Application of GST to Orthodontic Treatment

1. Expenses:

   - When goods are purchased for producing "orthodontic appliances", the GST will be applied at the rate of 6%. The GST is applied when goods are purchased from a Canadian supplier or when imported into Canada by the dentist or orthodontist.
   - Goods, which include orthodontic supplies, instruments and equipment that are purchased in Canada or imported into Canada for the purpose of producing "orthodontic appliances" are eligible for a 100% refund of the GST paid.
   - All other office expenses (such as rent, utilities, office supplies and dental supplies other than those mentioned above) are eligible for a partial refund of the GST paid. The percentage that will be refunded determined by the Input Tax Credit (ITC) calculation below. A separate line item in financial statements should differentiate the expense of orthodontic supplies for production of appliances from other dental supplies or office supplies.
   - Registrants under GST may apply for this refund of GST paid on a monthly, quarterly or annual basis.

2. Revenue:

   - Orthodontic appliances are provided to patients as taxable supplies taxed at 0%.
   - The portion of the total orthodontic fee representing the fee for the orthodontic appliances must be identified and invoiced separately in order to utilize the availability of Input Tax Credits (ITC). The initial payment charge **must** represent the actual sale value of the orthodontic appliances utilized in treatment (unless other appliance fees are charged during or after treatment for items such as retaining appliances). Bookkeeping must identify both initial payment charges and individual orthodontic appliance charges

3. Input Tax Credits (ITC):

   - In orthodontic treatment, Revenue Canada is accepting the initial payment portion of the orthodontic treatment fee plus any appliance fees as the "appliance fee". The "appliance fee" cannot be greater than 35% of the total orthodontic fee for the purpose of calculating the input tax credit available unless the practitioner can justify the larger appliance fee.
   - The input tax credit (ITC) is calculated by dividing the total "appliance fee" by the gross revenue of the dental or orthodontic practice, usually on an annual basis. For example:

$$\frac{\text{appliance fees}}{\text{gross practice fees}} = \text{ITC \%}$$

$$\text{ITC \%} \times \text{GST paid on inputs (expenses)} = \text{GST refund available.}$$

   - The ITC is only available to registrants under GST.
   - If services taxed at 6% (i.e., i c) are also present in the revenue of the dental or orthodontic practice, the calculation of the ITC would be as follows:

$$\frac{\text{taxable supplies (services)} + \text{appliance fees}}{\text{total taxable supplies}} = \frac{\text{total taxable supplies}}{\text{gross practice fees}} = \text{ITC \%}$$

4. GST and Cost Sharing Agreements:

- Where two or more dentists practice within one premise and operate under some sort of "Cost Share" (possibly to share staff, pay expenditures, etc.) the Cost Share becomes a separate entity for the purposes of GST calculations.
- If the Cost Share pays the employee salaries, expenses, etc. this **payment is then subject to GST,** whereas if the salaries and expenses were paid by the individual dentist no GST would be applied.
- GST is required to be charged in each of the following scenarios:
    a. Where a joint account is used to pay common expenses. Each dentist pays an amount into the account relative to their proportionate share of the joint expenses.
    b. Where one dentist pays all of the office expenses and is reimbursed by the other dentists for the agrees proportion.
    c. Where a corporation is used to pay joint expenses of one or more dentists or one or more corporations owned by dentists.
- Solutions:

    a. Have each dentist pay their proportionate share of expenses directly from their own account and not through the cost share or joint entity. This can become complicated when dentists share employees and the employee would then receive multiple pay cheques each pay period.

Create an Agency Agreement. Revenue Canada has suggested that an Agency Agreement be drawn between the Cost Share and the individual dentists to facilitate the Cost Share incurring the expense as a agent of the dentist. This Agency relationship is provided in Section 178 of the Excise Tax Act.