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GOODS AND SERVICES TAX (GST)
HARMONIZED SALES TAX (HST)

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The following is a brief description of the GST & HST and how these taxes affect commercial imports into Canada.

The GST became law in Canada January 1, 1991. It is a Federal multi-stage sales tax on consumption, similar to the VAT (or Value Added Tax) in other countries. The current rate of GST is 5% (from July 1, 2006 to Dec 31, 2007 the rate was 6% and prior to that the rate was 7%). This tax applies at time of import into Canada (Division III tax). On imports, it is payable to the Canadian Border Services Agency (CBSA) (on behalf of the Canada Revenue Agency - CRA) at that time through your Canadian Customs Broker. The GST is applicable to virtually all goods with the exception of most foodstuffs, prescription drugs and some specialized transactions.

Under a federal government initiative, the GST has been combined with provincial Retail Sales Taxes to create an HST or Harmonized Sales Tax. Not all provinces participated in this initiative, and those that have, did not apply the HST uniformly across Canada. (Alberta never had a Retail Sales Tax, and Quebec maintains a separate QST system, but is expected to harmonize in the near future)

Companies whose GST (HST)-able business conducted in Canada, is valued at greater than $30,000 are required by law to be registered with the CRA for the GST/HST. If a non-resident company registers for the GST/HST, they must in addition post security with the CRA. This requirement is due to the company not having a permanent establishment in Canada. These bonds are for a minimum $5,000 CAD with a 5-year claim period. The actual amount of bond required will be reviewed and adjusted as needed by the CRA.

In a normal business flow, from original manufacture through wholesale and finally retail sale of a commodity, the GST/HST would apply on each transaction at each level. A GST/HST registrant would then offset the GST/HST paid on the previous transaction (purchase) with the GST charged on the current transaction (sale) by way of an Input Tax Credit. This makes the GST/HST revenue neutral.
The actual burden of the GST/HST as a cost is borne by the ultimate consumer who has no Input Tax Credit available.

If a non-resident company is NOT registered for the GST/HST, they must pay 5% GST at time of import, and cannot recover these funds from Revenue Canada, BUT, this GST can be recovered, by charging their Canadian client (the first purchaser resident in Canada) whatever GST that is paid on the import, (and have to support this by providing a copy of the import document (form B3) with their invoice to their client).

INTERNET REFERENCE GUIDE: Further information for non-residents is available on-line at:
http://www.cra-arc.gc.ca/E/pub/gp/rc4027/rc4027-11e.pdf