

# Canada Revenue Agency Notice 199 Impact to Procurement Cards

A White Paper Prepared for  
Visa Canada Association by  
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## Visa Canada Association Procurement Cards

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## Executive Summary

A procurement card program is a key element in the re-engineering of the purchasing function to enhance purchasing efficiency and reduce costs. It has been recognized that the use of procurement cards may increase sales tax exposure because users do not typically receive sufficient information from the card issuers' reports. This information is needed to satisfy the documentary requirements to claim input tax credits (ITCs). Most organizations that have adopted a procurement card program have developed internal policies that require the purchaser to retain receipts for purchases to help reduce tax risk for the organization. Accordingly, many organizations have satisfied the requirement to obtain sufficient documentation to support their input tax credits ("ITCs"), but in doing so, have negated some of the benefits intended for a procurement card program.

To address these issues, the CRA has published its long-awaited policy intended to provide a streamlined method of tax compliance for procurement card users. Notice 199, dated July 11, 2005 provides information to registrants who use procurement cards and who do not receive sufficient documentation to satisfy the requirements under the Excise Tax Act to claim ITCs.

The notice outlines the CRA's administrative policy to exempt eligible registrants from the ITC documentary requirements. Eligible registrants will be required to apply for the exemption and meet all of the 18 conditions which are described in the notice. Once the CRA has approved the application, the registrant will be allowed to claim ITCs on eligible purchases, using approved ratios. The ratios will be valid for a period of up to 5 years. On a go-forward basis, approved applications will remove the element of uncertainty and risk.

This paper will provide an overview of procurement cards in relation to GST/HST and it will guide you through the application process which is necessary to claim exemption from the documentary requirements for claiming ITCs. While this paper focuses primarily on the issues relevant to the GST/HST, it is recognized that these same issues are also relevant for Quebec Sales Tax purposes. At the date of writing however, no policy has been released by Quebec Revenue for procurement card users.



## Visa Canada Association

### Procurement Cards

#### Introduction

Procurement cards are enjoying growth in Canada as key elements in the re-engineering of the procurement function. By automating and simplifying time consuming paper-based procurement processes, the use of P-cards reduces the need for requisitions, purchase orders, invoices and cheques.

In most organizations where tax compliance is often centrally controlled and administered, the decentralization and local empowerment that procurement cards allow can lead to concerns that the use of procurement cards increases sales tax exposure and will result in greater tax risk for the organization. Organizations that have adopted a procurement card program have, by necessity, needed to establish an acceptable level of risk for tax compliance. The acceptable level of risk needs to balance this intended efficiency while addressing concerns about potential exposure for claiming input tax credits (“ITCs”) in error, for Goods and Services Tax/Harmonized Sales Tax (“GST/HST”).

In order to address these concerns and while the industry continued to await further guidance from the Canadian tax authorities, PricewaterhouseCoopers LLP, at the request of Visa Canada, conducted surveys of procurement cards users across Canada in 1998 and again in 2002. The objective of the surveys was to determine Best Practices employed by those organizations to manage their commodity tax exposure.

**Further guidance has now been provided by the Canada Revenue Agency, (the “CRA”) with the release of *Notice 199, “Procurement cards – Documentary requirement for claiming input tax credits”*. This notice outlines the application process to request exemption from the legislated documentary requirements for claiming ITCs based on an estimated amount of tax paid, using established ratios.**



## **Background**

### **What are Procurement Cards?**

Procurement cards are charge cards with pre-set spending limits and these limits have been designated by the employees' organization. With a traditional credit card, the cardholder may buy any products or services up to the preset credit limit. With the procurement card, each card can be encoded with controls limiting the amount spent on each transaction, the number of transactions per day and per month, or the dollar amount for specific periods. In addition, the card may be authorized only for specific industrial code vendors.

Procurement cards are issued to employees under the terms of an agreement which generally provides for joint liability only in the event of misuse of the cards. Employees use the cards to acquire goods and services for the employer; the cards are not intended to be used for personal purchases. Procurement card purchases can be made either in person, by telephone or on the Internet.

Typically, the procurement card is issued to the cardholder and card numbers may reflect the particular departments to which they have been assigned and linked directly to accounts within the employer's general ledger (G/L). For example, procurement cards issued to the employees within the shipping department may include a sub-code which reflects the shipping department's G/L account grouping.

When the cardholder places an order, the supplier obtains the card issuer's/bank's authorization, provides the goods and/or services and obtains payment from the bank. At month-end, or other periodic billing date, the employer receives a statement from the card issuer listing purchases made by each user by vendor, the date of purchase, and the total amount payable to the vendor.

Employers pay the procurement card issuer directly on the basis of the statement. Generally, amounts are posted to the G/L on the basis of the procurement card account number if the account is linked to the G/L account or on the basis of the employee coding of the procurement card statement. This feature allows employers to process one document for multiple purchases, reducing the per transaction processing costs.

The benefits to end-users are numerous and include the flexibility to make purchases from a wide range of acceptable vendors accepting credit cards; timely transaction information on departmental ledgers; a reduction in the use of Petty Cash and an improvement in the payment process to select vendors. Using a procurement card for payment consolidates purchases into one statement and thus



simplifies the record-keeping, settlement, auditing and reporting processes. It also eliminates the need to match Purchase Orders and receipts with an invoice, the creation and signing of cheques, the use of petty cash, and the requirement to seek personal reimbursement through expenses.

In summary, procurement cards permit large organizations to acquire goods and service more efficiently by minimizing transaction processing costs and paperwork.

## Goods and Services Tax/Harmonized Sales Tax

### Basic Concepts

A fundamental principle of the GST is that no tax should be incorporated into the cost of inputs used by registrants in commercial activities. With certain exceptions which are discussed below, registrants are entitled to a refundable credit, called an input tax credit, or ITC, for tax paid or payable on purchases that relate to the registrant's commercial activity. Generally, the entitlement to an ITC arises at the same time that the person supplying the goods or services is liable to account for tax on the supply.

### ITC Restrictions

Restrictions apply where input costs that would ordinarily give rise to an ITC have a significant personal consumption element, or where the goods or services are available to employees for personal consumption. For example, no ITC is allowed for GST paid on initiation fees<sup>1</sup>, membership fees or dues for any club whose main purpose is to provide dining, recreational, or sporting facilities. ITCs may be claimed on meal and entertainment expenses incurred in these clubs to the extent the expenses were incurred for purposes of a commercial activity, subject to the 50% recapture, which is discussed next.

ITCs for food, beverage, and entertainment expenses may be claimed in full in the reporting period in which they are incurred. However, at the end of a registrant's fiscal year, there is a 50% recapture of ITCs claimed on these expenses during the year where their deductibility is limited to 50% of the full amount under section 67.1 of the Income Tax Act.

### GST ITC Documentary Requirements

Registrants are subject to certain documentation requirements under the legislation. This documentation is necessary to enable purchasers to support eligible ITC claims. Registrants cannot claim an ITC unless, before filing their return, they have obtained "*sufficient evidence in such form containing such information as will enable the amount of the ITC to be determined*"<sup>2</sup>.

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<sup>1</sup> Paragraph 170(1)(a) of the Excise Tax Act was amended by Bill C-112 (1993, c.27) to deny an ITC for a right to acquire a club membership where the right is acquired after September 1992. Generally, an initiation fee is regarded for GST purposes as a right to acquire a membership. As a result, an ITC may be claimed on initiation fees that were contracted for before October 1992.

<sup>2</sup> Subsection 169(4) of the Excise Tax Act.



There are no restrictions on the form or physical characteristics of documents used to support ITC claims, provided they meet the basic information requirements. Documents may include invoices, cash register receipts, formal written contracts, credit card receipts, or any other document issued or signed by a registered vendor in respect of a purchase on which GST has been paid or is payable.

In cases where the physical documentation issued by a supplier's electronic or computerized system can and does meet the statutory and regulatory requirements under paragraph 169(4)(a), such supporting documentation must be obtained by the registrant prior to the filing of a return.

### Information Required to Support ITC Claims

The information required to support an ITC claim is prescribed by the Input Tax Credit Information (GST/HST) Regulations.<sup>3</sup> The information required varies depending on the value of the purchase, as follows:

Information Required	Value of Purchase		
	<\$30	>\$30 <\$150	\$150 or >
Name, date, total purchase amount	Y	Y	Y
Vendor's GST registration number		Y	Y
GST amount, or statement that GST is included		Y	Y
Purchaser's name		Y	Y
Terms of sale			Y
Description of the goods or services			Y

<sup>3</sup> A copy of the "Input Tax Credit Information (GST/HST) Regulations" is included in Appendix II.



## Procurement Cards and ITC Documentation

Procurement card users, like other organizations in Canada, must comply with these requirements, posing particular challenges for the purchasing and payables function.

For GST/HST purposes, the documentary information on statements provided by the procurement card issuer provides only minimal information that does not normally satisfy the requirements to claim an ITC under subsection 169(4) of the Excise Tax Act. The information that the procurement card makes available can be classified into three categories:

Level 1: the basic information typically found on a credit card statement, including the transaction date, vendor, total sale and the location, but not a description of the goods and services acquired or any reference to the amount of taxes payable;

Level 2: Level 1 information, plus sales tax information, if it is entered by the merchant, and the vendor's province, city and postal code, but not a complete description of the goods and services acquired;

Level 3: Level 2 information, plus the merchant's GST registration number, actual taxes paid, item description, transaction date and generally all of the information that would normally fulfill the documentary requirements, if entered by the merchant.

Level 3 reporting provides information usually found on a typical invoice that meets the maximum documentation requirements (i.e. for purchases of \$150 and greater). The CRA has agreed, in principle, that card statements containing Level 3 information would satisfy the documentary requirements and would be appropriate support for ITC purposes.

But even if the card issuer supports Level 2 and 3 information, some suppliers do not yet have the capability to input the required information because they are not willing to pay for the data entry and take the time to input the transaction data.

## Exemption from Documentary Requirements

### **CRA Notice 199 “Procurement cards – documentary requirement for claiming input tax credits”**

It has been recognized that the use of procurement cards may increase sales tax exposure. Registrants do not typically receive sufficient information from the card issuers' reports to satisfy the documentary requirements needed to claim an ITC. To address this issue, the CRA has published its long-awaited policy intended to provide a streamlined method of tax compliance for procurement card users. Notice 199, dated July 11, 2005 provides information to registrants who use procurement cards and who do not receive sufficient documentation to satisfy the requirements under subsection 169(4) of the Excise Tax Act to claim ITCs.

The notice outlines the CRA's administrative policy to allow the Minister to exempt eligible registrants or class of registrants from the ITC documentary requirements of subsection 169(4). Eligible registrants will be required to apply for the exemption and meet all of the 18 conditions which are described in the notice. On a go-forward basis, this application, once approved, will remove the element of uncertainty and risk which may reside with users of procurement cards.

Not all procurement card users will be able to benefit from this policy. Registrants whose activities are all or substantially all commercial<sup>4</sup> are eligible; financial institutions, organizations in the MUSH<sup>5</sup> sector and provincial gaming authorities are not.

The policy is restricted to 'eligible' purchases under \$1,000 that are made using procurement cards and will only apply provided all the conditions under the policy have been met. These conditions are outlined in detail in “The Application Process”.

Once the CRA has approved the application, the registrant will be allowed to claim ITCs on eligible purchases at the rate of 7/107 or 15/115 of the total amount of purchases appearing on the card issuers' report, to the extent of the ratios calculated. The ratios will be valid for a period of up to 5 years, at which time another application must be submitted.

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<sup>4</sup> “Commercial activity” is defined in subsection 123(1) of the Excise Tax Act. Refer to Appendix III.

<sup>5</sup> Municipalities, Universities, Schools and Hospitals



## **The Application Process**

Pursuant to subsection 169(5) of the Excise Tax Act, the Minister may exempt a registrant from the ITC documentary requirements of subsection 169(4). The exemption for purchases made using procurement cards will only apply provided all 18 conditions under this policy are met. Each of these conditions is discussed in detail below.

### 1) Terms of the Agreement

*The written agreements between the registrant and the card issuer must state that the registrant is solely liable for the payments of all charges made in connection with the procurement card(s). Employees of the registrant cannot be parties to the card agreements. Payment of the balance due on the procurement card statements is to be made solely by the registrant to the card issuer and not to the employee as a reimbursement for the expenses incurred on the card.*

Terms and conditions for procurement cards are different from those of consumer credit cards and corporate travel and entertainment cards. Procurement cards are issued to employees within an organization under the terms of an agreement which generally provides for joint liability only in the event of misuse of the cards. The registrant, or the procurement card program user, is solely liable to the provider of the procurement card for all charges made in connection with the procurement cards and pays the balance due directly to the card issuer.

Consumer credit cards, on the other hand, are issued to individuals personally, on the basis of their particular card profile. Employers are not liable in any way for the employees' use of the credit card. To the extent that an employee uses his or her consumer credit card to purchase goods and services in the course of activities carried out on behalf of their employer, he or she is generally reimbursed through an employee expense reimbursement process. The individual card holder is responsible for paying the card issuer directly.

Corporate travel and entertainment cards are issued to specific employees of an organization. These cards differ from consumer credit cards in that the employer is a party to the cardholder agreement, agrees to be bound by the terms of such agreement and assumes joint and several liability or corporate liability for charges incurred through the use of the cards.

## 2) Use of the Card

*The card(s) is (are) used for the acquisition of goods and services made for consumption, use or supply in the course of commercial activities of the registrant. Where goods and services are acquired otherwise than exclusively for consumption, use or supply in the course of the registrant's commercial activities, any ITCs to which the registrant is entitled will be claimed in accordance with paragraphs 169(1)(a) to (c) and section 141.01 of the Act.*

Eligibility for an ITC is generally based on the registrant's intention at the time the property or service is acquired or imported by the registrant. If the registrant intends to use, consume, or supply the property or service in commercial activities<sup>6</sup> when the registrant imports or acquires the property or service, an ITC may be claimed. In the case of a supply in Canada, the registrant's intention to use the property or service in commercial activities is generally determined at the time the agreement to acquire the property or service is entered into. In the case of an importation, the registrant's intention is determined at the time of importation.

Where a registrant pays GST on the acquisition or importation of property or a service, the registrant may claim an ITC in proportion to the extent to which the property or service was acquired or imported for consumption, use, or supply in commercial activities. GST on property and services for consumption or use partly in commercial activities may be recovered on a proportional basis, as provided in paragraphs 169(1)(a) to (c).

Subsection 141.01(2) of the Act expands on the notion of property or service acquired or imported for consumption or use in the course of an endeavour<sup>7</sup> of the person shall be deemed to have been acquired or imported for consumption or use in the course of commercial activities.

Subsection 141.01(5) provides that the method of determining the extent of use shall be fair and reasonable and shall be used consistently by the person throughout the year.

## 3) Non-qualifying transactions

*The registrant understands that, for the purposes of this policy, the following purchases are non-qualifying transactions:*

- i. All goods and services purchased outside Canada,*

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<sup>6</sup> "Commercial activity" is defined in subsection 123(1) of the Excise Tax Act. Refer to Appendix III.

<sup>7</sup> Meaning of "endeavour" is outlined in subsection 141.01(1). Refer to Appendix III.

- ii. All goods and services that are exempt or zero-rated,*
- iii. The non-deductible portion of meals and entertainment (see paragraph 5 below),*
- iv. All goods and services purchased from non-registered persons,*
- v. Goods and services acquired otherwise that exclusively for consumption, use of supply in the course of the registrant's commercial activities (ITCs will be claimed in accordance with paragraph 2 above),*
- vi. Personal expenses, cash withdrawals, expenses for memberships or other section 170 restrictions,*
- vii. Individual purchases for which the purchase price is equal to, or greater than \$1,000,*
- viii. Capital personal property under \$1,000 acquired for use otherwise than primarily in commercial activities of the registrant (as no ITC is allowed per subsection 199(2) of the Act),*
- ix. Improvement to capital personal property under \$1,000 acquired for use otherwise than primarily in commercial activities of the registrant (as no ITC is allowed per subsection 199(4) of the Act).*

This policy on procurement cards only applies to eligible purchases for use, all or substantially all, in commercial activities. The list of non-qualifying transactions noted above include transactions to which ITCs are denied, such as the non-deductible portion of meals and entertainment, personal expenses and expenses for memberships<sup>8</sup>, etc. The list also includes transactions which are not subject to GST, such as goods and services purchased outside Canada and goods and services that are exempt (ex. financial services) or zero-rated (ex. basic groceries).

Item viii refers to capital personal property under \$1,000 acquired for use otherwise than primarily in commercial activities. Subsection 199(2) of the Act provides a rule for personal property whereby the ITC is either 100% (if the property is acquired "primarily" for use in commercial activity) or 0% otherwise. Subsection 199(4) follows this rule with respect to improvements to capital personal property.

This requirement may pose problems to the extent a procurement card user is authorized to make purchases over \$1,000 and/or purchase from US suppliers.

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<sup>8</sup> Subsection 170(1) lists certain importations and taxable supplies received by a registrant that do not give rise to any ITC entitlement. Refer to Appendix III.

4) Segregating non-qualifying transactions

*The registrant has segregated the non-qualifying transactions, as established in paragraph 3, from other purchases made with procurement cards. The registrant provides evidence satisfactory to the CRA, based on statistical sampling that the calculation of the EPR, as described in paragraph 12 below, takes into consideration the non-qualifying transactions. The registrant will be entitled to claim ITCs for such non-qualifying transactions that are eligible for ITCs, in accordance with subsection 169(1) of the Act, provided the documentary requirements under subsection 169(4) of the Act are met.*

Paragraph 10 below requests electronic data for a sample period. This data is to include all transactions made with procurement cards which would typically include eligible and non-eligible transactions. This paragraph requires that the non-qualifying transactions be segregated from the qualifying transactions in order to determine the “EPR”.

Subsection 169(1) of the Act outlines the basic rules for ITCs, while subsection 169(4) specifies the required documentation.

5) Meals and entertainment

*The exemption from the ITC documentary requirements of subsection 169(4) of the Act will apply to meal and entertainment expenses acquired with procurement cards only where the registrant provides evidence satisfactory to the CRA that the registrant segregates such expenses to take into consideration the ITC restriction imposed under section 236 of the Act.*

This requirement has been addressed in paragraph 3 above regarding non-qualifying transactions. ITCs for meals and entertainment expenses may be claimed in full in the reporting period in which they are incurred. However, at the end of a registrant’s fiscal year, there is a 50% recapture of ITCs claimed on these expenses during the year where their deductibility is limited to 50% of the full amount under section 67.1 of the Income Tax Act. In simple terms, section 236 limits ITCs for business meals and entertainment to 50% of the GST paid, by adding 50% back to net tax. The theory is that the other 50% represents personal rather than business consumption.

6) GST vs. HST

*Purchases made with procurement cards subject to the HST rate of 15% must be segregated from those taxable at the GST rate of 7%.*

The harmonized sales tax (HST) was implemented by Bill C-70 (1997, c. 10), which received Royal Assent on March 20, 1997. The HST blends the retail sales taxes of these provinces with the federal GST at a "combined" rate of 15%, which comprises a federal component of 7% and a provincial component of 8%. The HST became effective April 1, 1997, and follows the structure of the GST.

Since many businesses do not segregate transactions for GST vs. HST purposes, this may be a difficult criterion to meet. For some, it may be possible to identify GST vs. HST expenses through cost centre accounts that are specific to facilities located in the harmonized provinces.

7) Cost centres

*Where the registrant has cost centres, divisions, business lines or other categories, the purchases must be segregated by such categories, to determine the eligibility for ITCs and the extent of consumption or use in the course of commercial activities.*

Typically, procurement cards are issued to employees within particular departments. Card numbers may reflect the particular departments to which they have been assigned and may be directly linked to accounts within the employer's G/L.

The requirement to segregate these cost centres, or business lines would only be required to the extent that a particular business line is purchasing goods and/or services for use other than in the course of commercial activities. As noted above, it may also be possible to identify GST vs. HST expenses through specific cost centres.

8) Supervisory approval

*Procurement card reports are reviewed and authorized by the immediate supervisor of the employee who used the card, the card administrator or by an authorized senior employee of the registrant, other than the employee who used the card to ensure compliance with the registrant's procurement card policy.*

As a 'best practice' an organization should ensure that cardholder purchases are subject to documented supervisor review.<sup>9</sup> Such supervisory review may also function as a control to detect unusual transactions which may give rise to unexpected tax results.

9) External audit

*The CRA has received written confirmation from the registrant's external auditor that their internal controls for procurement card purchases are reliable.*

An external auditor will be required to confirm the existence of internal controls around procurement card processes and carry out testing with respect to the reliability of these controls.

10) Electronic data

*The registrant has provided, along with its request for exemption, electronic data showing purchases made with procurement cards for the year preceding the request, for a sample period. This sample must include complete data for four full months of transactions, one month of each quarter, consistently selected. All transactions for these periods must be included. The registrant understands that approval to claim ITCs, for purchases made with procurement cards using a ratio, could be denied or revoked if the person is not compliant with all the GST/HST provisions under Part IX of the Act. The CRA can also reassess at a later date if the ratios are found to be applied incorrectly or not updated for significant changes during the period.*

As previously noted, the sample data must be provided in electronic format and include all transactions made with procurement cards, including non-eligible transactions. The data is for one month of each quarter for the year preceding the application. Annex B of Notice 199 provides a complete list of the information required for each transaction including Vendor code (SIC Code), GST amount estimated according to the Company practices and rate used to estimate GST.

11) Selected and verified by qualified person

*The sample of purchases made with procurement cards for the period pre-established above, has been selected and verified by an external auditor or by a person at a senior level appointed by the registrant who is qualified to perform*

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<sup>9</sup> For other "Best Practices" refer to [Visa Purchasing Card Commodity Taxes Best Practices Survey Canada, 2003.](#)



*statistical sampling and is responsible for the sampling results. The sample has been selected by cost centres, divisions, business lines or other appropriate categories. Further, for each selected transaction in the sample, the registrant has obtained the supporting documentation necessary to satisfy the documentary requirements of subsection 169(4) of the Act.*

The sample of procurement card purchases must be selected and verified by an external auditor or a qualified person, as noted above. Although the organization is responsible for determining a 'qualified person', the CRA may request evidence of the particular person's qualifications.

Each transaction in the sample must satisfy the documentary requirements of subsection 169(4) of the Act. If the registrant has typically retained full documentation, this will not be an onerous requirement. However, registrants that have retained only minimal documentation will have difficulty meeting this requirement.

## 12) Eligible Purchases Ratio ("EPR")

*From the sample selected, the registrant has established the eligible purchases ratio (EPR). The EPR represents the extent of the total taxable purchases before taxes, for which the registrant is entitled to ITCs, excluding non-qualifying transactions as per paragraph 3 above, to the total amount of purchases before taxes made by the registrant with procurement cards for the period selected. Subject to the above conditions, the eligible purchases ratio is calculated as follows:*

$$EPR = \frac{\text{Total eligible / qualifying purchases (before GST/HST and PST)}}{\text{Total purchases selected for sampling (before GST/HST and PST)}}$$

13) Taxable Purchases Ratio (“TPR”)

*From the sample selected, the registrant has determined the taxable purchases’ ratio (TPR), which is used to eliminate the Provincial Sales Taxes (PST) amount included in the total purchase amount on the card issuers’ report. Where the registrant is exempt from paying PST, this will be examined and indicated in the report provided to the CRA and the registrant’s TPR will be 1. The taxable purchases ratio will be calculated as follows:*

$$TPR = \frac{1 + \text{GST rate}}{1 + \text{GST rate} + \text{PST rate}}$$

Or

*in provinces where PST is charged on GST:*

$$\frac{1 + \text{GST rate}}{1 + \text{GST rate} + ((1 + \text{GST rate}) * \text{PST rate})}$$

*Where purchases are made in many provinces that have different PST rates, purchases should be segregated by province, where possible. Otherwise, the CRA will accept a reasonable estimation of the average PST rate, where the registrant provides evidence satisfactory to the CRA based on statistical sampling.*

For example:

PST is not charged on GST and the PST rate is 8%

$$TPR = \frac{1 + .07}{(1 + .07 + .08)} = \frac{1.07}{1.15}$$

PST is charged on GST and the average PST rate is 6.5%

$$TPR = \frac{1 + .07}{1 + .07 + [(1.07 * .065)]} = \frac{1.07}{1.13955}$$

14) CRA verifies sampling results and ratios

*The registrant has provided the CRA with the sampling results and the details of the calculation of the ratios. The CRA has verified the sampling results and the ratios prior to the registrant implementing this policy. If the CRA has been unable to verify the ratios calculated to within an acceptable range, the registrant will be asked to review its analysis and recalculate the ratio for review and subsequent approval.*

15) Registrant receives written authorization from CRA

*The registrant has received written authorization from the CRA to use the GST/HST Audit Policy on Procurement Cards as well as confirmation of the effective date.*

Once a registrant's application has received written approval from the CRA, all the documentation that needs to be maintained is generally readily available from supplier statements. The following information will constitute satisfactory supporting documentation to claim an ITC:

- Date of transaction
- Merchant name
- Place of supply (City and/or Province)
- Merchant category
- Transaction amount
- Cardholder (employee) name
- Procurement card number

16) Approval period

*The eligible purchases' ratio and the taxable purchases' ratio should be used consistently for a period of five years. Exceptions to this rule will be dealt with on a case-by-case basis and will require the CRA's approval. The registrant will have to submit a new request to the CRA if they want to continue to use this policy after the exemption period has expired. Where a corporate or business change occurs that has an impact on the EPR or the TPR, new ratios will have to be determined. The registrant will have to notify the CRA and obtain approval prior to claiming ITCs, for purchases made using procurement card, based on the new ratios. The CRA can reassess if the ratios have not been updated for significant business changes, i.e. foreign contracts, change in use of procurement cards, etc. Approval to claim ITC's under this policy can also be revoked in these cases.*



Once approved, the registrant will be exempt from the ITC documentary requirements for purchases made using procurement cards. The ratios will be valid for a period of five years after which time, another application will be required.

The EPR and TPR should be adjusted to account for any significant changes in business practice during the 5 year period. For example, if the registrant acquires a business in a Harmonized Province and the purchases made through the procurement card program alters the ratios used, the CRA should be notified and new approval requested.

17) Use of alternate accounting methods

*The registrant has not elected to use the Streamlined Accounting Quick Method (the "Quick Method") or the Simplified/Streamlined Input Tax Credit Method.*

The Streamlined Accounting (GST) Regulations set out several alternate methods a small business may elect to use for calculating its net GST liability, and include the "Quick Method" and the "Simplified/Streamlined Input Tax Credit Method". The purpose of these provisions is to provide a simple method of calculating net tax remittances for small businesses. A registrant who elects to use this method collects tax on supplies in the normal manner. In calculating its periodic remittance of net tax, the registrant multiplies its total tax-included taxable supplies for the period by a prescribed remittance rate.

18) Upon request

*The registrant shall provide the CRA, upon request, with periodic reports that detail all supplies made by a specific vendor, by vendor code (or other equivalent code) or such other information that may be necessary to verify the particulars of the transactions and that the GST/HST was collected and remitted by the supplier.*

## Summary – What now?

A procurement card program is intended to enhance purchasing efficiency and reduce costs associated with processing large volumes of documentation related to purchasing transactions. Most organizations that have adopted a procurement card program have developed internal policies and procedures which require the purchaser to retain receipts for purchases made. Accordingly, they have satisfied the requirement to obtain sufficient appropriate documentation to support their ITCs, but in doing so, have negated some of the benefits intended for a procurement card program.

Historically, industry has reported very little in the way of audit activity relating to documentation requirements with respect to procurement cards. Typically, those organizations that had been audited also had policies in place that required retention of receipts and invoices for all purchasing card purchases. As a result, even if the organization was using a factor to calculate ITCs, documentation in the form of receipts would have been considered adequate support.

According to these registrants, however, this positive audit experience contributed to a decline in concern over tax compliance issues and in many cases, resulted in a reduction in the administrative burden for the cardholders, such as the requirement to retain purchasing logs.

It is safe to assume that the status quo will no longer be acceptable for procurement card users that are eligible to apply for the exemption and that do not retain full documentation. CRA auditors now have an audit policy to follow and the discretion which previously allowed them to test for 'reasonableness' is likely no longer available, particularly for large organizations

Accordingly, procurement card users now appear to have the following options:

- Claim ITCs and retain full documentation as per section 169(4) of the Excise Tax Act;
- Claim ITCs, retain less than full documentation and accept the risk that ITCs may be denied at time of audit;
- Forgo ITCs;
- Obtain approval for the exemption based on the application process outlined in Notice 199.



Organizations whose applications are approved may take comfort that this exposure has now been removed. But let's take a look at the application process. The policy outlines 18 conditions which include, but are not limited to, providing a statistically valid sample of purchases for four full months of transactions, one month of each quarter; establishment of the "eligible purchases ratio"; establishment of the "taxable purchases ratio"; appropriate documentation of the selected samples and a written confirmation from the registrant's external auditor that their internal controls for procurement card purchases are reliable. The sample of purchases must be selected and verified by an external auditor or by a person at a senior level appointed by the registrant who is qualified to perform statistical sampling. In other words, the application process is rather onerous.

The release of this policy leaves us with some questions to ponder. Prior to this notice, we have witnessed little in the way of audit activity for this issue. What happens now? Will the CRA be inundated with applications that could take years to process, or will the cumbersome nature of the application process discourage many from applying? Are taxpayers safe only on a 'go-forward' basis, assuming they receive approval? Can we anticipate that Revenue Quebec will follow suit for QST purposes and, if so, will the MRQ mandate a separate, perhaps different application process? Finally, procurement card users may decide that retention of full documentation in support of ITC claims is the most viable form of certainty.

## Appendix I – Glossary

CRA	Canada Revenue Agency
EPR	Eligible Purchases Ratio
G/L	General Ledger
GST	Goods and Services Tax
HST	Harmonized Sales Tax
ITC	Input Tax Credit
ITR	Input Tax Refund
MCC	Merchant Category Code
MUSH	Municipalities, Universities, Schools and Hospitals
P-Cards	Procurement Cards, Purchasing Cards
QST	Quebec Sales Tax
T&E	Travel & Entertainment
TPR	Taxable Purchases Ratio



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