

EXPLORING THE UNIVERSITY'S TAX TREATMENT AND TAX CODES ON EXPENSES AND REVENUES

Monthly Lunch & Learn Series presented by the **FAST Team**

May 2024



UNIVERSITY OF
TORONTO

Financial Services

PRESENTER

RAMES PARAMSOTHY

SENIOR BUSINESS ANALYST (TRAINING)

Financial Advisory Services & Training (FAST)



AGENDA

- Overview of the University's Unique Tax Treatment as a Broader Public Sector Institution
- Place of Supply Rules
- GTFM policy Governing HST
- When to Self-Assess HST/Provincial Value Added Tax (PVAT)
- Tax Treatment of Revenues
- The University's Tax Codes
- Tax codes and Conference Fees
- Who to contact with Tax Treatment Questions



LEARNING OBJECTIVE



The objective of the session is to explore the University's unique tax treatment, tax codes and provide guidance to assist departments when evaluating tax questions.

For guidance on the tax treatment where situations are more nuanced, and cannot be addressed in this **Lunch & Learn**, please contact the tax experts at PWC (ca_caubotaxhelpdesk@pwc.com).

OVERVIEW OF THE UNIVERSITY'S UNIQUE TAX TREATMENT

As a Broader Public Sector (BPS) organization, the University is eligible for partial HST rebates on goods/services purchased from vendors and delivered and/or performed in Ontario.

The tax rebate, which is applied immediately, is a blended rate that combines both federal (GST) and provincial rates.

For example:

	Regular HST Rate	UofT Tax Rebate	UofT Tax Rate
GST	5%	67%	1.65%
OVAT	8%	78%	1.76%
Total	13%	72.5% average	3.41%



Visit the [Harmonized Sales Tax \(HST\) section of the GTFM](#) to learn more.

CRA - PLACE OF SUPPLY RULES



This concept of Place of Supply is very important when evaluating the tax treatment of different purchases/payments to vendors.

Regardless of where the supplier or recipient is located, the Place of Supply is determined based on where the goods/services are made to the recipient (i.e., the destination and not the supplier's location).



Visit [CRA's – GST/HST Rates & Place of Supply Rules](#) page for more information

HOW MIGHT VENDORS HANDLE HST

University suppliers of goods or services may handle HST in the following ways:

1. HST not applicable (i.e. exempt activity or zero-rated for HST)
2. Assess HST on the invoice and remit to CRA
3. HST not assessed OR only GST charged on the invoice, requiring the University to SELF-ASSESS the Ontario (PVAT) portion of the HST.



We will explore these three scenarios.

1. WHEN HST IS NOT APPLICABLE

Zero-Rated Purchases:

When the supplier/vendor is NOT required to collect HST on the sales to the University.

However, the seller can still claim input tax credits (ITC) for any taxes paid on related inputs/expenses.

Tax-Exempt:

Goods/services where GST/HST are never charged on sales, and the supplier is not permitted to claim ITC.

Zero-rated Purchases	Tax Exempted Purchases
Prescription drugs	Goods and services provided by small suppliers
Medical services	Health care, childcare and legal aid services
Basic groceries Other than – alcohol, snack foods, sweetened baked goods, restaurant meals and take-out foods	Educational services provided by elementary and secondary schools, publicly funded colleges and universities and private secretarial schools, and business colleges
Agricultural and fishing supplies	A broad range of supplies of a non-commercial nature by charities, non-profit organizations, municipalities and federal and provincial governments.
Exports of goods and services	Sales of used residential housing and rentals of residential premises
International passenger travel services	Most domestic financial services
International freight transportation services	Certain intra-group financial services
Supplies make to international organizations and officials, including diplomats and members of visiting armed forces	Ferry, road and bridge tolls
Certain financial services	
Initial sales or importations of precious metals	
EX Feminine hygiene products	

2. HST ASSESSED AND COLLECTED BY THE SUPPLIER

For invoices exceeding \$499 where a vendor charges HST, the invoice MUST contain the following:

1. The supplier's business name or trading name or an intermediary's* name.
2. The invoice date, if no invoice issued then the date on which GST/HST is paid or payable.
3. The total amount paid or payable.
4. An indication of the total amount of GST/HST charged or that the amount paid or payable for each taxable supply (other than zero-rated supplies) includes the GST/HST at the applicable rate.
5. An indication of which items are taxed at the GST rate and which are taxed at the HST rate.
6. The supplier's business number (BN) or an intermediary's BN.
7. The buyer's name or trading name (this should be "University of Toronto" or "The Governing Council of The University of Toronto") or the name of the buyer's authorized agent or representative.
8. A brief description of the property or services.
9. The terms of payment.



[Click here to read an article](#) on HST requirements for the University Name on Invoices.

HST REQUIREMENTS FOR THE UNIVERSITY NAMES ON INVOICES

There has been an increasing number of invoices from commercial vendors where the buyer information (i.e., the University) is incorrectly identified by the vendor.

Specifically, the buyer is incorrectly identified as the department and not the “University of Toronto”.

This may result in the Canada Revenue Agency (CRA) denying the GST/HST rebates that are initially claimed by departments when invoices are processed in AMS.

For example:

University of Toronto
c/o Faculty of FIS
123 False St.,
3rd Floor Toronto, ON
M5S 1A5

XYZ Corp

XYZ Corporation
434 Water St W
Toronto, Ontario M5V 1C1 Canada
www.xyz.com

T 416 979 8631
F 416 979 3769
info@xyz.com

TORONTO
VANCOUVER
MUNICH

Parked Doc. # 1995199399

Parked Doc. Date 12 September 2022

RECEIVED

06 July 2022

INVOICE

HST 89994 9399 RT0001

University of Toronto
c/o Faculty of FIS
123 False St., 3rd Floor
Toronto, ON M5T 1M7
Attn: Mr. Mia Som
Project Manager

Project: New Instructional Centre
UoT Project: P200-14-014
Project No.: 06-014-AR
Date: Jul 06 2022
Invoice No.: 19-014-AR-00-48

DEFINING HST SELF-ASSESSMENT

When a supplier does not charge HST (e.g., either a foreign supplier not registered for HST or located in a GST province) may require the University to self-assess the HST and associated rebate.

Definition – Self Assess

To calculate how much HST **should be** paid on the purchase of a good or service **when no HST has been billed** on an invoice by the supplier.

For example, the University is required to self-assess taxes on any supply of property or service made outside a participating province (e.g., Alberta) for use in a participating province (i.e. Ontario).



[Click here to read an article](#) on “What does self-assessing of HST mean? Do I have to self-assess?”

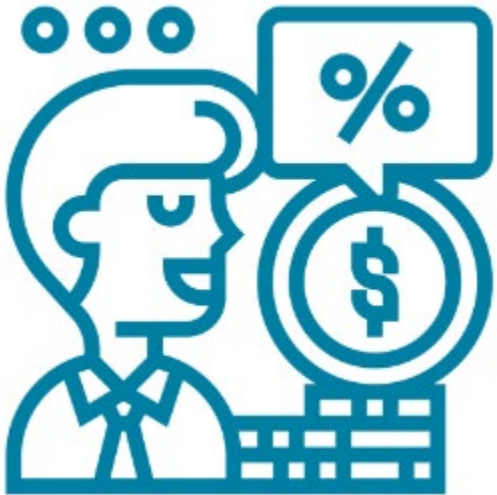
2. HST NOT ASSESSED OR ONLY GST CHARGED ON THE INVOICE (UNIVERSITY SELF-ASSESS ONTARIO (PVAT) PORTION OF THE HST)

It is the responsibility of the individual/department initiating the purchase to determine if goods or service needs to self-assess HST.

Questions to consider to determine if the invoice payment requires self-assessment:

- What is being supplied (i.e. tangible property/goods, services)?
- Were the goods/services purchased zero-rated, point of sales or tax-exempt?
- Did the vendor charge HST, GST or no tax? If not, should they?*
- Is the supplier considered a foreign vendor? If so, are they registered for HST?
- Where was the place of supply (i.e. the goods/services were used/consumed in Ontario or elsewhere)?
- Was the supplier from GST or HST province?

***NOTE:** When the place of supply is Ontario, and the goods/services are purchases in a non-HST province (e.g., Alberta), it is the supplier's responsibility to charge HST. If they do not on the invoice, the department should be notified so that the invoice can be changed.



EXAMPLE - SELF ASSESS HST

U of T department purchases the right to access an electronic database of research journals from a supplier in the United States for \$10,000.00.

The supplier does not charge tax and the item is not shipped so our broker does not assess any tax. The database is for use primarily (>50%) in Ontario so the U of T department must self-assess the full 13% HST when processing the foreign invoice by using the **ES** tax code.



TAX TREATMENT OF REVENUE



The University does not keep any of the HST it charges on sales. All HST revenue tax codes (e.g., R1, R0) reflect this, but please ensure to use the appropriate tax codes that reflects the type of sales activity.

For assistance with selecting tax codes, please see the Tax Code Summary Table.

HST TAX STATUS WITH SALES TO EXTERNAL PARTIES

As a public sector organization and registered charity, the University generally does not sell goods/services for a profit.

However, there are certain instances where departments may engage in the sales of goods/services to external parties (e.g., books and clothing at the Bookstore, course fees, room rentals). Navigating which circumstances are taxable and which are exempt may be challenging.

In these situation, begin by reviewing the **HST Tax Status Table for Sales to External Parties** reference table. This resource provides a detailed HST status breakdown (i.e., taxable vs exempt) of some of the most common sales activity at the University.

[Click here for the resource](#)

NOTE: For scenarios not outlined in the resource, please email PWC (ca_caubotaxhelpdesk@pwc.com) for their technical expertise.



AMS TAX CODES



Tax codes (alpha-alpha or alpha-numeric) are used in AMS when posting payments to apply and remit the correct tax rebates.

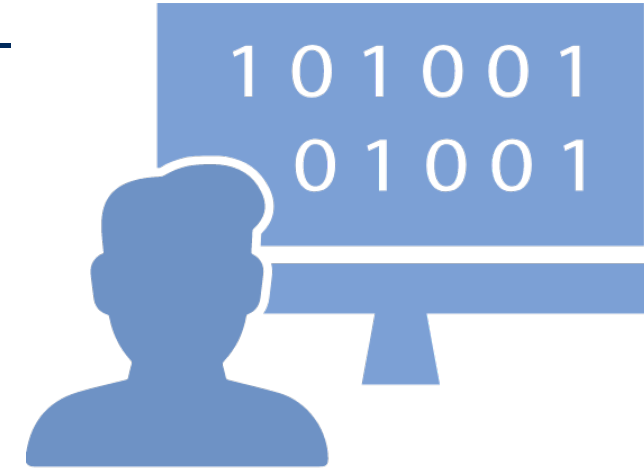
Before determining the correct tax code, **know the applicable tax treatment in your scenario.**

For example, the most common tax treatment is when a purchase is made from an Ontario vendor who charges HST for goods/services to be used in Ontario. In these cases, the correct tax code would be E1 which would have an effective tax rate of 3.41% (i.e., rebate of 9.59% on 13% HST)

CHARACTERISTICS OF TAX CODES

To apply the applicable tax treatment, the University uses 2-character tax codes (e.g. E1) to code the rebate and ensure that the accounts (i.e. Funds Center or FC/Fund) is only charged the after-tax-rebate amount.

Tax Code Hints	
<u>E</u> xpense Tax Codes	Use G/L acct.'s in <u>8xxxxx</u> series
<u>R</u> evenue Tax Codes	Use G/L acct.'s in <u>7xxxxx</u> series
J9	Internal Use Only; HST exempt Internal expense transfers and corrections (G/L acct. 8xxxxx)
S9	Internal Use Only; HST exempt Internal sales/recoveries and corrections (G/L acct. 7xxxxx)



EXAMPLE TAX CODES

Tax Code	Total Tax	Effective Tax Rate	Description	Sample Scenario
E1	13%	3.41%	HST charged; GST Rebate 67%, PVAT Rebate 78%	Purchase of goods and services for consumption in Ontario
E0	0	0%	HST charged; GST Rebate 67%, PVAT Rebate 78%	Travel outside of Canada or where Provincial sales tax incurred, and no rebate is allowed.
E3	5%	1.65%	GST charged: No PVAT, GST Rebate 67%	Purchases incurred for use in GST provinces.
ER	13%	4.07%	HST charged; reimburse employee expenses incurred in Ontario	Reimbursement of employee expenses incurred in Ontario (i.e. accommodations, meals, taxi, car rentals)
EA	13%	3.41%	HST included; GST Rebate 67%, PVAT Rebate 78%	Per diem allowance of meals, accommodation and mileage for travel in Canada

EXPENSE REIMBURSEMENT TAX CODES



Expense reimbursements most often have different tax codes, and corresponding tax rebates, than when paying invoices directly to a supplier.

It is important to use the tax codes in the [Expense Report](#) or the [Tax Code Summary Table](#) to identify to ensure the correct tax rebates are applied.

NOTE: For those scenarios that do not fall into any of the predefined expense categories on the form (e.g., parking), should use the regular alpha-numeric (e.g., E1) expense tax codes used when paying a supplier directly.



[Please see this article](#) for more information picking to correct tax code for expense reimbursements.

TAX CODES FOR CONFERENCE REGISTRATION FEES



When reimbursing conference registration fees, consult the [Knowledge Centre article](#) that outlines the tax codes used depending on where the conference is held.

The tax treatment of conference registration fees is [unique due to CRA's interpretation/presumption that the information learned in a conference](#) will be useful and applicable to the individual in Ontario/Canada.

NOTE: If the conference was held in Canada and no taxes are indicated on the receipt, contact the vendor to find out why. If they say it is not an error because they were only recovering what it cost them to put on the conference, the tax code would be E0. (When a vendor is recovering only their costs, they do not need to charge taxes.) If no taxes were charged in error, self-assess using tax code ES, regardless of which province or territories the conference was held in.



[Please see this article](#) for more information picking to correct tax code for expense reimbursements.

WHO DO I CONTACT?



For questions/clarification on tax codes if the tax treatment is known, contact your [FAST Team representative](#).

For technical expertise on more complex/uncommon University business activities, please email the free CAUBO Tax resource at ca_caubotaxhelpdesk@pwc.com.





THANK YOU!