

Sales tax



Goods and services tax (GST)

The GST is a federal tax of 5% charged on most goods and services purchased in Canada.

Finding the pre-tax amount

When given a tax-included amount, divide by $(1 + \text{tax rate})$:

$$\text{Amount Before Tax} = \frac{\text{Total Amount}}{1 + \text{Tax Rate}}$$

Example: A store's cash register shows \$2,520 at end of day, including 5% GST. What were the sales before tax?

$$\text{Sales Before Tax} = \frac{\$2,520}{1.05} = \$2,400$$

Caution: Do not calculate 5% of \$2,520 and subtract. That gives \$2,394, which is incorrect.

GST remittance for businesses

Businesses collect GST on sales and pay GST on expenses. The net amount owed is:

$$\text{GST Due} = \text{GST Collected on Sales} - \text{GST Paid on Expenses}$$

If expenses exceed sales, the business receives a refund.

Example: A consulting firm had GST-taxable billings of \$92,000 and paid GST on eligible expenses totalling \$38,000. How much GST must be remitted?

$$\text{GST Due} = 0.05 \times \$92,000 - 0.05 \times \$38,000 = \$4,600 - \$1,900 = \$2,700$$

Example: A retailer grossed \$68,250 including GST and spent \$12,400 (before GST) on business purchases. How much does she owe?

$$\text{GST Collected} = \$68,250 - \frac{\$68,250}{1.05} = \$68,250 - \$65,000 = \$3,250$$

$$\text{GST Due} = \$3,250 - 0.05 \times \$12,400 = \$3,250 - \$620 = \$2,630$$