



## **Simplification of the GST/HST for the Direct Selling Industry**

The direct selling industry distributes goods to final consumers through a large number of contractors and sales representatives, rather than through retail establishments. The direct selling industry generally employs two business models:

- The buy and resell model, where contractors purchase goods from a direct seller and resell the goods to consumers with a mark-up; and
- The commission-based model, where a network of sales representatives of a direct selling organization (referred to as a “network seller”) receives commissions for arranging for the sales of the network seller’s goods (“select products”) to consumers.

To simplify the operation of the Goods and Services Tax/Harmonized Sales Tax (GST/HST) for network sellers employing the commission-based model, Budget 2009 proposed allowing network sellers that meet certain qualification criteria to apply for the use of a special GST/HST accounting method. Simplified GST/HST accounting already exists under the *Excise Tax Act* for direct sellers that utilize the buy and resell model.

Budget 2010 confirms the Government’s intention to implement the Budget 2009 proposals for simplification of the GST./HST for the direct selling industry and proposes the following enhancements and clarifications to the previously announced measure:

- A clarification that new entrants in the direct selling industry, who meet the qualification criteria and who have never before made a supply of a select product, may apply to the Minister of National Revenue at any time during a fiscal year for approval to use the special GST/HST accounting method for network sellers;
- A clarification that the supply of host gifts by a network seller to hosts would not be subject to the GST/HST; and
- A “safety mechanism” for a network seller that does not meet the qualification criterion concerning the commissions paid by the network seller to its sales representatives for a particular fiscal year; as a result of this “safety mechanism,” there would be no adjustment to the GST/HST net tax of a network seller in respect of:
  - The first fiscal year that the network seller fails to meet the requirement that all or substantially all of its sales representatives have annual commissions not

exceeding \$30,000, provided that at least 80 percent of the sales representatives have annual commissions from the network seller not exceeding \$30,000 in that first fiscal year; or

- The second fiscal year that the network seller fails to meet the above-noted requirement, provided that the network seller requests in writing, within the first six months of that second fiscal year, that the Minister of National Revenue revoke its approval to use the special GST/HST accounting method and provided that at least 80 percent of the sales representatives have annual commissions from the network seller not exceeding \$30,000 in that second fiscal year.

Budget 2010 proposes that these enhancements apply in respect of fiscal years of a network seller that begin after 2009, matching the timing of the Budget 2009 proposals. A network seller, other than a new entrant, will be required to apply for approval to use the special GST/HST accounting method before the first day of the fiscal year of the network seller in respect of which that method is to begin applying. However, for a fiscal year of the network seller beginning in 2010, it is also proposed that a transitional measure allow a network seller to apply in 2010 for approval to start using the special GST/HST accounting method in 2010 in respect of the remaining part of that fiscal year.