

Sales and Excise Tax - 2018 Federal Budget

GST/HST and Investment Limited Partnerships

Budget 2018 proposes that GST/HST apply to management and administrative services rendered by the general partner to an investment limited partnership on or after September 8, 2017, unless the general partner charged GST/HST in respect of such services before that date. This clarifies proposals originally released on September 8, 2017.

Second, Budget 2018 proposes that the GST/HST be generally payable on the fair market value of management and administrative services in the period in which these services are rendered.

Finally, Budget 2018 proposes to allow an investment limited partnership to make an election to advance the application of the special HST rules as of January 1, 2018.

GST/HST Holding Corporation Rules - Consultation

A Goods and Services Tax/Harmonized Sales Tax (GST/HST) rule, commonly referred to as the "holding corporation rule", generally allows a parent corporation to claim input tax credits to recover GST/HST paid in respect of expenses that relate to another corporation. This rule provides that, where a parent corporation resident in Canada incurs expenses that can reasonably be regarded as being in relation to shares or indebtedness of a commercial operating corporation (a corporation all or substantially all of the property of which is for consumption, use or supply in commercial activities) and the parent corporation is related to the commercial operating corporation, the expenses are generally deemed to have been incurred in relation to commercial activities of the parent corporation.

The Government intends to consult on certain aspects of the holding corporation rule, particularly with respect to the limitation of the rule to corporations and the required degree of relationship between the parent corporation and the commercial operating corporation. At the same time, the Government intends to clarify which expenses of the parent corporation that are in respect of shares or indebtedness of a related commercial operating corporation qualify for input tax credits under the rule.

Budget 2018 indicates that consultation documents and draft legislative proposals regarding these issues will be released for public comment in the near future.

Cannabis Taxation

Budget 2018 proposes a new federal excise duty framework for cannabis products to be introduced as part of the *Excise Act, 2001*. The duty will generally apply to all products available for legal purchase, which at the outset of legalization will include fresh and dried cannabis, cannabis oils, and seeds and seedlings for home cultivation.

Cannabis cultivators and manufacturers will be required to obtain a cannabis licence from the CRA and remit the excise duty, where applicable. The framework will come into effect when cannabis for non-medical purposes becomes available for legal retail sale.

The Goods and Services Tax/Harmonized Sales Tax (GST/HST) basic groceries rules of the *Excise Tax Act* will be amended to ensure that any sales of cannabis products that would otherwise be considered as basic groceries are subject to the GST/HST in the same way as sales of other types of cannabis products.

Excise Duty Rates for Cannabis Products

Cannabis Plant Product	Federal Rates <i>Higher of the Two Rates Apply</i>		Additional Rates in Respect of a Province/Territory <i>Higher of the Two Rates Apply</i>	
	Federal Flat Rate	Federal Ad Valorem Rate	PT Additional Flat Rate	PT Ad Valorem Additional Rate
Flower	\$0.25 / gram	2.5 percent of the dutiable amount of a cannabis product packaged by a cannabis licensee to a purchaser.	\$0.75 / gram	7.5 percent of the dutiable amount of a cannabis product packaged by a cannabis licensee to a purchaser.
Trim	\$0.075 / gram		\$0.225 / gram	
Seed	\$0.25 / seed		\$0.75 / seed	
Seedling	\$0.25 / seedling		\$0.75 / seedling	