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TaxNewsFlash

Canada

Businesses — Prepare for Upcoming GST/HST Holiday

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Many businesses may want to review new details related to the proposed temporary GST/HST relief on certain specific consumer goods. The federal government has now released a bill with proposed legislation to enact this upcoming tax holiday that clarifies many aspects of this temporary measure. Wholesalers, manufacturers, distributors, retailers, restaurants, grocers, online marketplaces and food delivery businesses, among other businesses, are expected to be affected by the GST/HST holiday, which is planned to begin on December 14, 2024 and end on February 15, 2025. Importantly, the proposed legislation provides further details on which goods may qualify for the tax relief, and confirms that these goods will be temporarily considered “zero-rated” (rather than tax exempt) which will allow affected businesses to continue to claim eligible input tax credits (ITCs).

Affected businesses should prepare updates to their systems to reflect the new proposed legislation. Businesses need to ensure that they correctly identify qualifying goods, and related rules, to mitigate the risk that they could be liable for uncollected GST/HST. In addition, many employers should also prepare to adjust their employee travel and entertainment expense reimbursement systems since the proposed tax holiday may affect certain expenses on employees’ expense accounts (e.g., restaurant expenses).

Background
The federal government announced a temporary GST/HST tax holiday on November 21, 2024. The government released a list of qualifying goods that will be eligible for this tax relief, subject to various restrictions, that includes:

- Children's clothing, footwear, diapers and car seats
- Print newspapers and printed books
- Prepared foods (including vegetable trays, pre-made meals and salads, and sandwiches)
- Restaurant meals (including dine-in and takeout)
- Beer, wine, cider, and certain other alcoholic beverages
- Snacks, including chips, candy and granola bars (excluding snacks sold in vending machines)
- Children's toys, as well as jigsaw puzzles, video game consoles, controllers or physical game media
- Natural and artificial Christmas trees or similar decorative trees.

For details see *TaxNewsFlash-Canada* 2024-44, "Federal Government Announces Temporary GST/HST Holiday".

GST/HST holiday details

Retailers, wholesalers and other affected businesses may want to review the tax measures related to the proposed GST/HST holiday, which are now included in Bill C-78. Among other details, the bill clarifies that:

- "All" the consideration for a particular qualifying good must be paid during the eligible period to qualify for the tax holiday
- Certain beer, wine, cider, and other alcoholic beverages may be subject to the proposed tax holiday depending on certain factors, including their alcohol content
- Certain toys must be designed for use by a child under 14 years of age in learning or play to be considered qualified goods (alongside other conditions)
- Certain qualified goods qualify for the proposed tax holiday based on existing definitions in the GST/HST rules and other legislation (e.g., children's clothing, composite property and printed books).

KPMG observations
While affected businesses will appreciate this additional clarity on the proposed GST/HST holiday, some related questions still remain. Among other issues, it is still not clear how businesses should treat certain transactions that may straddle the effective

date of December 14, 2024. Businesses must carefully review the full list of qualifying goods, as well as all the related conditions, to determine if their supplies qualify as zero-rated under the proposed temporary GST/HST relief.

Although business-to-business transactions appear eligible for the GST/HST holiday, wholesalers, distributors, manufacturers and other suppliers must ensure that all related consideration is paid during the eligible period; otherwise the temporary zero-rated measures will not apply. As a result, it may be difficult for these businesses to adjust their systems in order to apply a zero-rated tax status to qualifying goods. In particular, these businesses should ensure that any changes to their systems reflect potential issues caused by payment terms (e.g., 30-day or 60-day).

In addition, employers will also have to carefully adjust their systems for employees' expense accounts, particularly if their systems are programmed to use the "factor method" to automatically calculate and claim their eligible ITCs on meal and entertainment expenses. Employers may also have to adjust their systems to account for situations where employees purchase other qualifying goods, and the employer reimburses the costs of those goods through the employees' expense accounts.

This proposed tax relief appears to apply to the GST (in non-HST provinces), and to both the federal and provincial components of the HST (in HST provinces). This is because, according to our understanding, Canada may propose any tax base change in respect of the federal GST and the provinces agree to be bound by all such tax base changes, under the Comprehensive Integrated Tax Coordination Agreements (CITCA) signed between the federal government and each of the HST provinces.

Note that use of GST codes at the border under the new CBSA Assessment and Revenue Management (CARM) system is tied to specific classifications for customs purposes, and the system will need to be updated to allow importers to realize the benefits of the GST/HST holiday. There have been reported issues with the use of GST codes on import entries, and importers should carefully review their import entries to ensure GST is relieved where applicable.

We can help

Your KPMG adviser can help you assess the effect of these new developments. For more details, contact your KPMG adviser.