

GST/HST/QST AND FREIGHT TRANSPORTATION SERVICE

OVERVIEW OF TAXES

G.S.T.

Parliamentary Bill C-62 effective January 1, 1991 imposes a Goods and Services Tax on charges for domestic freight transportation and ancillary type services. Currently the GST is 5%.

Q.S.T.

Quebec Sales Tax implemented July 1, 1992 is a provincial tax which is applicable on shipments with an origin and destination in Quebec.

QST is also applicable on any chargeable services attached (part of or incidental) to the above shipments. QST is currently 9.975%.

H.S.T.

The Harmonized Sales tax was implemented on April 1, 1997. It is the harmonization of the provincial sales taxes of New Brunswick, Nova Scotia, Newfoundland and Labrador and the Federal Goods and Services Tax (G.S.T.) (see below for rates). More recently on July 1, 2010 the province of Ontario and British Columbia implemented the HST, and also P.E.I. on April 1, 2013.

Effective April 1, 2013, the Province of British Columbia de-harmonized its provincial sales tax from the HST. Hence, only the GST is applicable on a domestic transportation service with a final destination in British Columbia.

Domestic shipments destined to one of the participating provinces are assessed the HST.

There is no separate requirement to register for the HST as suppliers will use their current GST numbers. The rules governing the HST are under the same rules for which GST operates.

Current rate of GST/HST/QST for each provinces for domestic traffic

Newfoundland	HST at 13%
Prince Edward Island	HST at 14%
Nova Scotia	HST at 15% (In 2014 at 14% and in 2015 at 13%)
New Brunswick	HST at 13%
Quebec	GST at 5%
	QST at 9.975%
Ontario	HST at 13%
Manitoba	GST at 5%
Saskatchewan	GST at 5%
Alberta	GST at 5%
British Columbia	GST at 5%

GST/HST/QST AND FREIGHT TRANSPORTATION SERVICE

The following describes various types of transportation movements along with the appropriate GST application for each.

A freight transportation service is defined as:

“ A particular service of transporting tangible personal property and includes any other property or service supplied that is part of or incidental (ancillary services) to the freight transportation service, whether or not there is a separate charge for the other property or service.”

The GST is applied to transportation services at either at the current rate percent or at 0 percent (zero-rated).

PURE DOMESTIC MOVEMENTS

When the shipment origin and destination are in Canada, the GST/HST/QST will be applied at the appropriate rate percentage based on destination.

If a shipment has its origin in Canada, moves thru a US point and then proceeds to a Canadian destination. Tax is applicable. An example of this is a split move on a Rule 11 basis; GST is still applicable and should not be the basis of a dispute.

DOMESTIC SEGMENT OF INBOUND MOVEMENT

In order to zero-rate the transportation charges for a domestic segment of an inbound movement, where the shipment has cleared customs at a point of entry in Canada, CN must receive documentary evidence to the effect that the shipment has a foreign origin, and that the destination in Canada is as specified by the foreign shipper or its agent.

For a shipment which is “in Bond” it is self evident that the shipment is international, and the transportation charge will therefore be zero-rated.

DOMESTIC SEGMENT OF OUTBOUND MOVEMENT

In order to zero-rate the transportation charges for a domestic segment of an outbound movement, the shipper must provide CN with a declaration to the effect that the property is being shipped for export. If a declaration is not received, CN is obligated to apply the GST/HST at the appropriate rate.

For this purpose, Revenue Canada has approved the following:

Declaration by the shipper under Schedule VI, Part VII, Paragraph 7(a), Excise Tax Act:

“The property is being shipped for export and the freight transportation service to be supplied by the carrier is part of a continuous outbound freight movement in respect of the property.”

The declaration can be stamped on the shipper's bill of lading.

A transportation service cannot be zero-rated (no tax assessed) if the property is further processed, transformed or altered in Canada after a shipper transfers the property to a carrier. Movements to reloading and storage facilities can be zero-rated when the shipper provides a declaration that the property is for export.

PURE INBOUND/OUTBOUND MOVEMENTS

When either the origin or destination is outside Canada, the transportation service charge will be zero-rated. The bill of lading or movement waybill has been accepted by Revenue Canada as sufficient documentary evidence for zero-rating.

INTERLINING (MULTIPLE CARRIER MOVEMENTS)

CN will zero-rate freight transportation service provided to another "carrier", which is defined as:

"A party who supplies a freight transportation service to a shipper."

A carrier becomes a shipper when CN's transportation service is for empty equipment. These domestic movements will be assessed the GST at the current percentage unless the movements represent the domestic segment of a continuous inbound, or outbound, freight movement and a declaration to this effect is provided.

In situations where the billing or terminating carrier does not have access to the shipper's declaration or documentary evidence, the use of the declaration "Doc. On Hand" on the waybill is acceptable to zero-rate the movement.

This declaration will stand for one of the two following situations.

- The originating carrier maintains the shipper's declaration to the effect that the move is part of a continuous outbound freight movement.

or

- The originating carrier declares that: "This transportation service is part of a continuous freight movement from an origin outside Canada to a destination in Canada as specified by the foreign shipper or its agent."

BILLING OF OPTIONAL (INCIDENTAL) SERVICES

Optional (Incidental) service charges billed on the same invoice as transportation charges will receive the same GST/HST/QST application.

For those incidental services performed at a Canadian location and invoiced separately, CN will attempt to relate the charges to an associated transportation service. When this

match is made, the same GST/HST/QST percentage will be applied to the incidental charges, provided that the customer is the SAME on both invoices.

There are two situations where CN will have no choice but to assess the GST/HST/QST.

- i) The first is when CN does not participate in the transportation charges (e.g.: CN switching) and an associated transportation service to cross-reference for GST treatment is unavailable.
- ii) The second related to chargeable services which are consolidated into a weekly or monthly billing, thereby removing the feasibility of cross referencing these charges to an associated transportation movement.