITR restrictions
- Employers and pension plans — December 31 GST/HST and QST obligations
- Businesses — Check for CPP and EI overpayments
- Businesses outside British Columbia — Register and collect PST
- Marketplace facilitators — Register and collect Saskatchewan PST
- Manitoba residents and businesses — RST eliminated on certain property insurance contracts
- Businesses and e-commerce platforms outside Quebec — Register and collect QST

Trade and customs changes

- Importers — Prepare for CARM portal
- Importers — Prepare for CBSA requirement to bond GST payable at time of import
- Imported and Exporters — New CUSMA on July 1, 2020

Other measures

- Quebec —Taxpayers must disclose nominee agreements by December 23

Indirect tax changes

Non-resident businesses and digital platforms — Upcoming GST/HST changes

Non-residents businesses and operators of electronic platforms must determine how proposed GST/HST changes may affect their obligations. These significant GST/HST changes, which were proposed in Finance's 2020 Fall Economic Update on November 30, 2020, will require many operators of electronic platforms and non-resident vendors to register for, collect and remit GST/HST on their sales of digital products and services to Canadian customers, or goods supplied through fulfillment warehouses located in Canada. To prepare for these upcoming changes, which take effect July 1, 2021, vendors and operators should determine how their businesses will be affected and which processes and systems will have to be adjusted to comply with these new obligations.

For details, see *TaxNewsFlash-Canada* 2020-88, "Non-Residents and E-Platforms — Upcoming GST Changes".

Retail businesses — New zero-rating GST/HST measures for face masks and face shields

Finance recently announced a temporarily zero-rating GST/HST measure for certain face masks and face shields for supplies made after December 6, 2020. This measure, which was outlined in the 2020 Fall Economic Update, is proposed to be in effect until public health officials no longer broadly recommend their use for the COVID-19 pandemic.

For details, see *TaxNewsFlash-Canada* 2020-87, "Highlights of the 2020 Federal Fall Economic Update".

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 25% (from 50%) on April 1, 2020, while Quebec continued the phase-out of its ITR restrictions by increasing the ITR claim rate to 75% (from 50%) on January 1, 2020. Large businesses use the ITR claim rate to claim ITRs on goods and services subject to the ITRs restrictions. The phase-out period will continue in Prince Edward Island which will reduce its recapture rate to 0% (from 25%) on April 1, 2021. Quebec will eliminate its ITR restrictions by increasing the ITR claim rate to 100% (from 75%) effective January 1, 2021.

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' 2020 taxable benefits.

Employers and pension plans — December 31 GST/HST and QST obligations

Many employers must meet extensive obligations under the GST/HST and QST pension plan rules by December 31, 2020. Employers that offer registered pension plans to their employees, and that have monthly GST/HST and QST reporting periods with a December 31 year-end, are required to remit amounts of GST/HST (and, if applicable, QST) related to the pension plan rules by January 31, 2021. It is important for employers to closely follow the complex rules related to these upcoming tax obligations, which also extend to master trusts in pension plan structures, to avoid costly tax errors. For example, amounts of GST/HST and QST owing under these rules that are not remitted on time cannot be claimed as pension entities' rebates. Affected employers should also consider whether there may be opportunities to claim additional input tax credits (ITCs) or rebates.

For details, see *TaxNewsFlash-Canada* 2020-86, "Employers and Pension Plans — December 31 GST Obligations".

Businesses — Check for CPP and EI overpayments

Eligible businesses that may have overpaid contributions of Canada Pension Plan (CPP) in 2016 or Employer Insurance (EI) premiums in 2017 must file a refund application by December 31, 2020. Some of these overpaid contributions may relate to remittances on amounts that do not require withholding CPP contributions or EI premiums.

Businesses that have made such remittances, or have made payments on amounts that exceed the maximum insurable earnings or pensionable earnings, may be eligible to claim a refund if they file refund applications within specific time limits (i.e., no later than four years from the end of the year in which the CPP overpayment was made, and no later than three years from the end of the year in which the EI overpayment was made).

Businesses outside British Columbia — Register and collect PST

Certain businesses located outside of British Columbia may be required to register and collect PST starting April 1, 2021. British Columbia announced these new rules in its 2020 provincial budget. The measures were originally to be implemented on July 1, 2020 but were delayed due to COVID-19.

For details, see *TaxNewsFlash-Canada* 2020-04, “Highlights of the 2020 British Columbia Budget”, *TaxNewsFlash-Canada* 2020-28, “B.C. Offers Tax Deferrals and Extensions for COVID-19” and TaxNewsNow “B.C. Delays Planned Carbon Tax & PST Changes to 2021”.

Marketplace facilitators — Register and collect Saskatchewan PST

Many marketplace facilitators were required to register for and collect Saskatchewan's 6% provincial sales tax (PST) as of January 1, 2020. Under the new PST rules, many marketplace facilitators and online accommodation platforms are required to register as "vendors" under the PST rules and collect PST on the sales generated through their platforms in the province of Saskatchewan. Saskatchewan recently released updated administrative guidelines that clarify the responsibilities of both the marketplace facilitators and marketplace sellers for taxable sales made through an electronic platform. Among other details, Saskatchewan advised that marketplace facilitators are required to register and collect Saskatchewan’s PST on all taxable sales made through their platforms since January 1, 2020. However, some marketplace sellers may be relieved of their collection and remittance obligations where they meet certain requirements, under this new administrative guideline.

For details, see *TaxNewsFlash-Canada* 2020-89, “E-Marketplaces — Saskatchewan Clarifies PST Obligations”.

Manitoba residents and businesses —RST eliminated on certain property insurance contracts

Manitoba eliminated the 7% retail sales tax (RST) payable on certain property insurance contracts. In general, the exemption applies to new or renewed qualifying insurance contracts that come into effect after June 30, 2020 and relate to:

- Real property located in Manitoba, including the contents of condominium units, a unit of a housing cooperative, leased residential premises, or a leased commercial premises (unless all or substantially all of the contents insured under the contract are inventory)
- Mortgage insurance
- Title insurance related to a property located in Manitoba.

For details, see *TaxNewsNow* "Manitoba RST changes coming July 1, 2020".

Businesses and e-commerce platforms outside Quebec — Register and collect QST

As a reminder, Quebec implemented new QST rules for certain businesses located outside of Quebec and certain operators of digital platforms. These rules 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.

Trade and customs changes

Importers — Prepare for CARM portal

As part of Release 1 of the "CBSA Assessment and Revenue Management" (CARM) project, importers in Canada will be required to set up profiles on the CBSA CARM portal starting in the Spring of 2021. Large businesses may not need assistance with this task as they likely have employees that are responsible for trade and customs and are familiar with the concept of CARM. However, small to medium companies may need assistance in setting up a profile, as they often rely on their customs brokers for many of their customs needs.

Importers — Prepare for CBSA requirement to bond GST payable at time of import

As part of the CARM project mentioned above, CBSA is consulting with the Canadian importing community on the proposed requirement for every importer to have their own surety bond in order to import goods into Canada, effective Spring of 2022. Canadian customs brokers will no longer be able to provide the service of using their broker's bond to cover importer clients at that time. Based on CBSA's proposed measure, it appears that every importer of goods into Canada, resident and non-resident, will be required to obtain its own surety bond to cover both duty and GST payable at time of import. Consultations on this proposed measure with CBSA are ongoing.

Imported and Exporters — New CUSMA on July 1, 2020

The new North American free trade agreement (called CUSMA in Canada and USMCA in the United States) was ratified in 2020 and has been effective since July 1, 2020. Canadian companies who rely on trading with the United States and Mexico need to ensure they understand how the new trade agreement affects their businesses. The CUSMA contains many important technical changes from the old NAFTA that importers and exporters across all industry sectors must carefully review.

For details, see *TaxNewsFlash-Canada* 2020-44, "CUSMA — New Trade Deal Takes Effect July 1, 2020".

KPMG observations
Your KPMG adviser can help you address these issues, as well as other trade and customs concerns. For details, contact your KPMG adviser or one of the following Trade and Customs professionals: Joy Nott (jnott@kpmg.ca), Angelos Xilinas (axilinas@kpmg.ca) or Bob Sacco (bobsacco@kpmg.ca).

Other measures

Quebec — Taxpayers must disclose nominee agreements by December 23

Taxpayers who are party to certain nominee agreements that have tax consequences in Quebec (such as where taxpayer or property is located in Quebec) may be required to disclose information about that agreement to the province by December 23, 2020. In 2020, Quebec passed measures to require either party to a nominee agreement that is made as part of a transaction, or a series of transactions, to disclose this information by December 23, 2020 or 90 days after conclusion of the nominee agreement, whichever is later. This obligation applies to all nominee agreements entered into on or after May 17, 2019, as well as certain agreements entered into before this date where the tax consequences continue after May 16, 2019.

For details, see *TaxNewsFlash-Canada* 2020-75, "Quebec — Disclose Nominee Agreements by December 23".

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.

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