



# TaxNewsFlash Canada

## Charities and Health Care Industry — Prepare for 2016 GST/HST Budget Measures

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Charities and entities in the health care sector may want to start preparing for the effect of certain GST/HST tax changes proposed in the 2016 federal budget. Specifically, the budget proposes measures for:

- Donations to charities
- Taxable cosmetic services
- New zero-rated medical devices.

### Background

Finance Minister Bill Morneau delivered the government's 2016 federal budget on March 22, 2016. For full details of the budget, see [TaxNewsFlash-Canada 2016-12, "2016 Federal Budget Highlights"](#).

### Donations to charities

The budget addresses situations where a charity or a public institution makes a taxable supply of property or services (an inducement) in exchange for a donation and an income tax receipt may be issued for a portion of the donation. In this instance, the budget proposes that only the fair market value of the property or services will be subject to GST/HST. Currently, if the supply of property or services was not an exempt supply, GST/HST could apply to the entire amount of the donation.

This budget measure will generally apply to supplies made after March 22, 2016. The budget also provides transitional relief in cases where the charity did not collect GST/HST on the full value of donations made in exchange for taxable supplies made between December 21, 2002 and March 22, 2016. In these instances, no further GST/HST is owing if GST/HST was charged on the value of the inducement or if the value of the inducement is less than \$500. In all other cases where the charity did not collect GST/HST on the full value of donations, the charity will be required to remit GST/HST on the value of the inducement only.

This measure will apply to supplies made after March 22, 2016.

**KPMG observations**

It appears that this measure does not affect the current exemption that is available for the entire amount of a payment for an admission to a fund-raising dinner, ball, concert or similar fund raising event. This exemption applies where part of the consideration for the supply is regarded as a donation and a charitable income tax receipt is issued. In this case, the entire payment will continue to be exempt from GST/HST.

This new budget measure will apply where the charity provides other goods and services in exchange for donations, and was required to charge and collect the GST/HST on the full value of the donation. If the charity is eligible to issue a charitable receipt for a portion of the donation, only that portion of the donation equal to the fair market value of the property or service will be subject to GST/HST.

**Taxable cosmetic services**

The budget proposes a new exclusion to the general exempting provision for charities. This measure ensures that services rendered to an individual for the purpose of enhancing or otherwise altering the individual's physical appearance and not for medical or reconstructive purposes are taxable services.

This measure will apply to supplies made after March 22, 2016.

**KPMG observations**

It appears that this measure is generally consistent with previous amendments to the exemptions for health care services in Part II of Schedule V and the general exemption for public institutions in Part VI of Schedule V to the ETA.

**New zero-rated medical devices**

The budget proposes new zero-rated (i.e., taxable at 0%) provisions for insulin pens, insulin pen needles and intermittent urinary catheters.

*Insulin pens and insulin pen needles*

Insulin infusion pumps and insulin syringes are currently zero-rated medical devices. These devices are used to inject insulin for the treatment of diabetes. Insulin itself is currently a zero-rated drug.

Insulin pens are also used to inject insulin for the treatment of diabetes, and are an alternative to infusion pumps or syringes. The federal budget proposes to add insulin pens and insulin pen needles to the list of zero-rated medical devices.

This measure will apply to supplies made after March 22, 2016 and to supplies made on or before March 22, 2016 unless the supplier charged, collected or remitted GST/HST in respect of the supply.

### *Intermittent urinary catheters*

Urinary appliances that are designed to be worn by an individual are currently zero-rated medical devices. Intermittent urinary catheters are an alternative to catheters that are left in place.

The federal budget proposes to add intermittent urinary catheters to the list of GST/HST zero-rated medical and assistive devices. To qualify, the intermittent urinary catheters must be supplied on the written order of a medical doctor, registered nurse, occupational therapist or physiotherapist for use by a consumer named in the order.

This measure will apply to supplies made after March 22, 2016.

### **We can help**

Your KPMG adviser can help you assess the effect of the tax changes in this year's federal budget on charities and entities in the health care sector. We can also keep you abreast of the progress of these proposals as they make their way into law.

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