



Canada: Goods and Service Tax (GST) Treatment on Imported Computer Software

Tracey Ford
Ashley McCulloch
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Summary

U.S. companies who are exporting software to Canada are responsible for ensuring that the sales of their products comply with applicable Canadian tax laws. These laws often are complex, and issues will vary depending upon exactly what type of software is involved. This document provides basic information on when the Goods and Services Tax (GST) is applicable. Further information on importing computer software into Canada can be obtained in [GST/HST Technical Information Bulletin B-037R](#) on [Revenue Canada's](#) website.

The Goods and Services Tax (GST)

The Goods and Services Tax (GST) is a federally imposed, multi-level, value-added tax of 5 percent that is added to most goods and services sold in Canada for domestic consumption. In the provinces of New Brunswick, Newfoundland and Labrador and Nova Scotia, the 5 percent GST is combined with an 8 percent provincial retail sales tax and together they are called the Harmonized Sales Tax (HST). For the purposes of this document GST and GST/HST shall be referred to as GST.

U.S. companies who are conducting business in Canada may have to register to collect and remit GST to the Government of Canada. More information on who is required to register for the GST can be found on [Revenue Canada's](#) webpage in the document number RC4027 '[Doing Business in Canada – GST/HST Information for Non-Residents](#)'.

[Revenue Canada](#) is the Canadian agency that determines the GST treatment for imported computer software into Canada. The GST treatment of imported computer software depends on whether, at the time of importation, the software is an "off-the-shelf" or "custom" product. For custom software, the GST treatment depends on whether the item is sold or licensed, and whether the non-resident supplier is registered for the GST.

Imported Computer Software on Physical Medium

Off-the-shelf software is defined as prepackaged, commercially-available software programs which are available to all customers and useable in a standard form, such as word processing and spreadsheet applications. Imported, off-the-shelf computer software is regarded as an import of goods made up of the physical carrier medium (i.e. the disc) plus the software data or instructions and is taxed at the time of importation based on its value for duty as determined by the [Canada Border Services Agency \(CBSA\)](#). [CBSA](#) will generally determine the value for duty as being the price paid or payable for the goods. The GST is charged on the full value of the goods, which is the value of the physical carrier medium and the value of the software.

Custom software, which refers to all other types of software, such as a software designed and developed to meet a particular customer's specific requirements, will be taxed differently depending on whether the customer acquires the software outright or only under a license.

Sale of Custom Software:

When custom software is acquired outright from a foreign organization (including U.S. companies), by a Canadian organization, [Revenue Canada](#) will treat it as tangible personal property and will charge GST on its full value at the time of importation (i.e. the same treatment as off-the-shelf software).

Licensed Custom Software:

[Revenue Canada](#) will treat custom software that has been acquired by way of license as follows:

- The [Canada Border Services Agency](#) will require that GST will be paid on the value of the carrier medium only (i.e. the disk) at the time of importation. This value is usually a value determined by the [CBSA](#). The software program will be treated as intangible personal property and will be excluded from tax.
- Payments for the software program stored on the carrier medium, such as license fees, lump sum payments, or other ongoing payments, will be subject to tax as follows:
 - If the non-resident supplier is registered for the GST, and the software will be used in whole or in part in Canada, the non-resident supplier will be required to charge Division II tax, as per the [Canada Excise Tax Act](#), to Canadian customers.
 - If the non-resident supplier is not registered for the GST and the software is not acquired for use exclusively in commercial activities, the Canadian customer may be required to self-assess the GST payable under Division IV of the [Excise Tax Act](#) on payments made for the software. If the Canadian customer imports the licensed custom software for use exclusively in the customer's commercial activities, GST does not apply and the customer is not required to self-assess the GST on the payments made to the non-resident supplier for the software.

Electronic Transmission of Software

A supply of computer software that is transmitted electronically is considered to be a supply of intangible personal property. Since nothing tangible is imported, the electronic transmission of software from outside Canada is not taxable. However, these supplies are taxable if the non-resident supplier is registered for the GST. If the supply is made by an unregistered non-resident, the recipient of the supply must self-assess the tax. If the Canadian customer electronically receives software for use exclusively in their commercial activities, GST does not apply and the Canadian customer is not required to self-assess the GST on the payments made to the non-resident supplier for the software.

For More Information

The U.S. Commercial Service in Ottawa, Canada can be contacted via e-mail at: tracey.ford@mail.doc.gov;
Phone: (613) 688-5406; Fax: (613) 238-5999; or visit our website: <http://www.buyusa.gov/canada/en/>

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Comments and Suggestions: We welcome your comments and suggestions regarding this market research. You can e-mail us your comments/suggestions to: Customer.Care@mail.doc.gov. Please include the name of the applicable market research in your e-mail. We greatly appreciate your feedback.

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