GST QUICK METHOD

The quick method is another accounting option available to help small businesses calculate their net tax for GST/HST purposes. This method reduces paperwork and makes it easier to calculate GST/HST remittances and file GST/HST returns because it eliminates the need to report the actual GST/HST paid or payable on most purchases.

When you use the quick method, you still charge the GST at the rate of 5% or the HST at the applicable rate on your taxable supplies of property and services. However, to calculate the amount of GST/HST to remit, multiply the revenue from your supplies (including the GST/HST) for the reporting period by the quick method remittance rate, or rates, that apply to your situation.

The remittance rates of the quick method are less than the applicable rates of GST/HST that you charge. This means that you remit only a part of the tax that you collect, or that is collectible. Since you cannot claim input tax credits (ITCs) on most of your purchases when you use this method, the part of the tax that you keep accounts for the approximate value of the ITCs you would otherwise have claimed.

You can use the quick method if you meet **all** of the following conditions:

- You have been in business continuously throughout the 365-day period ending immediately before your current reporting period. If you have not been in business continuously for the past year but you are an eligible type of business, you may be eligible to use the quick method. You can elect to use the quick method if, in your first full year of business, you can reasonably expect your revenues from worldwide taxable supplies, and those of your associates, to be $400,000 or less.
- You did **not** revoke an election of the **quick method** or the **simplified method for claiming ITCs** during that 365-day period.
- You are not a business type listed below.
- Your revenues (including the GST/HST) from annual worldwide taxable supplies, (including zero-rated supplies) and those of your associates, are not more than $400,000 for either the period consisting of the first four consecutive fiscal quarters out of your last five fiscal quarters, **or** the period consisting of the last four fiscal quarters out of your last five fiscal quarters (see Example 1). When you calculate your annual worldwide taxable supplies, exclude revenues from supplies of financial services and sales of real property, capital assets, goodwill from the sale of a business, and, before January 1, 2017, eligible capital property.

Generally, the election stays in effect as long as the total annual revenue (including the GST/HST) from your worldwide taxable supplies (including zero-rated supplies), and those of your associates, does not exceed $400,000, or until you become a person that cannot use the quick method because of the type of business you carry on.

Business types that **cannot** use the quick method:

- persons that provide book-keeping, financial consulting, tax consulting or tax return preparation services in the course of the person's commercial activity
- persons that provide legal, accounting or actuarial services in the course of their professional practice
- listed financial institutions
- charities
- public institutions
- non–profit organization with at least 40% government funding in the year (qualifying non–profit organizations)
- municipalities or local authorities designated as a municipality
- public colleges, school authorities, or universities, that are established and operated other than for profit
- hospital authorities, facility operators, or external suppliers

Example 1

Inspire Fitness Co is a GST/HST registrant located in Calgary, Alberta, where it has operated for the last five years and provides local fitness services. It files quarterly GST/HST returns and has always used the regular method to calculate its net tax. Inspire Fitness Co is not a type of business listed above that cannot use the quick method. They would like to use the quick method beginning April 1, 2018.

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GST QUICK METHOD (PAGE 2/4)

Inspire Fitness Co's worldwide taxable sales (including the GST/HST) for the last five fiscal quarters are as follows:

Inspire Fitness Co Calgary, Alberta
Taxable sales (including the GST/HST)

Fiscal quarters ending	Amount	Amount
31-Mar-17	$78,000	
30-Jun-17	$118,000	$118,000
30-Sep-17	$128,000	$128,000
31-Dec-17	$70,000	$70,000
31-Mar-18		$86,000
Total for four consecutive quarters	**$394,000**	**$402,000**

The total sales (including the GST/HST) for the first four fiscal quarters (ending December 31, 2017) was $394,000. The total sales (including the GST/HST) for the last four fiscal quarters (ending March 31, 2018) was $402,000.

Since at least one of the periods of four consecutive fiscal quarters out of the five most recent fiscal quarters has GST/HST-included sales that are not more than $400,000, Inspire Fitness Co can elect to start using the quick method on April 1, 2018.

When to elect?

If you file annual GST/HST returns, you have to make the election by the first day of your second fiscal quarter.

If you file monthly or quarterly GST/HST returns, you have to make your election by the due date of the return for the reporting period in which you begin using the quick method.

You can start using the quick method on the effective date you indicate to us. However, this date has to be the first day of a GST/HST reporting period.

If you previously elected to use the quick method and have revoked that election, you have to wait at least one year from the date the revocation became effective before you can elect to use the quick method again.

When to revoke election?

You can revoke the election only after your quick method election has been in effect for at least one year.

You have to revoke the election by the due date of the GST/HST return for the last reporting period for which you want to use the quick method.

If you revoke the election, you have to wait at least one year before you can elect to use the quick method again.

In addition, if you stop using the quick method, you cannot claim ITCs for any tax paid or payable on purchases you made while using it, other than the ITCs you would have been entitled to claim, but did not claim, while you were using the quick method.

Books and records

When you complete your GST/HST return using the quick method, you do not have to indicate the actual GST/HST that you charged on most of your taxable supplies or the GST/HST paid or payable on most of your business purchases. However, you still have to keep detailed records of this information. Keep all books and records related to your business purchases and your supplies **for six years** after the year they relate to. These have to be made available to our auditors on request.

How does the quick method work?

When you use the quick method, you still charge the GST at 5% or the HST at the applicable rate on your supplies of taxable property and services (other than zero-rated supplies), but you remit only a portion of that tax.

The tax you have to remit is calculated using the applicable quick method remittance rates. Usually only one of these rates will apply to your business.

The quick method calculation applies to most of your supplies of property and services. However, certain supplies you make are not eligible for this calculation. If you

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make a supply that is not eligible, you do not use a remittance rate to calculate how much tax you have to remit. Instead, you have to account for such a supply the same way you would if the election were not in effect. For example, if you make a supply that is not eligible and you charge 5% GST, you have to report the full amount of tax charged instead of using a quick method remittance rate.

The following supplies are **not** eligible for the quick method calculation:

- supplies on which the customer does not have to pay the tax, such as:
  - zero-rated supplies
  - supplies made outside Canada
  - certain supplies to Indians
  - sales of real property
  - sales of capital assets
  - sales of eligible capital property (before January 1, 2017)
- supplies you made as an agent or auctioneer for which you must account for the tax paid
- supplies of property or services you made to an employee or shareholder for which you must account for tax on the value of the supplies and that is to be included in the individual's income as a taxable benefit for income tax purposes
- supplies of property (other than capital property) or services for which you had to self-assess tax because you appropriated property or services for the personal benefit of yourself, a shareholder, a beneficiary, a partner, a member of your organization, or related persons
- supplies of property or services for which you had to self-assess tax because you received a reimbursement under a warranty for property or services you acquired, and you were entitled to claim an ITC or rebate

You can claim any ITCs to which you are entitled for the following **only**:

- purchases of real property and improvements to real property
- purchases of capital property (other than real property), such as computers and vehicles, and improvements to capital property
- purchases of eligible capital property and improvements to eligible capital property (before January 1, 2017)
- purchases on which GST/HST became payable before your quick method election took effect, if the time limit to claim the amounts has not expired
- goods sold by an auctioneer or an agent on your behalf where the auctioneer or agent has to account for the tax
- goods you are considered to have bought to use only in your commercial activities if:
  - a non-resident, who is not registered for the GST/HST, transferred them to you, after paying tax on them
  - you provided a commercial service on the goods and then sold them, acting as an agent for the non-resident and collecting the GST/HST

Quick method remittance rates in Alberta

Most businesses use only one remittance rate. The rate that applies depends on whether you make taxable supplies of property or services in a participating or non-participating province, and whether you make the supplies through a permanent establishment that is located in a participating or non-participating province. The type of business you are involved in is also a factor. For example, a business that provides mostly services generally has to use a different remittance rate than a business that is involved mostly in purchasing goods for resale.

Businesses that purchase goods

For businesses who purchase goods for resale like retailers and wholesalers in Alberta, the GST remittance rate is 1.8%. To be eligible to use these rates, the cost (including the GST/HST) of goods you purchased in your previous fiscal year for resale, or to use in goods you produce or manufacture for sale, must be at least 40% of your total revenue from annual taxable supplies (including the GST/

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HST) for that fiscal year. Do **not** include the annual taxable supplies of your associates in this calculation.

Exclude purchases of basic groceries and purchases for which you are not required to pay tax from your calculation of the cost of goods you purchased.

Exclude supplies of basic groceries, financial services, and sales of real property, capital assets, goodwill from the sale of a business, and, before January 1, 2017, eligible capital property, as well as goods that you sold on behalf of someone else by auction from your calculation of your total annual taxable supplies, but include sales made by an auctioneer on your behalf.

Businesses that provide services

For businesses that provide services in Alberta, the GST remittance rate is 3.6%. Generally, these rates are for use by small businesses that provide services.

Credit of 1% on the first $30,000 of revenue from eligible supplies

In calculating your net tax using the quick method, you are entitled to a 1% credit on the first $30,000 of revenue from your eligible supplies (including the GST/HST) on which you must collect the GST at 5% or the HST at the applicable rate (see GST/HST rates) in each fiscal year.

To qualify for the 1% credit, your quick method election must be in effect at the beginning of a fiscal year, or if you are a new registrant, on the day you became a registrant.

If you file monthly or quarterly GST/HST returns, the 1% credit applies to the first and the following reporting periods of a fiscal year until you reach the $30,000 threshold, or the fiscal year ends. If you file annual GST/HST returns, use the 1% credit on your first $30,000 of revenue from your eligible supplies in that fiscal year.

Example 2

Inspire Fitness Co made gross revenue of $378,000 and total expenses of $170,000, of which it paid GST on $50,000. Because it provides fitness services in Alberta, then the GST remittance rate of 3.6% applies if it chooses to use quick method.

Impact of Switching to Quick Method

	Regular Method	Quick Method
Revenue	$360,000	$360,000
GST	$18,000	$18,000
Gross revenue	$378,000	$378,000
Expenses:		
Wages	$120,000	$120,000
Other	$50,000	$50,000
GST ITCs	$2,500	$2,500
GST Collected (from Revenue)		
Regular Method	$18,000	
Quick Method - 1st $30,000 of gross revenue (at $2.6%)		$780
Quick Method - after $30,000 of gross revenue (at 3.6%)		$12,528
GST Paid (from ITCs)	$2,500	Nil
Total GST Owing	**$15,500**	**$13,308**
Savings from Quick Method		**$2,192**

From the calculation above, the GST quick method has resulted in savings of $2,192 from the regular method. A credit of 1% is applied for the first $30,000, which is why only 2.6% of this amount is calculated for remittance.

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