



GFOA RECOMMENDED PRACTICE APPLICABLE IN CANADA

Tax Compliance (2008) (CASH) (CCI)*

Background. Local and provincial authorities in Canada are subject to the Goods and Services Tax (GST), the Harmonized Sales Tax (HST) other federal, provincial and municipal taxes that do not apply to local or state governments in the United States of America. The GST applies to all goods and services, unless otherwise specified as exempt, supplied in Canada. The HST is collected in Atlantic Canada and is a combination of provincial sales tax and the GST. Each government should work in cooperation with the relevant tax authorities to comply with all applicable federal and provincial legislation (including but not limited to income, sales, fuel and excise taxes). Compliance and continued monitoring of changes in the tax laws can result in savings to the government organization by minimizing audit exposure and maximizing recoveries of tax, where applicable.

Recommendation. The Government Finance Officers Association (GFOA) recommends that Canadian local and provincial government authorities comply with tax laws and establish procedures, controls and policies to ensure tax compliance within their organization.

- **Legislative Compliance:** Review and comply with applicable tax laws in order to ensure that the legally payable taxes are remitted.
- **Develop Corporate Guidelines:** Develop transparent and simple reference material including corporate guidelines. The guidelines should explain tax laws as they apply to all divisions within a general government. Guidelines should be revised on a timely basis to correspond with changes in the laws.
- **Internal Communication:** Establish a point of contact with knowledge of tax laws who can inform internal stakeholders of the tax laws applicable to their department. Common stakeholders/divisions with taxation interests are: finance, specifically accounts payable/accounts receivable, supply management, and law. Regular internal communication could include legislative updates, presentations and tax interpretations.
- **External Communication:** Policies should be established and adhered to when communicating to external parties, including suppliers and legislative authorities. The policies should set forth how the government will respond to tax requests from an external source and members should consider establishing an audit liaison. GFOA does not recommend that its members advise third parties of their tax responsibilities. However, governments do have an ethical responsibility to inform a third party if a compliance issue arises.
- **Accounting System and Internal Controls:** Ensure that the accounting system processes tax transactions correctly and that internal controls are established to minimize errors including system controls, testing and reviews.

* Cash Management

- **System Controls:** establish system controls to minimize manual errors including overrides and flags for the accounts payable and accounts receivable functions.
 - **Testing:** Test the controls and ensure that the accounting systems operate correctly to minimize financial and audit exposure. This should be completed on both the revenue and expense streams within the accounting system.
 - **Review Revenue Streams:** Review revenue streams on a regular basis to ensure that applicable taxes are included in the revenue collection, and that taxes are remitted in compliance with the laws. This review should be clearly documented for future reference and amended when revenue streams are added or changed. Failure to correctly charge GST to non GST/HST registrants will result in liability to the government members.
 - **Reconciliations:** At a minimum, reconcile accounts annually to ensure that the correct amount of GST is refunded and/or remitted.
 - **Technology:** Ensure that technology is up to date, maintained and capable of correctly accounting for the various taxes.
- **Account Framework:** Track and maintain separate accounts for each of the various forms of taxation, in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS). Tax collected is a liability account and recoverable taxes are a receivable account.
 - **External Guidance and Tax Interpretation:** Seek guidance from the applicable authorities if a government is unsure about the appropriate tax treatment and/or needs clarity on a tax issue which may involve anything from a simple verbal interpretation to a complex written advance tax ruling. The GFOA recommends that, if necessary, members consult with a tax expert for an interpretation.
 - **External Tax Recovery Firms:** Consult with external tax recovery firms and identify when recovery work or an audit is necessary for the general government. If the service of an external tax recovery firm is required, the general government should comply with normal purchasing processes and seek the best value possible. The GFOA recommends that, if possible, members complete the work required internally to minimize recoveries. This includes system testing and queries to scan for duplicate payments and/or GST expensed in error.
 - **Contract Provisions:** Protect procurement contracts to minimize tax exposure. Specifically, a government authority can be exposed to risk with suppliers from another jurisdiction including cross border and international taxes (e.g.-Non resident Withholding Tax (NRWT), Customs duties, NAFTA Certificates of origin, etc.). The GFOA recommends that members consult with a legal or tax expert for tax clause protection.

References.

- Federal and provincial online tax reporting services such as those provided by the Canadian Institute of Chartered Accountants, CCH Canadian and Carswell
- *Excise Tax Act (GST/HST)*, among other sections, Part IX, Division II, Subdivision a, S. 165
- *The Income Tax Act*, among other sections, S. 153
- Respective Provincial legislation.

Approved by the GFOA Committee on Canadian Issues, June 14, 2008.

Approved by the GFOA's Executive Board, October 17, 2008.