# Unit 15 - Sales and Goods and Services Tax

#### THE BACKGROUND

The companies which sell taxable items become, by law, agents for the government for the collection of sales tax.

A customer pays sales tax to a company and the company sends the money to the government.

Manufacturers, wholesalers, and most retailers are required to register with the federal gov't to collect the national Goods and Services Tax.

Retailers are to register with their province and receive a provincial sales tax license.

#### The Federal Goods and Services Tax

The Goods and Services Tax (GST) is a 5% tax charged on most sales of services or merchandise made within Canada.

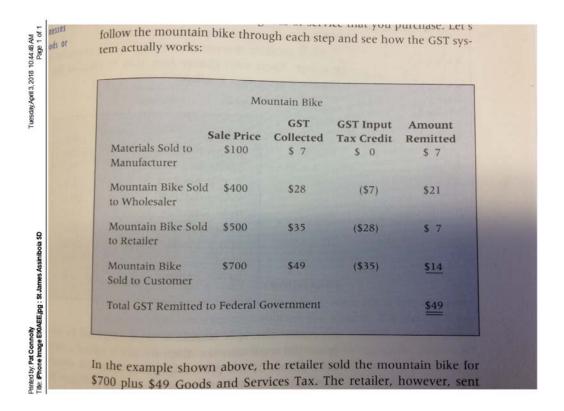
A number of items such as basic groceries, prescription drugs, health and dental services are exempt for free from GST.

GST is collected by the business which has registered with Revenue Canada to collect taxes (see pa. 361 and 362)

#### How Does the GST Work?

A product can be bought and sold by several businesses before you the consumer actually purchases the item.

Each of the business must add 7% GST to the selling price but the federal government only receives 7% of the final sales price.



### Provincial Retail Sales Tax (PST)

All provinces except Alberta have a provincial sales tax. Such items as food, drugs, children's clothes, school supplies, and farm equipment are exempt from sales tax in many provinces.

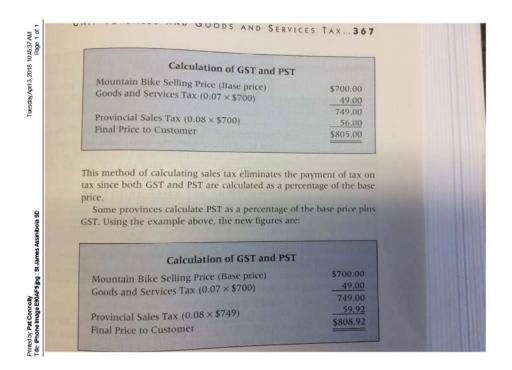
A retailer who sells taxable items is required by law to collect the provincial retail sales tax. The remittance to the gov't is usually done monthly.

https://en.wikipedia.org/wiki/Sales\_taxes\_in\_Canada

# **Provincial Sales Tax Exemptions**

When you make a purchase and the material is a raw material. This means that you are taking this product and making something out of it. Ex. Paper for greeting cards. You would be exempt from paying taxes of the roll of paper but the final buyer the consumer would pay sales tax on the greeting card created from the roll of paper.

# Calculating GST and Retail Sales Tax (PST)

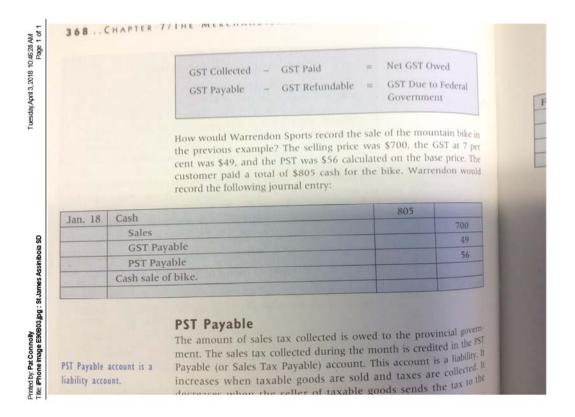


At the time of writing, B.C., Sask, Manitoba, and Ontario calculate PST on base price only while the other provinces calculate PST on base price plus GST

# **GST and PST Payable Accounts**

AS a retailer, you are responsible for collecting both the GST and PST from customers. The accounting system must include the accounts necessary to record both GST collected from customers and GST paid to suppliers in order to calculate the correct amount to remit to the federal gov't (GST collected - GST paid). An account will be necessary to collect the PST as well

Only three new accounts will be needed to do this. **PST Payable, GST Payable**, and **GST Refundable**.



### **PST Payable**

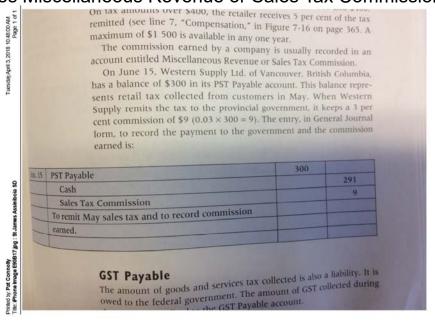
The amount of sales tax collected is owed to the provincial gov't. The sales tax collected during the month is credited in the PST Payable account. This account is a **liability**. It increases when taxable goods are sold and taxes are collected. It decreases when the seller of taxable goods sends the tax to the provincial gov't.

See page 369 for example

### Recording Sales Tax Commission

Several provinces pay commissions to companies in return for the collection of sales tax. See pg. 369 for examples

The commission earned by a company is usually recorded in an account entitles Miscellaneous Revenue or Sales Tax Commission

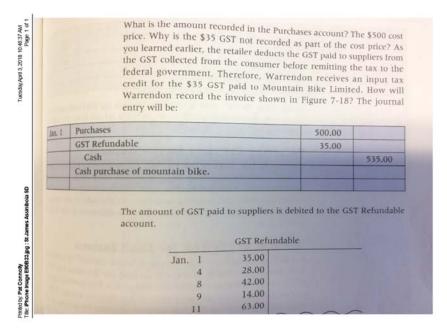


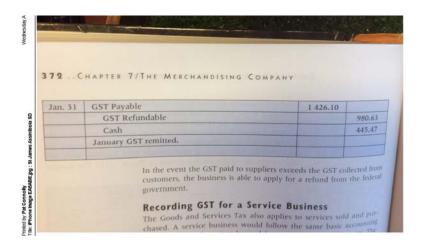
#### **GST** Payable

The amount of goods and services tax collected is also a liability. It is owed to the federal government. The amount of GST collected during the month is credited to the GST Payable account.

The retailer remits GST collected minus GST paid.

# **GST Input Tax Credit**





### Recording GST for a Service Business

It is done the same way that it was done for a merchandising business

# Optional GST System for Small Business

Small business has an option to use a "quick method" of collecting GST. Businesses eligible to use this method are determined by their total sales. See pg. 373

GST, PST, and Cash Discount

Terms 2/10, n/30 on 575.00 500 575.00 or 11.50

500 purchase, 75 taxes, 2% of the