

# Income Tax Credits (ITC's)

As a GST/HST registrant, subject to tax legislation and specific rules set out and enforced by the Canada Revenue Agency, you can recover GST/HST paid or payable on many purchases and expenses related to your commercial activity. This bulletin provides information to help you reduce your GST/HST liability by maximizing the recovery of the GST/HST paid (ITC's).

## What are ITCs?

- As an HST registrant, the items or a services you sell are subject to GST/HST, which must be remitted to the CRA on a monthly, quarterly or annual basis. This tax liability can be quite substantial at the end of a reporting period. The good news is that the GST/HST you pay for related commercial expenses can be claimed back to reduce this GST/HST liability. HST paid for these goods and services are referred to as Income Tax Credits or "ITC's". The GST/HST rates differ from province to province. In Ontario, the HST rate is 13%, which combines a Provincial sales tax of 8% with a Federal GST of 5%.

## Who is eligible?

- You are in a participating province and acquire eligible products. (See your specific province and percent [here](#))
- You are a GST/HST registrant during the tax period the GST/HST was paid or became payable ie. you cannot claim an ITC paid before you became a registrant
- The GST/HST was paid or was payable by you as the GST/HST registrant
- You have appropriate documentation to substantiate the claim (explained in further detail later in this bulletin).

For a product to be claimed as an ITC it must:

- be used to run or be supplied through your business ie. it must be something you sell or use for business purposes
- be reasonable in quality nature and cost in relation to the nature of your business.
- !** This is important when claiming such items as home or vehicle expenses that have a "personal use" component
- Taxes claimed cannot be more than your net income before claiming ITCs, as you cannot use ITCs to increase or create loss.

There are three categories of supplies for income tax purposes:

Zero Rated Supplies	Exempt Supplies	General Supplies
<ul style="list-style-type: none"> <li>GST/HST is collected at 0%</li> <li>May be able to claim ITC's GST/HST paid to obtain these</li> </ul>	<ul style="list-style-type: none"> <li>GST/HST is not collected on these items</li> <li>Generally, cannot claim ITC's on GST/HST for these items</li> </ul>	<ul style="list-style-type: none"> <li>GST/HST rate is collected at 13% (in Ontario, may vary on province in question)</li> </ul>

### Most operating expenses are claimable

## What is eligible and ineligible items

Common Eligible Items	Common Ineligible Items
<ul style="list-style-type: none"> <li>Business Start Up Costs</li> <li>Business Use-of-Home expenses</li> <li>Delivery &amp; freight</li> <li>Fuel costs</li> <li>Legal, accounting &amp; other professional fees</li> <li>Maintenance &amp; repairs</li> <li>Meals &amp; entertainment (allowable part only)</li> <li>Vehicle expenses</li> <li>Office expenses</li> <li>Rent</li> <li>Telephone &amp; utilities</li> <li>Equipment rent</li> <li>Commercial rent</li> <li>Merchandise &amp; inventory</li> </ul>	<ul style="list-style-type: none"> <li>Travel such as, hotel, airfare, rail fare, or car rental (except travel-related expenses for meals &amp; entertainment)</li> <li>Convention fees</li> <li>Capital expenses / depreciable property (subject to certain rules)</li> <li>Certain Capital Property</li> <li>Taxable supplies of property/services to make or provide exempt supplies of property &amp; services</li> <li>Membership fees/dues to any club whose main purpose is to provide recreation, dining or sporting facilities (unless you resell memberships in the course of your business)</li> <li>Property/services you bought for your own personal consumption use or enjoyment</li> </ul>

## Time limits and how to claim ITC's

- The GST/HST must be claimed within the time limit, which, for most registrants, is 4 years after the due date for the return in which you could have first claimed the ITC.- See more detail on time limits [here](#)
- Once you calculate the amount you can claim, you report it on line 108 (or line 106 if you file on paper) of your GST/HST return.

## Charities or Non-For-Profit

- Charities are limited to what ITC's they can claim, see Net Tax Calculation for Charities

## New Registrants

- New registrants may be able to claim ITC's for GST/HST paid on property owned for commercial purposes at the time of registration. This may include real estate or product inventory owned prior to becoming a GST registrant. This may also include rent or royalties paid in advance for the period following registration.

## Public Service

- Public service bodies may be able to use a rebate to recover GST/HST paid on expenses related to making *exempt supplies* regardless if you are a GST/HST registrant or not. See Guide RC4034

## Personal Property Expenses

- To claim your home as a business expense it should be used >50% for commercial activity to claim ITC's (If the commercial use is 50% or less you cannot claim any ITC's related to the home).
- When you claim home expenses as an ITC you should use a method that claims your expenses in relation to how much is used for commercial purposes. Many people calculate the percentage of square footage used, relative to the total square footage of the home. If the percentage of use is 90% or greater, ITC eligibility is 100%

## Vehicle

- A similar guideline is set out for claiming vehicle expenses. For example, you are contractor and 80% of your mileage is used for business related purposes. Therefore, you can claim 80% of your vehicle costs as a business expense. Use the calculator [here](#) for help.
- You cannot claim an ITC for the portion of the purchase price over \$37K (2024) for a passenger vehicle, or if you are renting a passenger vehicle, the limit is \$1,050 per month (2024).

- To claim an ITC you must know the following:
  - The type of purchase/ expense
  - The percentage the item was used in commercial activities
  - Amount of GST/HST you can claim as an ITC based of what type of expense it is

### **Information Required**

Supplier's Business/trading name, or an intermediary's name

Date of invoice or, if no invoice issued, the date tax is paid or payable

Total amount paid or payable

An indication of the total amount of GST/HST charged or that the amount paid or payable for each taxable supply (other than zero rated supplies) includes the GST/HST at the applicable rate

An indication of which items are taxed at the GST rate & which are taxed at the HST rate

The supplier's business number (BN) or an intermediary's BN

Your name or trading name or the name of their authorized agent or representative

A brief description of the goods or services

Terms of Payment

## **Appropriate documentation required for ITCs**

There are two ways you can calculate the GST/HST eligible for reimbursement.

### **Simplified Method**

### **Regular Method**

## **Calculating ITC's**

Use the following links for various items

- [Meals & Entertainment](#)
- [Reimbursements](#)
- [Allowances](#)

\*\* See [underlined & italicized](#) type for links to the CRA website for more detailed information are included throughout the bulletin.