



PRACTICE NOTE 13: FEDERAL 'GOODS AND SERVICES' TAX (GST)

REVISED: JANUARY 2008

(This Practice Note updates its first edition dated October 1, 2006. Its information and practical advice remain fundamentally the same but necessarily reflect the change in the GST, effective 01 January 2008, from 6% to 5%.)

An architectural firm needs to consult with the accounting profession and with the Canada Revenue Agency (CRA) in respect to detailed information, requirements and guidance as to its obligations. Furthermore, only an analysis of its business operation and the nature of the firm's clientele will determine the optimum strategy in areas where options are available. Each architectural firm is well advised to endeavour to keep abreast of evolving tax rulings. The foregoing notwithstanding, the following material is compiled to assist architects, their firms and clients. Some components of this Practice Note are drawn from similar publications by the RAIC and Canadian Construction Association (CCA), with appreciation.

1. The GST rate is 5%, wherever applicable, billable and payable on all invoices rendered on or after 01 January 2008, regardless of when the services were rendered or expenses were incurred.
2. Any business or associated group of businesses earning over \$30,000 in GST-taxable income per annum must register; others may elect to register.
3. Each architectural firm which registers must bill each and every one of its clients, on each and every invoice, the full GST applied to both professional fees and reimbursable expenses.
4. Certain clients or client-types may have, or choose to adopt, various special relationships to the GST. That is irrelevant regarding an architectural firm's obligations to invoice, collect and remit the full GST ... and similarly irrelevant as to a client's obligation to pay the architect's bill inclusive of the full GST.
5. The GST billed must be remitted to the government whether or not one's client has paid the amount billed within the filing period. Filing frequency can be monthly, quarterly or annually based upon total annual revenues.
6. A firm might find it advantageous to invoice on the first of a month as opposed to the last day of the preceding month, thereby deferring its remittance obligations by at least 4 weeks on effectively the same invoice.

With respect to client/architect contracts, the professional fee itself (in accordance with the AIBC's Tariff) does not include any GST. For construction contracts consistent with industry standard documents (the CCDC series), there is no need to write change orders to reflect the tax decrease (effective 01 January 2008) because the Contract Price (as a defined term) does not include any GST. As well, the AIBC Tariff's recommended percentage fees are calculated against a cost of construction which excludes any GST.

The change in the GST rate should not impact construction bidding and contract administration procedures provided the parties have followed the CCDC recommended practice of ensuring that all fixed price/stipulated price bidding is done on a "net of GST" basis. Refer also to *CCDC 24 – A Guide to Model Forms and Support Documents*, in particular, Certificate of Payment.

For construction contracts which begin before 01 January 2008 and extend after 01 January, 2008, architects might consider adding the following new line to the Certificate for Payment form:

“Goods and Services taxes at 6% before 01 January, 2008: \$ _____ ”

“Goods and Services taxes at 5% on or after 01 January, 2008: \$ _____ ”

Generally, GST becomes payable on the date payment is made or the date the invoice was issued, whichever is the earlier date. However, it is important to remember that there are special timing rules that apply to certain types of construction payments.

Special GST Timing Rules for Progress Payments: Where certification by a third party is a condition precedent to payment, GST does not become due until the day the certified amount is paid or becomes due and payable under the contract, whichever is earlier. Example: A contractor submits a monthly progress application on 27 December 2007 for work performed in the previous 30-day period. That amount is not certified until 31 December 2007 but is not due and payable under the contract until 14 January 2008. GST at a rate of 5% NOT 6% would apply since the GST on that amount does not become due and payable until on or after 01 January 2008.

Special Timing Rules for Holdbacks: GST payable on the holdback amount does not become payable until the day the holdback amount is paid or the day on which the holdback period expires under the written agreement or applicable legislation, whichever is earlier. Example: A monthly progress draw is submitted on 30 December 2007 for work performed in the previous 30-day period. That amount is subject to a statutory holdback of 10%. The holdback period does not expire until 45 days following the date of substantial completion of the Work, which does not occur until February 2008. The 5% GST would apply to the holdback.

For more information on the special GST timing rules for certain construction payments see the following CRA guide documents at:

www.cra-arc.gc.ca/E/pub/gm/b-087/README.html B-087 GST-HST New Residential Rental Property

www.cra-arc.gc.ca/E/pub/gm/b-053/README.html B-053 Construction Supply and Installation Contracts (TIB)

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