

Diocese of Ontario

SALES TAX ISSUES

Harmonized Sales Tax (HST)

To fully understand how the HST impacts on churches, it is useful to understand a bit about how the HST works. The HST is collected by “registrants”. In Ontario, the HST rate is 13%. It is made up of a Federal component of 5% and Provincial component of 8%. It is remitted in its entirety to the Federal government which in turn transfers the Ontario share to the Province. Registrants are entitled to an input tax credit (ITC) for HST they paid on their purchases.

Generally, only persons and organizations engaged in commercial activities are required to register and collect the HST on “taxable supplies” (a defined term). Understanding the concept of a supply is central to understanding the HST. In many cases, “supply” is synonymous with sale, but it can also include any transfer, lease or disposition of property, any provision of a service and any agreement to provide any property or a service. Some activities carried on by churches constitute supplies for which HST should be collected.

There are three categories of supplies under the HST:

1. Supplies taxable at the prescribed rate;
2. Supplies taxable at a zero rate (for example, basic groceries and prescription drugs); and
3. Exempt supplies (for example, educational services, financial services, certain child care services).

Input tax credits are available on taxable and zero rated supplies. Supplies of goods and services by charities are exempt supplies, except for specifically enumerated supplies that are not covered by the general exemption. There is no specific provision that would exempt a charity from paying HST on supplies of goods or services that it purchases. Accordingly, the general rules under the HST determine whether goods or services purchased by a charity are taxable at the prescribed rate, 0% or exempt. However, charities are entitled to a percentage rebate for the HST included in most purchased supplies, even those supplies that are not eligible for an input tax credit.

Who must register?

A church need not register to collect HST in the following circumstances:

- if its gross revenue in either of the two preceding years is under \$250,000;
- if its taxable supplies do not exceed \$50,000 in the four immediately preceding calendar quarters (most parishes would fit this criteria); or
- at least 90% of the day-to-day administrative and other functions are carried on by volunteers.

Most parishes are not registered to collect HST; however, they are still able to claim a refund for HST paid.

If a church does not register because it meets one of the above criteria then any taxable supplies that it makes will be treated as exempt supplies.

Taxable supplies by churches

The following are examples of supplies that might be made by a church that are taxable supplies (which means they are taxable at the prescribed rate):

- The sale of new (not used) purchased or manufactured goods (not donated) and ancillary services, such as a retail store or mail order operation or door-to-door sales.
- Admissions charge for performances (including artistic, literary, theatrical or musical), unless 90% of the performers do not receive remuneration for performing.
- Admission in respect of a seminar, conference or similar event.
- A supply of individual parking spaces by way of a lease, license or similar arrangement.

Input Tax Credits

If a church is a HST registrant it is entitled to input tax credits (ITCs) for HST included in the cost of goods and services that it uses to make taxable supplies.

Percentage Rebates

Churches are entitled to HST relief through percentage rebates. Such rebates are intended to ensure that HST paid by churches does not exceed the tax that would have been paid under the former sales tax system.

Generally speaking, the percentage rebate for churches is 50% of the Federal component and 82% of the Provincial component on all purchases of goods and services in the reporting period, regardless of whether the church is a registrant. (If the church is a registrant then the percentage rebates apply only on purchases of goods and services that are not otherwise eligible for a full input tax credit.) To claim the percentage rebate, the church must consider each expenditure it makes to determine whether it has a HST component. Remember that certain expenditures for services are exempt (such as services provided by small suppliers) and other goods and services are zero-rated.

Filing Requirements

If a church is a registrant it must file a return for each reporting period (Form GST 34). The church would also file a claim for rebates (Provincial and Federal – Rebate Claim Form for Charity Registrants). The total rebate claimed would be shown on line 111 of Form GST 34.

The reporting period will depend on the volume of the church's taxable supplies. In most cases churches will have a quarterly reporting period, though they can elect to file annually (so long as their taxable supplies in the previous fiscal year are under \$500,000). However, even registrants that elect to file annually must make quarterly installment payments, unless

their installment base for reporting purpose is less than \$1,000. The installment base is the lesser of the estimated GST payable less estimated ITCs and rebates for the current fiscal year, and the GST payable less ITCs and rebates in all reporting periods that ended in the 12 months immediately preceding the current reporting period. The amount of each installment is one-fourth of the installment base. Penalties and interest are charged for late or deficient installments.

Churches that do not apply to be a HST registrant do not need to file a HST return. However, to claim the Percentage Rebates the church needs to file the provincial and federal rebate applications.

Provincial Sales Tax (RST)

Generally speaking, churches are not exempt from having to pay Ontario Provincial Sales Tax (RST). The Ontario Ministry of Finance Website can be found at www.trd.fin.gov.on.ca and is an excellent source for downloading publications and forms.

Publications

Churches may purchase certain types of publications on a tax-exempt basis. According to the Ontario Sales Tax Guide No. 806 (March 2001), the following publications may be purchased by churches without having to pay RST:

- bibles, scriptures, sacred writings of all faiths, missals, prayer books, hymn books, pamphlets, booklets and similar printed matter published solely for the promotion of religion;
- church calendars, hymn and mass cards, photographs, paintings, drawings, mottoes and similar artwork produced solely for the promotion of religion, including any negatives and printing plates made to produce printed materials;
- films, filmstrips, videotapes and videodiscs purchased by a church, if used to promote its objectives and not for commercial exhibition or profit;
- printed instructional materials purchased for use and not for resale by a church.

Materials such as directories, price lists, stationery and forms are taxable.

Religious Items

The following items are tax-exempt if they are used by a church exclusively in that part of its premises where religious worship or Sabbath school is regularly conducted. (To buy these items tax-exempt, the church must issue a purchase exemption certificate to the supplier. There is no form for such a certificate – the church would simply write a letter certifying that these items are tax exempt pursuant to the terms of the Retail Sales Tax Act.)

- altars and altar desks, cloths and linen;
- baptismal bowls, fonts and shells, communion ware, mass linen;
- collection plates;
- confessionals and confessional counters;

- furniture such as chairs, stools, tables, pews, choir stalls, kneelers and prie-dieux, carpets and draperies, lecterns and pulpits, lectern and pulpit cloths;
- monuments, statues and memorials;
- organs, pianos, chimes, bells and audio-visual equipment;
- public address systems;
- special lighting apparatus; and
- stained glass windows.

Clothing and vestments are taxable.

RST Refunds on Capital Investments

Churches can claim refunds of RST on amounts spent on capital investments. According to Ontario Sales Tax Guide No. 806, “capital investments” basically are real property that is the result of any construction project. “Real property” means land and any item permanently attached to land, such as buildings, roads, fences, etc. Capital investments also include fixtures, such as counters, cabinets, etc., which are permanently attached to real property when installed.

To qualify for a refund, the church must have at least applied for a charitable registration number issued by Revenue Canada before the work starts and it has to have received the charitable number by the time it applies for the refund. As well, the church must provide a signed, written statement that all of the RST refunded will be used for religious, charitable or benevolent purposes of the church.

RST paid on materials used to repair buildings or structures that are leased will be refunded in certain circumstances when there is a long-term lease.