

Intragroup Transactions – Avoid the GST-QST Traps

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On-line Tax Strategies

Did you know that intragroup transactions are often incorrect and a common source of significant assessments by the tax authorities? Many of these frequent errors can easily be avoided. The following paragraphs provide information on areas to watch out for and potential solutions to limit the impact of commodity taxes on your cash resources in intragroup transactions.

Basic rules

Enterprises are required to collect and remit taxes on taxable supplies, even in the case of transactions between companies within the same group. The consideration paid or payable to an entity in exchange for a taxable supply triggers taxes, regardless of whether an invoice has been produced. Transactions may be evidenced by a contract, invoice or even a journal entry.

Existence of a supply

The existence of a taxable transaction (supply) is not determined by an invoice, but rather by the nature of the transaction. For example, a parent company must collect and remit taxes on accounting entries described as “management fees” between the parent and a subsidiary, even if no invoice has been issued. Similarly, in general, an adjusting entry for shared expenses at year-end or to ensure that salaries or expenses are included in the correct entity could indicate the existence of a supply of goods (inventory) or services (labour), for which a consideration was

payable. This may result in taxes to be collected and remitted, regardless of whether there was a profit on the transaction.

Therefore, it is very important to qualify transactions and apply the taxes thereon. Remember that the journal entry could be considered to be the payment of a consideration for a taxable supply.

Documentation

To ensure that the recipient has the necessary documentation to claim ITC/ITRs, ideally, a proper invoice should be produced to make it easier to claim ITC/ITRs.

Relief

Group of closely-related persons

As mentioned in previous publications,¹ enterprises that are specified members of a qualifying group,² that satisfy the stated terms, may make a joint election to eliminate the obligation to collect and remit GST/HST on certain taxable supplies between them. Since January 1, 2015, the parties making the election must file the form with the tax authorities in order for the election to be valid.³

¹ *On-line Tax Strategies – GST-QST: Election Between Closely Related Parties – January 1, 2015 Is a Key Date (April 2014)* and *On-line Tax Strategies – Reminder: GST-QST: Election for Closely Related Persons – Action to Take in 2015* and available on our site rcgt.com.

² That is a group of closely-related persons.

³ For more information on the terms of this election, refer to our publication *On-line Tax Strategies – GST-QST: Election Between Closely Related Parties – January 1, 2015 Is a Key Date (April 2014)*, available on our site rcgt.com.

Other situations

The impacts on the cash resources within a group of enterprises can be limited using other alternatives. An agent relationship could be set up under which one entity will serve as agent for the other or simply act as a billing agent. In this situation, one entity would be in charge of billings and remitting taxes collected within the group.

In other situations, under certain conditions, it may be possible to offset amounts between the entities in a group and reduce the impact of taxes on the entities' cash resources.

Conclusion

It is therefore important to review the various exchanges within a group of companies to maximize cash resources and avoid certain errors. Our commodity tax specialists can help you develop a transaction plan in line with your needs and thus optimize your cash resources. If you detect errors when reviewing your business processes, our specialists can help you correct the situation through a voluntary disclosure, a proactive measure to correct a past error while minimizing the tax impacts.

Your Raymond Chabot Grant Thornton advisor can help you determine which measures apply to your situation and can help you undertake the necessary steps to use them. Do not hesitate to contact us.

For additional information visit us at rcgt.com.