



## **Claiming Input Tax Credits for Zero-Rated Supplies and Taxable Supplies**

Medical practitioners who are licensed to practice the profession of Dentistry and who specialize in Orthodontics may perform different services which may have different GST consequences. As a GST registrant, a portion of the GST paid or owed on purchases and expenses may be recovered by claiming Input Tax Credits (“ITCs”). The Excise Tax Act (“ETA”) identifies three forms of supplies that can be provided by businesses: taxable supplies, zero-rated supplies, and exempt supplies. Listed immediately below are a few examples of the different forms of supplies that are applicable to the dental profession:

*Taxable Supplies:           Cosmetic Dentistry*

*Zero-Rated Supplies:     Installation of Artificial Teeth and Orthodontic Appliances*

*Exempt Supplies:         Teeth Cleaning, Tooth Extractions, Consultative, Diagnostic Treatment, and other health care services that are not performed for cosmetic purposes*

The ETA specifies that ITCs are only available for purchases and expenses related to zero-rated supplies and taxable supplies (collectively “non-exempt supplies”). As ITCs are disallowed for exempt services, all joint expenses used in providing exempt supplies and non-exempt supplies must be correctly allocated to determine the appropriate amount of GST paid that can be claimed as an ITC.

Below are two examples of an ITC calculation, one, where expenses relate solely to a zero-rated or taxable supply, and two, where expenses are jointly attributable to the provision of exempt and non-exempt supplies.

In circumstances where purchases and expenses are directly attributable to taxable supplies or zero-rated supplies, a full ITC may be claimed. For example, if a tool costing \$1,000 was purchased to be used primarily for use in installing artificial teeth, GST of \$50.00 would have been paid. As this tool is used in providing a service that is not GST exempt, the full ITC of \$50.00 (100% of \$50.00) may be claimed.

However, in situations where purchases or expenses are jointly used in providing both exempt supplies and non-exempt supplies, a fair and reasonable allocation of the GST must be made. For example, assume administrative expenses for the month totaled \$1,000.00 which resulted in GST paid of \$50.00. If 50% of the total revenues for the month were taxable supplies and 50% of the total revenues for the month were zero-rated supplies, the allowable ITC to be claimed would be \$25.00 (50% of \$50.00).

The Canada Revenue Agency (“CRA”) accepts that dental professionals who claim ITCs on a periodic basis (generally orthodontists) use an estimate of 35% of the GST paid when calculating their ITC’s. However, when actual figures are available, the dental professional is required to ensure that the claim for ITCs corresponds to actual taxable supplies rather than estimated figures.

If you have any questions relating to the classification of supplies as outlined by the CRA or if you require assistance in determining the actual percentage of GST paid available as an ITC claim for joint expenses, please contact a member of the Cunningham LLP Tax Department.