

## FAQ ON INTERNATIONAL TAX

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TAXABLE, ZERO-RATED AND EXEMPT SUPPLIES

### Tax Question:

What is the difference between taxable supplies, zero-rated supplies and exempt supplies in relation to the goods and services tax/harmonized sales tax (GST/HST)?

### Facts:

GST is a federal value added tax that is applied to the supply of most of the goods and services sold in Canada. For provinces that harmonized their provincial sales tax with the GST, HST is applied to same base of supply as GST.



### Discussion:

Goods and services supplied in Canada can be broken down into three categories for when GST/HST is to be collected and when GST/HST paid can be claimed back. Generally, GST/HST registrants (both residents and non-residents of Canada) can only claim back GST/HST paid on purchases that relate to taxable supplies.

1. Taxable supplies. GST/HST is charged on most property and services sold or supplied in Canada. Examples include: rental income of commercial real property; legal and accounting services; books; sales and leases of vehicles; and car repairs.
2. Zero-rated supplies. If a supply is considered to be zero-rated, GST/HST is charged at 0%. However, if you paid GST/HST on purchases to provide those supplies you may still be allowed to claim the GST/HST paid. Examples include: basic groceries like milk, bread and vegetables; agricultural products like wheat, grain and raw wool; prescription drugs; and drug-dispensing services.
3. Exempt supplies. If a supply is considered to be exempt, GST/HST is not charged. As a result, GST/HST registrants are generally not allowed to claim back the GST/HST paid on purchases related to the exempt supply. Examples include: most health, medical and dental services performed by licensed physicians or dentists for medical reasons; bridge or road tolls; most services provided by financial institutions; and long-term rentals of residential accommodations.

### Recommendation:

If you would like to discuss if your products or services are subject to GST/HST in Canada, please contact Gilmour Group Chartered Professional Accountants.

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