



GST and Identity Theft: "Know Your Supplier"

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A recent tax case highlights the need for clients to know their suppliers, and in appropriate circumstances, to take steps to verify the supplier's GST registration number.

In *Comtronic Computer Inc. v. The Queen*, the taxpayer, a wholesaler of computer parts, was approached by a salesperson who years earlier had represented another of the taxpayer's suppliers. Based on that prior relationship, the taxpayer commenced ordering inventory from five companies represented by this salesperson. Although the suppliers sent invoices bearing various tradenames and addresses, the taxpayer never suspected anything was amiss. However, following an audit, it was determined that the invoices issued by the five suppliers contained GST registration numbers that, while validly issued, had been issued to persons other than the suppliers in question. As a result, the taxpayer's claims for input tax credits (ITCs), for GST of approximately \$500,000 paid to these suppliers, were denied. The taxpayer was also assessed a 6% penalty.

The taxpayer's appeals to the Tax Court of Canada and the Federal Court of Appeal were denied on the basis that the legislative requirements for an ITC mandated the use of the GST registration number assigned to the particular supplier. The courts acknowledged that the result can be unfair to a business that pays the GST in good faith reliance on an invoice. However, the courts concluded that the legislative scheme dictated that the unsuspecting business, rather than the government, bears the risk of supplier identity theft and other wrongdoing in GST collection and remittance matters. The courts also stated that businesses must implement risk management systems when dealing with new and continuing suppliers, to identify supplier information that may require further investigation.

Clients may verify a supplier's GST registration at the following site: <http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/gsthstrgstry/menu-eng.html>

Please click on the link below to contact the members of the Lang Michener Tax Team:
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