

GST: To Register or Not to Register?

One of the decisions faced by independent contractors is whether to register with the Canada Revenue Agency for a Goods and Services Tax (GST) number and start collecting and submitting GST monies. Many freelance interpreters are daunted by the thought of the paperwork and complexity that probably goes into charging GST on all their contracted work and submitting the monies to the government.

I had to start charging GST for the first time in January 2012 when I purchased another side business to add to my portfolio. As a result, all of my self-employed work, including freelance interpreting needed to include GST charges.

I actually found the process of registering my business (done over the phone) and submitting monies (an online form) to be extremely easy. The challenging part is figuring out all the details in-between.

What is GST?

In 1991, the Mulroney government implemented the Goods and Services Tax, a fee to be charged on products and services that met the government's requirements, paid by the end consumer of said consumed goods and services.

The current rate for GST in Canada is 5%.

Most people are familiar with paying GST on their shopping purchases, at restaurants and on their phone bills. As a business, you also need to know when and how to charge and collect GST from vendors and consumers.

Some goods and services are not subject to GST requirements; they are either *Exempt* or *Zero-rated*. Legal aid services and music lessons for example are exempt which means the provider does not charge GST and cannot claim GST they have paid out on their expenses. Zero-rated services and products such as milk, bread, vegetables and farm livestock, do not have GST charges attached to them but the providers can still claim their GST business expenses.

When do you start charging GST?

If your self-employed earnings total more than \$30,000 over a calendar year or during three consecutive months (a single calendar quarter), the government mandates you **MUST** register for a GST number and start collecting monies.

When you earn below \$30,000, you can still voluntarily register for and start charging GST. By registering regardless of your income, you can now claim the GST you pay out on your qualified expenses (i.e. GST you paid every time you filled up your car with gas for work or paid your business internet costs). With no GST registration and processing, you would be absorbing those costs on expenses.

Definition: Calendar quarter - means a period of three consecutive calendar months ending on the last day of any of the following months: March, June, September, and December. Calendar year - means a year that begins on January 1 and ends on December 31.

The Paperwork

I found the GST submission form itself easy to fill out; it's basically a simple math calculation. As this was my first experience, I hired my accountant to go through it with me to be sure I did everything correctly.

Basically, at the end of your reporting period (annually or quarterly depending on what you choose to do), you total how much you collected from your vendors or companies hiring your services then subtract the GST you paid out on your qualified expenses (called input tax credits). The remainder is submitted to the CRA.

Definition: Input tax credit (ITC) - means a credit GST/HST registrants can claim to recover the GST/HST paid or payable for property or services they acquired, imported into Canada, or brought into a participating province for use, consumption, or supply in the course of their commercial activities.

Keeping your records updated monthly or bi-monthly reduces the year-end stress of preparing your business for income tax filing and GST reporting.

Every January, I start a new excel spreadsheet, one for my invoice numbers and income, one sheet for my expenses. Now that I have to charge GST, I simply add a GST column to both of them; now I can easily use a SUM excel function to total the amounts. Remember to keep all your receipts.

When it comes to sending out invoices, the CRA has specific rules of what information needs to appear on that document. Since charging GST, I now have to include my GST number plus an extra line separating out how much GST I charged on the service.

I also created a separate savings account to hold the GST monies I collected throughout the year to give me peace of mind knowing I was covered and ready to pay what I needed to pay.

Making the Switch

When I became a GST registrant and needed to start charging GST on all my services, I informed the companies I work with regularly that there was a change to my basic rate for interpreting services. They received the new invoice with the added GST charge and paid it. They can now claim that payment as an input tax credit in their own GST calculations.

As a freelance contractor, you may come across businesses that have exemption or zero-rated status (as mentioned earlier). This means they do not pay GST to their vendors, the Manitoba provincial government services and departments for example (but not all provinces). In these cases, you would receive an exemption number or certificate statement such as:

“This is to certify that the property and/or services ordered/purchased hereby are being purchased by _____ [Name of Provincial/Territorial Government Department or Institution], and are not subject to GST/HST. Signature of Authorized Official.”

You also need to know that when you supply a service to a company based in another province, you may need to pay the Harmonized Service Tax (HST). For example, I do bookings with the Federal Government; their contracting authority is based in Ontario so I need to charge HST, a total of 13%, on my invoices. (Refer to the GST/HST general manual for more information.)

Another situation a contractor may encounter is fee for service work. Some organizations, institutions and companies want to avoid the rigmarole of hiring someone as an employee for short-term work or hourly-rated work. Or the business wants to contract a current staff member for a specialized service, over and above their day job status. To clarify the relationship, an agreement is created between the parties that should include a signed contract and/or submission of an invoice for services rendered.

In these situations, the roles are clearly defined as separate and outside of any employee/employer status. The freelance contractor is then

responsible to charge GST if necessary and take care of all other deductions themselves (CPP, Income Tax, EI) and cover their own expenses.

In yet another GST scenario, companies may stipulate that the tax is inclusive of (included in) the hourly rate agreed upon. For example, if you are working as an independent contractor with no GST number the rate of pay may be \$30/hour, after registering for GST the rate of pay is now \$28.57 plus \$1.43 GST to equal \$30.00. This type of situation would be agreed upon and clearly stated in your contract.

The final decision

The GST submission form may be simple but some of the ins and outs of the who, what, where, when, why and how questions related to collecting GST can be very complicated. My few points covered here only scratch the surface of information concerning GST; the resource manual is 83 pages long! As a freelance interpreter however, these have been the situations and changes that affected my business the most.

I found asking questions and doing research the best way to navigate through the maze of tax rules and overall business operations related to the GST. The CRA of course has a lot of online manuals and webpages to read through. You can also contact the CRA Rulings Department for official clarification. Their expert and specialized tax team will review the situation in question, refer to the Income Tax Act, tax regulations and conventions and give you an interpretation/decision on how to proceed.

By Kristi Dorian, freelance interpreter, entrepreneur and business owner.

NOTE: This article is strictly from my own personal experiences and I am not in any way an expert; please consult your accountant and contact the CRA for updated information. I'd be happy to share my experiences; you can contact me at krdorian@mymts.net.

Resources

- CRA GST info: <http://www.cra-arc.gc.ca/gsthst/>
- CRA GST manual: <http://www.cra-arc.gc.ca/E/pub/gp/rc4022/>
- CRA GST registration: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rgstrng/hwt-eng.html>
- CRA Ruling Department: <http://www.cra-arc.gc.ca/tx/txprfssnls/srvcs/menu-eng.html>
- Business Registration: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/bn-ne/bro-ide/>
- <http://www.cch.ca/newsletters/TaxAccounting/January2012/article3.htm>
- Provincial Governments: <http://www.cra-arc.gc.ca/E/pub/gm/18-2/18-2-e.pdf>
- GST-HST rates across Canada: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rts-eng.html>