Details

Service: Tax, Indirect Tax (GST, PST, HST, etc.) Services

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SLFI Final Returns Due June 30 - Last Chance for Missed ITCs and SAM Deductions

Canadian Tax Adviser

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Selected listed financial institutions (SLFIs) that have a December 31 year-end only have until June 30, 2016 to claim missed input tax credits (ITCs) and special attribution method (SAM) deductions. SLFIs that have this year-end and that are annual filers must make these claims in their 2015 GST/HST and/or QST final returns due June 30, 2016. Other approaches to recover missed SAM deductions may also no longer be available after this date.

In addition, June 30, 2016 is also the last day that these SLFIs that are not qualifying financial institutions (QFI) can change their ITC allocation method for 2015. Also, SLFIs with a December 31 year-end that are QFIs (i.e., certain banks, insurers and security dealers) and that want to request changes to their allocation method for a particular fiscal year must generally file an application no later than 180 days before the first day of that fiscal year.

Action required
SLFIs should review their ITC allocation methods before the deadlines to help them reduce their unrecoverable GST/HST and QST costs. They also should ensure that they are capturing all of their commercial activities, and including GST paid in 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.

Background
All SLFIs across Canada with a December 31 year-end have to file an annual GST/HST and/or QST final return for SLFIs by June 30, 2016 (i.e., 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"). 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
- Filing requirements for particular methods for QFIs
- The requirement to determine ITC allocation method by the first return for a particular year for non-QFIs
- Rules to prevent changing allocation method without approval
- The possibility to include missed PVAT and eligible QST for two prior years in SAM calculations.

Deep dive on SAM adjustments - Don't lose deductions
In general, the SAM rules calculate an adjustment that must be included in the net tax of a SLFI. While some rules have not yet been released, the QST rules are expected to apply similarly to the GST/HST rules. The following is a quick review of the SAM calculations:

[(A - B) x C x (D / E)] - F + G

Elements A - B
Element A is generally the GST and the federal part of the HST payable or paid in the year while element B is the allowable ITCs for the GST and the federal part of the HST.

To determine these components, SLFIs must track all the GST and HST paid or payable in their systems. While this may seem simple, several errors can arise and lead to understated or overstated GST amounts.

For element B, a SLFI can only claim eligible ITCs that relate to the GST or the federal component of the HST included in element A. To the extent that a SLFI includes ITCs for 2013 and 2014 years in its 2015 return, these amounts may be included in B.

Element C
Element C is the provincial attribution percentage for each HST participation province and for Quebec. The calculations of the provincial attribution percentages are based on the specific type

of FI. The complexity of these rules and the detailed information required for the calculations can lead to errors, such as including certain excluded amounts. SLFIs must calculate their provincial attribution percentages each year.

Elements D / E
Element D is the PVAT rate of the HST-participating province or the QST rate in Quebec, while element E is the 5% GST.

Element F
Element F is the provincial component of the HST (PVAT) paid or payable or the QST paid or payable during the reporting period or a prior reporting period subject to certain limits. Amounts of PVAT or QST that are not tracked and not included in the SAM calculations will increase the tax payable for the SLFI. Also, it is our understanding that the QST paid or payable should include QST related to restricted ITRs.

Element G
Element G is an aggregate of several complicated positive and negative adjustments. For example, this element includes adjustments related to elections and transactions between closely related entities, recaptured ITCs and transitional adjustments for when provinces became or ceased to be an HST province. For QST purposes, element G should also include transitional adjustments for Quebec.

While an SLFI's adjustments related to element G depend on the type of entity and its particular facts, many errors arise from the calculations of these adjustments including potential liabilities and missed opportunities.

KPMG observations
SLFIs may wish to review the following key considerations concerning their upcoming filing obligations. SLFIs may want to:

- Use the time before June 30, 2016 to review allocation methods
- Ensure prescribed amounts are not included in SAM calculations (e.g., claims related costs)
- Ensure ITCs for current and two prior years as well as ITCs on section 150 election flow through 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 if you have missed eligible ITCs, ITRs, and other deductions and adjustments. We can assist you with your indirect tax compliance obligations, including your GST/HST and/or QST final return and your annual information return. Your adviser can also help identify areas where certain tax costs may be reviewed.

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 FIs with partly exempt activities 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 or one of the following professionals:

David Schlesinger
(416) 777-3833
dschlesinger@kpmg.ca

Christian Thibault
(416) 777-3927
cthibault@kpmg.ca

Yakoob Vayani
(416) 777-3933
yvayani@kpmg.ca

Simon Proulx
(647) 777-5318
sproulx@kpmg.ca

Mark Gronsfelt
(416) 777-3014
mgronsfelt@kpmg.ca

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professional advice after a thorough examination of the particular situation. For more information, contact KPMG's National Tax Centre at 416.777.8500