

New change to GST/HST reporting on sale of carbon emission allowances

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Businesses and other persons who buy or sell emission credits under a cap and trade or other carbon pricing system should be aware of recent changes made by the Department of Finance to the reporting of GST/HST on sales of carbon emission allowances.

As of June 27, 2018, a person who purchases taxable carbon emission allowances from another person is required to self-assess the applicable GST/HST on that purchase. In the past, the tax on such a transaction would have been required to be collected and remitted in the more usual way by the vendor. Transitional rules have also been announced to accompany this change.

Carbon emission allowances are credits and similar instruments issued by a government, international organization or other regulating body to quantify greenhouse gas emissions to satisfy a program implemented to regulate such emissions.

This shift brings Canada's treatment of such transactions in line with the way they have typically been treated internationally. The benefit of this shift is that, in self-assessing the GST/HST to be remitted on a purchase, a business will be able to offset the amount of tax payable with any input tax credits they may be entitled to during that reporting period. This will allow them to reduce the amount of up-front cash required to engage in such transactions.

This change only effects the way the GST/HST is reported on such transactions. Carbon emission allowances sold by businesses in the secondary market are still considered to be a taxable supply for GST/HST purposes, even though the vendor is not required to collect the tax from the purchaser. The initial sale of carbon emission allowances from the issuing regulatory body (i.e., the government or government agency) will generally remain exempt from GST/HST.

As this legislative change is currently in draft format, businesses will need to keep in mind that additional changes may occur prior the new rules being passed as law. For further information as to how this change will affect your business, please contact a member of the [Raymond Chabot Grant Thornton Sales Tax team](#).

Do not hesitate to contact your Raymond Chabot Grant Thornton advisor who can help you determine which measures apply to your situation and assist you with the steps needed to benefit from these measures.

For further information, visit our website at rcgt.com.