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TaxNewsFlash

Canada

GST and Other Indirect Taxes — Overview of 2021 Changes

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With the end of the year approaching, Canadian and non-resident businesses should determine whether they are meeting all of their indirect tax obligations. Many of these businesses, including platform operators, have faced new tax-related requirements in the past year due to sales tax changes and deadlines as a result of ongoing developments related to GST/HST, QST, provincial sales tax (PST) and other indirect taxes. Businesses may want to take this time to consider these recent changes and ensure that they continue to take proactive steps to manage their indirect tax compliance obligations, risks and unrecoverable tax costs. This includes properly updating their systems, collecting the correct tax amounts and filing their related tax returns.

Indirect tax developments in 2021 — Overview
This *TaxNewsFlash-Canada* provides an overview of some of the most significant GST/HST, QST and other indirect tax changes from 2021 that businesses may want to consider.

GST/HST and QST obligations and changes

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GST/HST and QST obligations and changes

Digital platform operators and non-resident businesses — Collect GST/HST

Many non-resident businesses and operators of electronic platforms must collect and remit GST/HST on certain taxable sales since July 1, 2021. As a result of these significant GST/HST changes, many operators of electronic platforms and non-resident vendors must register for GST/HST, and collect and remit these taxes on their sales of digital products and services to Canadian customers, or goods supplied through fulfillment warehouses located in Canada. Vendors and operators should ensure they have made all the required changes to their processes and systems, and that they meet all their new tax obligations.

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

Employers and pension plans — Meet 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, 2021. Affected 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, 2022. 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 credit (ITCs) or rebates.

For details, see *TaxNewsFlash-Canada* 2021-59, "Employers and Pension Plans—December 31 GST Obligations".

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 effective July 1, 2021. Some of the new QST measures implement changes that are similar to the GST/HST measures that came in effect July 1, 2021.

Quebec previously implemented QST rules to require certain businesses and e-commerce platforms to register and collect QST where they make sales to certain Quebec consumers of intangibles, services and, in some cases, goods. The new rules applied as of various dates in 2019, depending on the suppliers' facts and circumstances.

Quebec further amended the QST rules in 2021 to reflect the GST/HST measures effective July 1, 2021. While the QST and GST/HST rules are similar, some rules may apply differently based on the provincial aspect of the QST. For example, a non-resident business may be required to register under the general rules for GST/HST and under the specified registration rules for QST.

For details, see *TaxNewsNow*, "Non-resident businesses — Get ready for GST/HST changes on July 1, 2021".

Large businesses — Update accounts for phase-out of RITC rules and ITR restrictions

Many large businesses across Canada should ensure that they claim all eligible ITCs and input tax refunds (ITRs) following the conclusion of the phase-out periods for recapture ITC (RITC) rules and ITR restrictions. Prince Edward Island completed the phase-out of the RITC rules on April 1, 2021 while Quebec completely eliminated 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 were subject to the RITC rules and ITR restrictions, including employees' taxable benefits related to these goods and services.

Financial institutions — Review updated GST/HST Memorandums on ITC allocation methods

Financial institutions, particularly entities that are considered "qualifying institutions", should ensure they review the CRA's updated guidance on ITC allocation methods. In its GST/HST Memorandums 17-11, 17-12, 17-13 released in July 2021, the CRA provided guidelines to financial institutions related to the ITC allocation rules, the various types of inputs and the specific rules to determine the extent to which inputs are acquired or used for making taxable or exempt supplies.

Investment plans — Get details from investors by December 31

Distributed investment plans must collect specific details from many investors each year to ensure they have the proper information to update their systems and file their GST/HST and QST returns. In general, these plans must request these details by October 15 every year, but may need to follow up with investors who have not yet provided the requested data. Plans that do not have the required information by December 31 may have to allocate some of their investors' data to the highest rate HST-participating provinces, which may translate to higher indirect tax costs.

For details, see *TaxNewsNow,* "Investment plans — Act now to collect GST details".

PST obligations and changes

Businesses outside British Columbia — Register and collect B.C. PST

Certain businesses located outside of British Columbia are required to collect B.C. PST under rules that took effect April 1, 2021. These rules, which were announced in British Columbia's 2020 provincial budget, were originally scheduled to be implemented on July 1, 2020 but were delayed due to COVID-19.

For details, see *TaxNewsFlash-Canada* 2020-28, "B.C. Offers Tax Deferrals and Extensions for COVID-19" and *TaxNewsFlash-Canada* 2020-04, "Highlights of the 2020 British Columbia Budget".

Businesses — Claim rebate for British Columbia PST paid on select machinery and equipment

Certain corporations may be eligible to claim a rebate equal to the B.C. PST that they paid on purchases of qualifying machinery and equipment. Recently, British Columbia extended its PST rebate period to March 31, 2022 (from September 30, 2021).

For details, see *TaxNewsNow*, "British Columbia extends PST rebate on select machinery & equipment".

Online platform operators — Register and collect Manitoba RST

Many online platform operators must collect Manitoba 7% retail sales tax (RST) on taxable sales facilitated through their platforms starting December 1, 2021. Online platform operators must register as "vendors" under new RST rules and collect the RST on these taxable sales regardless of whether they are located inside or outside the province. Operators of online sales platforms and of online accommodation platforms must ensure they properly update their systems to fulfill their new tax obligations. New RST rules also require providers of streaming services to register and collect RST on such services effective December 1, 2021. The province has released administrative guidelines that clarify some of the RST obligations of both the online platform operators and the sellers with respect to taxable sales made through an online platform as well as providers of streaming services.

For details, see *TaxNewsFlash-Canada* 2021-60 "Online Platform Operators — Manitoba Clarifies RST Rules" and *TaxNewsFlash-Canada* 2021-50, "Manitoba expands RST rules for online platforms".

Other considerations and issues

Businesses — Check for CPP and EI overpayments

Eligible businesses that may have overpaid contributions of Canada Pension Plan (CPP) in 2017 or Employer Insurance (EI) premiums in 2018 must file a refund application by December 31, 2021. 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).

Online marketplaces and other businesses — Prepare for potential digital services tax

Online marketplaces and other types of businesses that meet certain revenues thresholds may be subject to a potential new 3% digital services tax (DST) on revenues earned as of January 1, 2022, depending on whether Finance decides to impose this tax. Finance announced the new tax in its 2021 federal budget, but essentially delayed its implementation in light of the OECD's announcement that 136 countries (including Canada) finalized key aspects of a framework to reform the international tax system. Canada has advised that it plans to implement the 3% DST on January 1, 2024 and apply the tax on qualifying revenues earned since January 1, 2022 if the related treaty implementing the tax regime under this global agreement does not come into force by 2024.

For details, see *TaxNewsFlash-Canada* 2021-48, "OECD clarifies global minimum tax plan for 2023" and *TaxNewsFlash-Canada* 2021-21, "2021 Federal Budget Highlights".

Vendors of vehicles, aircrafts and boats — Collect luxury tax

Businesses that sell vehicles, aircraft and boats must collect the new federal luxury tax starting January 1, 2022. While the final legislation for this change has not yet been released, Finance previously provided details of the proposed framework for the new tax regime, which will apply generally to certain vehicles, aircraft and boats delivered after December 2021 for which a sales agreement was entered into after April 19, 2021. Finance also outlined the new luxury tax obligations for vendors, importers and purchasers and discussed related administrative guidelines and transition rules. Affected businesses must determine how the new luxury tax and its transitional rules will apply to their sales of vehicles, boats and aircraft.

For details, see *TaxNewsFlash-Canada* 2021-44, "Vendors — Have Your Say on Upcoming Federal Luxury Tax".

Businesses — Be aware of CRA's audit activities

Businesses may see increased audit activities from the tax authorities in the coming months. While the pandemic caused audit activity to slow down, the CRA auditors have been catching up recently, and there appears to be an unusually large number of audit requests and sector-related audit projects. The CRA is more rigidly following audit timelines to obtain taxpayer information than in the past, leading to audits being closed more quickly than usual. Businesses should respond promptly to audit queries or they may face a reassessment that will have to be contested at the notice of objection stage.

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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