

TAX REPORTING

TAX GUIDE FOR PROCUREMENT CARDS IN CANADA

Simple tips on claiming input tax credits from procurement card transactions.





Canada's GST/HST Background and Rates

The Goods and Services Tax and Harmonized Sales Tax ("GST/HST") is a broad based value added tax which applies to most transactions with property (tangible, intangible or real) and services supplied in Canada, recoverable as an input tax credit ("ITC") to the extent that businesses are engaged in commercial activities and registered for the tax. Certain goods and services may be exempt (e.g., financial services) or zero-rated (i.e., taxed at 0%, for example, when supplied to non-residents of Canada).

Parallel rules apply in respect of the Quebec Sales Tax ("QST"), where eligible registrants are entitled to input tax refunds ("ITR") on their purchases. This document refers to GST/HST processes and procedures for ITCs. However, the same processes and procedures can and should be applied to ITR reporting for QST purposes. Hence, all references to GST/HST below generally can be extended to QST compliance, subject to certain specialized QST rules.

GST/HST rates vary from 0% to 15% depending on the type of expense and the applicable province of the transaction.

GST/HST Input Tax Credits and Procurement Card Information

Most registrants are entitled to recover an ITC for GST/HST paid or payable on purchases that relate to the registrant's commercial activity. To be eligible for an ITC, registrants are subject to certain documentation requirements under the legislation (such as vendor GST/HST registration number, tax amount, etc.). ITC documentation requirements also increase based on the total transaction value on the invoice:

Under \$30	Supplier name; date; amount
\$30 to \$150	All of the above plus GST/HST amount; applicable rate (if more than one) and vendor registration number
Over \$150	All of the above plus recipient's name, description of goods or services supplied; terms of payment

The full details on documentation requirements can be found under [Input Tax Credit Information \(GST/HST\) Regulations made under the Canada Excise Tax Act.](#)

Procurement card ("P-Card") statements can only deliver data entered by merchants. P-Card information can be grouped into three categories based on the varying levels of transaction detail entered by the merchant.

Level 1	Contains basic information 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	Contains Level 1 information, plus GST/HST information and the vendor's province, city and postal code, but not a complete description of the goods and services acquired.
Level 3	Contains Level 2 information, plus the merchant's GST/HST registration number, actual taxes paid, item description, transaction date and generally all of the information that would normally fulfill the documentary requirements.

It is important to distinguish P-Cards from corporate credit cards whereby employees are reimbursed through expense reporting procedures and GST-registered employers are permitted to use applicable factors to recover ITCs on taxable expenses. This document does not address corporate credit cards. For the tax implications related to corporate credit cards, refer to CRA Policy Statement P-184R which provides guidance on Credit Card Expenses and the Registrants use of Factors for Claiming Input Tax Credits.



Are Procurement Card Statements Acceptable for Claiming ITCs?

Where Level 3 information is provided on a P-Card statement, it should satisfy the documentary requirements and should be appropriate support for ITC purposes.

Where Level 3 information is not available to P-Card users, Canada Revenue Agency (CRA) has published Notice 199 "Procurement cards – documentary requirement for claiming input tax credits" which describes a process to apply for exemption from the standard ITC documentary requirements and claim ITCs based on an estimated amount of tax paid using approved ratios with re-application for approval every 5 years.

Specifically the P-Card approval process requires various parameters and steps to be taken, including:

- The registrant must be engaged exclusively in commercial activities (i.e., GST/HST taxable, including zero-rated activities);
- the goods and services are GST/HST taxable purchases (not exempt or zero-rated) acquired in Canada and the purchase price is less than CAD \$1,000;
- the CRA requires written confirmation from the registrant's external auditor that the internal controls for P-Cards are reliable;
- the submission to the CRA must include electronic data showing P-Card purchases made during four sample months (selected in a particular manner) to calculate eligible ITC recovery ratios.

Once approved by the CRA, the Level 1 and Level 2 information provided in the card issuers report (i.e., GST/HST inclusive amount) is acceptable to claim ITCs. After the 5-year expiry of the CRA approval, registrants must reapply to once again request exemption from the ITC documentary requirements providing further sample month data at that time.

The [Procurement Card Policy \(Notice 199\)](#) can be found at the Canada Revenue Agency website at www.cra-arc.gc.ca



Best Practices in Lieu of Applying for the Notice 199 P-Card Ratio

The only way to eliminate the risk of challenge to ITCs on P-Card statements is by seeking CRA pre-approval, or by retaining accessibility to all source invoice documentation in case of CRA audit. The effort required to comply with the application process under this P-Card policy is considerably high. As a result, this CRA approval process has generally not been used in practice, which puts ITC entitlement at risk. However, where proper controls and procedures are implemented relating to the use of P-Cards the risk can be mitigated.

1. **Encourage all potential P-Card vendors to pass Level 3 data** which can be captured on the card statement, as such reporting is generally considered appropriate support for ITC purposes.
2. **Use caution when using P-Card for purchases from vendors entering only Level 1 or Level 2 data**, as such records will likely require documentary support via match up with actual invoices to support ITCs claimed. Restricted P-Card use for such transactions permits easier identification and segregation.
3. **Consider restricting P-Card purchases (or segregate using appropriate software)** to specific purchases by category (ies), region(s) or vendor(s) where there is certainty that only one tax rate is applied at all times such that a registrant is only required to use one tax factor (e.g., 5/105, 13/113, etc.) to easily calculate GST/HST/QST included in the total amount of purchase appearing on the P-Card statement. Note: Application of provincial retail sales tax in certain provinces must be reflected in the determination of the appropriate tax factor (e.g., 5/105 vs. 5/112 in Manitoba). The objective is to reduce the probability of variance between the tax factor calculation and the actual tax on vendor invoices that support each transaction.
4. **Where a P-Card is used for meal and entertainment expenses**, registrants should ensure that the appropriate ITC restrictions/recaptures are applied on such transactions. Where possible, encourage the use of a corporate credit card for meal and entertainment expenses.
5. **To comply with documentation requirements to support ITC claims calculated from P-Card statements, the following process/procedures should be maintained:**
 - a. Registrants should retain invoice/receipt or other documentation to support the ITC for each transaction processed through the P-Card.
 - b. To the extent possible, registrants should scan and store the invoice documents, preferably with searchable file names, such as transaction or statement reference date either individually or in relevant batches.
 - c. Registrants should verify that the GST/HST number provided by the supplier (especially those vendors having a greater dollar spend) on the invoice/receipt or other documentation is valid. GST/HST number verification may be done on CRA's website <http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/gsthstrgstry/menu-eng.html>.
 - d. Registrants should provide P-Card holders with tax training to educate personnel on the documentation that is required to be obtained to support the entitlement to claim ITCs.
 - e. P-Card holders should have access to user assistance that provides straightforward tax assistance, including a brief and easy to follow written guide (such as a simple tax grid).
 - f. Registrants should ensure that cardholder purchases are subject to documented supervisory review to make certain that the P-Card users are obtaining the necessary documentation and using the card appropriately per corporate guidelines, including preferential use with vendors entering higher level data.
 - g. Registrants should conduct random audits of P-Card purchases to ensure the required documentation support is retained in the event of a CRA audit.

Consider these **best practices** when relying on Procurement Card statements to claim Input Tax Credits.



Disclaimer

The information contained in this guide is general in nature and is not intended to be, nor should it be construed to be, professional tax advice to any P-Card user and no representations with respect to the tax consequences to any particular P-Card user are made. The general strategies provided herein may not be suitable for every P-Card and users should consult with their own tax advisors for advice in respect of their own tax compliance procedures.

Deloitte LLP was engaged by VISA to summarize the general issues relating to the use of P-Cards from an operational perspective relating to the Goods and Services Tax, Harmonized Sales Tax and Quebec Sales Tax. Deloitte LLP and VISA make no express or implied representation or warranties regarding this guide, the completeness or accuracy of the information set out herein, nor the acceptance by the tax authorities of the ITCs claimed. Deloitte LLP and VISA shall not incur any liability and owe no duty of care in respect of the reliance by any P-Card users on such information.