# BUDGET 2017: PROPOSED GST/HST AMENDMENTS

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**Categories:** Insights, Publications

On March 22, 2017, the federal Government released its Budget for 2017 (the "**Budget**"). The Budget has been considered lean in comparison to Liberal Government's first budget in 2016. However, a few proposed changes that will be felt at large provide an indication of the Government's appetite for the more substantive changes expected in the Fall update to the Budget.

**Taxi and Ride-Sharing Services**

Budget 2017 squarely addresses some of the recent controversy surrounding ride-sharing programs. Despite providing passenger transportation services similar to taxis, ride-sharing programs have not been subject to the same GST/HST rules because they have not historically met the definition of a taxi business. Budget 2017 proposes to subject Uber-like services to the GST/HST rules and are intended to level the playing field.

Since the inception of the *Excise Tax Act*, taxi operators have been required to register for GST/HST and charge tax on their fares, regardless of the amount of sales. The Budget proposes to broaden the definition of "taxi business" in the *Excise Tax Act*. A taxi business is currently defined as "a business carried on in Canada of transporting passengers by taxi for fares that are regulated under the laws of Canada or a province." However, effective July 1, 2017, it will be expanded to include "a business carried on in Canada by a person of transporting passengers for fares by motor vehicle…within a particular municipality and its environs if the transportation is arranged or coordinated through an electronic platform or system." Since the "small supplier" relief (applicable where annual revenues are under $30,000) is unavailable to a taxi business, casual operators of Uber-like services will be caught by these rules.

This proposed change will apply so that people operating businesses captured by this new definition will, like taxi operators, have to register for and charge GST/HST on their fares, regardless of the extent of their sales. It should not affect non-commercial activity or currently exempt activities. Specifically excluded from these requirements are the operation of a sightseeing service or the school transportation of elementary or secondary students.

**GST/HST Rebate to Non-Residents for Tour Package Accommodations**

Under the existing GST/HST legislation, non-resident individuals and tour operators who visit Canada are currently able to claim a GST/HST refund for the accommodation portion of eligible tour packages. The Budget proposes to repeal the entitlement to such a claim.

The repeal will generally apply to supplies of tour packages or accommodations made after March 22, 2017 ("Budget Day"). As a transitional measure, the rebate will continue to be available for a qualifying supply of a tour package or accommodations made after the Budget Day, but before January 1, 2018, provided that all of the consideration for the supply is paid before January 1, 2018.

This repeal continues the trend that started when the federal Government reduced the scope of the GST/HST rebate program for foreign tourists visiting Canada effective April 1, 2007 by replacing the Visitors Rebate Program (VRP) with the Foreign Convention and Tour Incentive Program (FCTIP). Once eliminated, the removal of the non-resident tour package rebate is expected to add another $15 million to the federal treasury.

**The "Sin" Taxes: Tobacco and Alcohol**

Under the existing legislation, manufacturers of tobacco products in Canada generally pay a surtax of 10.5% on their profits. In addition, federal excise duties are levied when tobacco products are sold in Canada.

Budget 2017 proposes to eliminate the manufacturers' surtax, but will maintain the tax burden on manufacturers by adjusting the excise duty rate.  There will be a pro-ration of the surtax where the elimination of the surtax on profits straddles a taxpayer's taxation year.

These proposed changes increase the excise duty rate on cigarettes from $0.52575 to $0.53900 for each five cigarettes (an additional 53 cents for 200 cigarettes), and on manufactured tobacco from $6.57188 to $6.73750 per 50 grams (an additional 66 cents per 200 grams).  In addition, manufacturers, importers, wholesalers and retailers will be subject to a tax of $0.00265 per cigarette in their inventory at the end of Budget Day.  The deadline for taxpayers to file returns and pay the inventory tax is May 31, 2017.

As with tobacco products, there are already existing tax and excise duties on alcohol products imposed at the time of production or packaging. These rates were effectively last adjusted in the mid-1980s.  Budget 2017 proposes that the excise duty rates be increased by 2%, effective the day after Budget Day, for duty payable after that date. This means that, for an average 24-pack of beer, the price will go up by 5 cents. Unlike with tobacco, there will be no inventory tax on which duty has been paid.

For both alcohol and tobacco, the rates will be automatically adjusted annually by the Consumer Price Index, starting April 1, 2018.  The higher excise taxes on alcohol and tobacco are expected to put $85 million into the federal treasury in the next year.

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**A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.