

GST/PST/Excise Tax: Navigating the Maze



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Agenda

- **MNP**
- **Place of Supply**
- **Excise Taxes on Alcohol**
- **PST Exemptions**

About MNP

- MNP is the 5th largest Accounting Firm in Canada & the 2nd largest in BC
- 20 offices across B.C. - including 3 in the Thompson-Okanagan Region
- Over 5,000 team members
- Recognized as a Best Employer in Canada for 12 consecutive years



Our Commitment to the Beverage Industry

- MNP industry specialists work with hundreds of breweries, wineries, cideries and distilleries across Canada.
- Provide tailored solutions to assist you at every step of your business journey from start-up and growth strategies to succession planning.
- Offering a full suite of accounting, consulting, tax and succession services.
- Proud to partner with a range of organizations that provide and events and programs in the food & beverage industry – including our Founding Member Partnership for the Fortify Conference.

GST / HST

- GST is a value added tax and is applicable to most supplies that occur within Canada
- HST is the Harmonized Sales Tax and is applicable in ON, NS, NB, Nfld, PEI
- The rates of GST / HST vary from 0% - 15%

GST / HST

Everything is taxable under the GST/HST unless it is zero rated or exempt.
When something is Zero Rated it is taxable at 0%

Examples of zero rated supplies would be the sale of grapes.



GST / HST

Exempt supplies are not taxable under the GST/HST. When a person makes exempt supplies they are not able to claim ITC's.

Examples of exempt supplies include residential rent, education and most financial services.

Place of Supply

To determine the GST/HST applicable we must review the place of supply rules.

The general rule for tangible property is based on where the property is delivered/
where does the sale take place.

Several factors are considered including who arranges for the delivery.

Place of Supply - Goods

- Example - Beer purchase
- Customer comes into the Brewery in BC and purchases a case of Beer
- They then hire a delivery company to ship the Beer to their home in Alberta
- What rate of GST (and PST) is applicable to the sale?

Place of Supply

Customer from Ontario is on holidays in the Okanagan. They stop in at many wineries buying a bottle or two of their favourites.

When the trip is over they arrange with the last winery to use the courier the winery recommends and ships their three cases of wine home to Ontario.

What rate of tax would be applicable on the purchase of wine?

Place of Supply

Owner of a restaurant chain in PEI comes to the Okanagan for a wine buying trip. They go to three wineries and place a standing order to be refilled each month.

Payment for the first month delivery is made in BC.

The Restaurateur does not take any of the product.

The winery arranges for the shipments and then charges the client for the freight.

What rate of GST/HST is applicable?

Place of Supply - Services

- Many specialized rules for services.
- Where the service relate to TPP, Real Property or are location specific then we look to where they are performed.
- General services - the need to obtain an address of your customer.
- Where just one address then that is used to determine the rate.

Place of Supply - Intangible Personal Property

- What is IPP? The right to do something, a royalty, goodwill, a copyright, a license to use something.
- Need to look at where the IPP can be used
- Is the use restricted to one location or can it be used anywhere in Canada, in the world?

Excise Duties on Alcohol

- Wine
 - Spirits
 - Beer
-
- Essentially a tax on production levied by the Federal Government under the Excise Tax Act (beer) and the Excise Tax Act (2001) (wine, cider, spirits)

Excise Duty - Beer

- Excise duty is imposed under the Act on all beer produced in Canada, other than beer for non-commercial use.
- The excise duty rates are dictated by alcohol strength, as well as production volume and whether the beer is brewed in Canada or imported.
- Reduced excise rates for first 75,000 hectolitres brewed per calendar year in Canada by a licensed brewer
- All breweries are allowed the 5% wastage allowance (production loss)
- All brewers must file Form K50B, Excise Duty Return – Brewer

REDUCED RATES (as of April 1, 2019)

Beer containing > 2.5% alcohol	\$ per hL
0 to 2,000 hL	\$3.303
2,001 to 5,000 hL	\$6.606
5,001 to 15,000 hL	\$13.212

Excise Duty - Spirits

Spirits means any material or substance containing more than 0.5% absolute ethyl alcohol by volume other than

- (a) wine;
- (b) beer;
- (c) vinegar;
- (d) denatured alcohol;
- (e) specially denatured alcohol;
- (f) fusel oil or other refuse produced as a result of the distillation process;
- (g) an approved formulation; or
- (h) any product containing or manufactured from a material or substance referred to in paragraphs (b) to (g) that is not consumable as a beverage. (*spiritueux*)

RATES (as of April 1, 2019)

	\$ per L
< 7% alcohol	\$0.313
> 7% alcohol	\$12.375

No excise duty exemption for spirits

All spirits licensees are required to file a monthly B266 Excise Duty Return - Spirits Licensee

Excise Duty – Wine & Cider

- Cider = wine under the Excise Tax Act (2001)
- Exemption - In order to qualify for this exemption, wine that is packaged must be made from 100% Canadian-grown agricultural products. This means that all of the primary ingredient that is fermented (e.g., grapes, berries, other fruit, honey, dandelions and rice) must have been grown in Canada.
- The responsible wine licensee claiming this exemption must maintain adequate books and records to support the claim.
- All wine licensees are required to file a monthly B265, Excise Duty Return – Wine Licensee.

Liquor Tax

- Liquor Tax is applicable in most provinces.
- Each province has slightly different rules regarding who is responsible for paying the tax.
- Where product is brought into BC, BC will expect the person in BC acquiring the product to self assess the tax.

Tips & Traps

- **Vodka and T-shirts (10 cases of each)**
 - Distillery is located in Penticton
 - Customer is located in Markham, ON
 - Terms are FOB Penticton
 - Customer sends their own truck to pick up the goods
 - What is the rate of tax applicable?

PST in the Food and Beverage Industry

PST is applicable at 7% on most inputs to operate your business
There are exemptions for manufacturing and processing.

How does this apply to the Food and Beverage Industry

What is considered manufacturing?

PST Exemptions

Where conditions are met

Equipment used directly in the manufacturing process.

Materials or other inputs that form part of what is being manufactured for sale

Where equipment can have multiple uses (forklift) it may not qualify as exempt manufacturing equipment.

Manufacturing

Whether a company – say winery - qualifies as a manufacturer, will depend on what they are doing.

Do they make wine from fruit?

Do they just blend together liquids?



PST Other Issues

Self assess on purchases from out of province.

Purchase a special sign from Italy for your company - GST is paid at the border.
What about PST?

License to use computer software acquired from a Company in Ontario
What rate of tax is applicable

PST Other Issues

Temporary Use

Where company is bringing in any specialized equipment for a project, if the equipment, (e.g. vehicle) is in the province for 6 or more days there is a requirement to self assess PST.

The PST can be paid over three years.

Other Points for Consideration



Cross Border Imports

Company in BC orders a specialised piece of equipment from France.

What taxes are payable?



Conclusions

- GST/ HST important to understand what is being supplied (goods or service or intangible)
- Excise Duty – applicable on spirits and beer and certain wine
- PST - manufacturing exemption for certain types of equipment used directly in manufacturing
- PST – temporary use and self assessing on out of province purchases
- Cross Border - Place of supply important for PST and GST

Questions?

thank you



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