Details

Service: Tax, Domestic Tax Services

Date: 4/26/2016

Credit Unions - Do You Have to File GST/HST Returns by June 30 Deadlines?

Canadian Tax Adviser
April 26, 2016

Like many large Canadian financial institutions, many credit unions across Canada must comply with complex GST/HST, QST and other indirect tax rules. Many credit unions and some of their related entities that have a December 31 year-end must file up to two GST/HST and QST returns by June 30, 2016—the annual information return and/or the final GST/HST return for selected listed financial institutions. Credit unions must understand and apply all the indirect tax rules as required, including filing requirements and self-assessment rules, or they could face undue tax costs.

Depending on their GST/HST and QST registration status and total revenue, credit unions may be required to file the annual information return, form GST111 "Financial Institution GST/HST Annual Information Return" or form RC7291 "GST/HST and QST Annual Information Returns for Selected Listed Financial Institutions". In addition, a credit union that qualifies as a selected listed financial institution (SLFI) for GST/HST and/or QST purposes must file the final return regardless of whether the entity is registered for those taxes. The final return is either form GST494 "Goods and services Tax/Harmonized Sales Tax (GST/HST) Final Return for Selected Listed Financial Institutions" or form RC7294 "Goods and Services Tax/Harmonized Sales Tax (GST/HST) and Quebec Sales Tax (QST) Final Return for Selected Listed Financial Institutions".

Do you have to file the Annual Information Return?
In general, a credit union that is registered for GST/HST and that has annual income exceeding $1 million is considered a "reporting institution". A related entity that has a closely related group section 150 GST/HST election with the credit union may also qualify as a "reporting institution". As a reporting institution, the entity must file an Annual Information Return, form GST111 or form RC7291, no later than six months after its year-end. For credit unions with a December 31 year-end, the deadline is June 30, 2016 for the 2015 fiscal year. Similar rules apply for QST.

Reporting institutions that are required to file the annual information returns could face penalties if they do not file the returns correctly and on time, even though these returns are not related to any GST/HST and QST payments. The CRA can assess a penalty of up to $1,000 per each qualifying line on the form for failure to file or for misreporting amounts on the return, which could add up to more than $100,000 in penalties. Similar rules apply for QST purposes.

KPMG observation
it is important that entities ensure that the information included in their annual information returns corresponds with their GST/HST and QST returns, income tax information and transfer pricing information.

Under the GST/HST rules, certain investment plans that qualify as SLFIs are exempt from filing the annual information returns, and a similar exemption is expected for QST. However, some investment plans qualify as a SLFI only for HST or for QST purposes. As such, some of these plans may still be required to file an annual information return for GST/HST or QST.

Do you have to file the SLFI annual final return?
Credit unions that qualify as SLFIs and that have a December 31 year-end must file an annual final return for GST/HST and QST, if applicable, no later than June 30, 2016—either form GST494 or form RC7294. SLFIs are required to use a complicated formula known as the special attribution method (SAM) to complete these annual returns. The SAM calculations include various complicated GST/HST and QST adjustments to a SLFI's net tax. In general, the SAM formula essentially calculates tax adjustments (credits and/or liabilities) related to the provincial component of the HST in each HST province or for QST in Quebec even where an entity may not have a physical presence in the province. The SAM formula helps ensure that suppliers in non-HST provinces do not have a competitive sales tax advantage over suppliers in HST and QST provinces. Many errors can arise when making these calculations, including potential liabilities and missed opportunities.

A credit union may qualify as a SLFI if it considered to have a permanent establishment in an HST province and a permanent establishment in another province. The SAM formula has different rules for various types of financial institutions, including the determination of permanent establishments. The rules that may apply to most credit unions may deem these entities to have permanent establishments in a province based on their loan portfolio or based on the Income Tax Regulations. Similar rules apply for QST purposes.

Action required
Credit unions that are SLFIs should review their ITC allocation methods before the deadlines to

Publications

Canadian companies may be interested in these recent publications:

- TaxNewsFlash
- Global Tax Adviser
- Canadian Tax Adviser
- Transfer Pricing Highlights
- Trade Matters
- These publications, among many others, are available at www.kpmg.ca.

help them reduce their unrecoverable GST/HST and QST costs, including SAM tax adjustments. As part of their review, these credit unions should also ensure that they capture all of their commercial activities and that GST paid is allocated to the proper tax pool to ensure that ITCs are calculated using the proper percentages. Some SLFIs should also remember to take advantage of notional ITCs and ITRs related to various special provisions.

Many GST/HST and QST provisions can affect the timing to claim ITCs and missed provincial component of the HST (referred to as PVAT) and QST, including:

- The two-year limitation period for claiming ITCs
- The various rules for allocation methods and related changes
- The possibility to include missed PVAT and eligible QST from the last two prior years in SAM calculations.

Credit unions and any of their related entities that are SLFIs should also take this filing opportunity to claim any missed credits and deductions to help reduce their GST/HST and QST costs.

KPMG observations
Entities, including credit unions, that are SLFIs may wish to consider the following approaches to help meet their upcoming filing obligations:

- Use the time before June 30, 2016 to review allocation methods
- Ensure ITCs for current and two prior years as well as certain amounts related to section 150 GST/HST election are included in SAM calculations
- Ensure provincial allocation component is calculated according to ETA rules (for some financial institutions the rules are different compared to the rules for income tax allocations)
- Capture any missed PVAT and QST for current and two prior years
- Review calculations for errors related to recaptured ITCs and restricted ITRs
- Capture any missed transitional adjustments.

We can help
Your KPMG adviser can help you determine whether your credit union and related entities are required to file the GST/HST and QST annual information return and/or the SLFI annual final return.

We can assist you with your indirect tax compliance obligations. We can also help you determine if you have missed eligible ITCs, ITRs, and other credits and adjustments and also help you identify areas where certain tax costs may be managed.

KPMG's Financial Institutions Indirect Tax Compliance Centre has a team of multi-disciplinary professionals who specialize in indirect tax compliance requirements for the financial services sector. These professionals use sophisticated proprietary compliance software developed specifically for financial institutions with partly exempt businesses to help you extract the required data from your systems, fulfill your filing requirements and perform checks to help manage compliance indirect tax risks.

For more information, contact your KPMG adviser.
