



COMMON ERRORS FOR GST/PST RECOVERIES

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DuCharme, McMillen & Associates, Inc.

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AGENDA

1. INTRODUCTION
2. COMMON ERRORS IN GST/HST AND PST
3. BEST PRACTICES
4. QUESTIONS

A diverse group of smiling business professionals in an office setting. The image features a central Black man in a blue button-down shirt with his arms crossed, surrounded by other colleagues of various ethnicities and ages, all smiling warmly. The background is a blurred office environment with soft lighting.

ABOUT DMA

DMA is a proudly employee-owned company that has been solving corporate tax challenges for over 50 years. Our employees share common philosophies, a strong work ethic, and an unbreakable commitment to client service. Because of our unique corporate structure and principles, “about us” is actually about you.

CLIENT SERVICE PRINCIPLES

In serving clients, we will always:



Listen and understand our clients' needs and objectives



Deliver on our promises and exceed our clients' expectations



Communicate with our clients effectively and often



Earn our client's trust and respect — and work hard to keep it



Deal with our clients fairly, honestly, ethically, and with integrity



Act professionally by being responsive, thorough, innovative, and results-driven



Stand behind our work and do our best to ensure our clients' satisfaction



Staff engagements with the best team, assigning professionals who have an appropriate level of experience and expertise



Serve as an extension of our clients' tax departments, going beyond mere partnering by adopting the perspective and commitment of our clients' team members

OUR SERVICES



Each DMA professional brings a unique perspective to our clients, along with a dedicated mastery of their specific tax specialty.

INDUSTRIES

DMA has vast experience across many different industries, including the major industries listed here.



FACTS ABOUT DMA



WORKED WITH 50%
OF THE FORTUNE 1000



WORKED WITH OVER 130
OF THE GLOBAL 500



SAVED TAXPAYERS OVER
\$4 BILLION OVER THE
PAST 20 YEARS



STATE, LOCAL &
PROVINCIAL CONSULTING
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50 YEARS



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OVER 800 EMPLOYEES



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LOCAL EXPERTISE

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Indianapolis, IN
Marco Island, FL
Milwaukee, WI

Minneapolis, MN
Nashville, TN
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DMA SALES & USE TAX AND TAX TECHNOLOGY OVERVIEW



300+ U.S. Sales and Use Tax & Tax Technology Consultants Located Throughout North America



Industry- and Jurisdiction-Specific Expertise



Tax Advisory Services



Compliance



Audit Management and Defense



Overpayment Review and Recovery



Exemption Certificate Management



Training and Education



Holistic, Consultative Approach to Tax Accuracy and Efficiency



End-to-End Tax Systems Implementation and Integrations



Systems and Business Process Analysis



Software and Process Optimization



Productivity Tools



Certified Implementation Partner of Each Tax Engine Provider



Tax Managed Services



Expertise in Tax Advisory, SAP Functional and Technical, Tax Engine Deployment Expertise



WHO IS DMA

DUCHARME MCMILLEN & ASSOCIATES CANADA LTD.

- Strive to be an extension of your tax department with expertise in Sales Tax, Fuel Tax, Property Tax, Tax Technology and Compliance.
- Offices across Canada the US and Europe
- Canadian Offices in Calgary, Toronto and London

- Canada Indirect Tax Team – 15 professionals across Canada with 4 based in Western Canada
- Canada Property Tax Team – 40+ professionals across Canada with 15 based in Western Canada
- Fuel Tax Team – 4 professionals based in both Canada and the US



INDIRECT TAX SERVICES

- Indirect Tax recovery Projects
 - GST/HST/QST/PST
 - Payroll Tax
- Audit Defense
 - Audit management
 - Appeals/Objections
- Compliance – GST/HST, PST, Fuel Tax, US Sales-Use Tax
- Advisory services
- Tax Technology services
 - Tax Engine selection and implementation (ex. Vertex, OneSource, Avalara)
 - TaxARC
 - Data wrangling



GST/HST/PST RECOVERY PROJECT OVERVIEW

- Data Acquisition – Work with the finance department and IT to retrieve GL data
- Data Validation – Utilize tools to import, analyze and clean data to make it usable for review
- Review – Review includes all areas where indirect taxes may be involved
- Validation – Validate the recovery in various ways
- Reporting - All findings communicated via reporting and recommendations with documentation to support refunds
- Claim Management – All refunds and claims are defended and managed to minimize client resources



A man and a woman in business attire are looking at a tablet together. The man is on the left, wearing a grey blazer and a white shirt, and is pointing at the tablet. The woman is on the right, wearing a blue blazer, and is holding the tablet. The background is a blurred office setting. The text "COMMON ERRORS IN INDIRECT TAX RECOVERY" is overlaid in white, bold, uppercase letters across the center of the image.

COMMON ERRORS IN INDIRECT TAX RECOVERY



TOP 10 RECOVERY ISSUES

#10. ALLOWANCES

- Non-taxable allowances are a known opportunity however, we still find many examples of recovery
- Large corporation with a large fleet of trucks which paid LOA/per diem to drivers
 - Canadian based tax department
 - Resulted in a large 6 figure recovery
- Mid-sized environmental engineering company working on Trans Mountain Pipeline
 - LOA paid for employees in remote locations, recovery was confirmed



#9. OFFSHORE/NON-CANADA ACCOUNTS PAYABLE

- Large international organization, Canadian tax department
- Corporate directive to offshore Accounts Payable
 - Reviewed 4 years. 2 years Canadian AP, 2 years offshore AP
 - Result was minimal recovery while processing was in Canada and six figure recovery after transition
- HST charged by an out-of-province supplier (ie. Ontario) and the Western Canadian recipient assumes they can't claim an input tax credit.

#8. FUEL AND EXCISE TAX IN CANADA AND USA

- Large Canadian oilfield service company with operations in Canada and the US with a fleet of service vehicles
 - Large 6 figure recovery on Heavey Vehicle Use Tax (HVUT) in the US
- Recovery of Motor Fuels Tax (“MFT”) in BC for offroad use
 - Licensed vehicles required to use clear diesel requiring calculation for offroad use
- FET refunds on PTO for Canadian service rigs are well known, but still remain a source of recovery
 - Other opportunities for vehicles with an “auxiliary unit”
 - Ex. Vac Trucks, Pumpers, hydraulics etc.

#7. RELOCATION PROGRAM REIMBURSEMENTS/INTERCOMPANY CHARGES

- Many large international companies employ US based relocation service providers to manage programs for employee relocation
 - Relocation programs are typically a combination of reimbursements and allowances
 - Recently, we have identified 4 large international clients where there is no GST/HST identified on Canadian employee reimbursements
 - Taxable items may include Hotel, Airfare, car rental, Legal fees etc.
- Shared service costs incurred in Canada billed via US related entity.
 - Common issues:
 - Invoices are not accompanied with detail of charges and tax
 - US entity does not know they should break out the tax on the Intercompany invoice.
 - Examples: Legal fees, Postage, IT, consulting etc.

#6. SASKATCHEWAN PST RECOVERIES

- Despite exemptions for SK being limited, errors are still occurring
 - SK PST being charged by oilfield service companies on equipment rental when rentals are for their own use.
 - Self Assessments for SK PST on oilfield services
 - Equipment for own use
 - Consumables and safety equipment(PPE)

#5. ERP IMPLEMENTATION

- New system implementations can create significant GST/HST/QST Input Tax Credit/Refund recovery opportunities

Challenges

- Not enough resources in the early stages of reviewing requirements
- Tax codes not translating the same
- Lack of resources to test the new system
- Systems are US SALT centric with minimal Canadian tax involvement
- Sub-systems not feeding into main ERP system
- Lack of visibility to ensure completeness

#4. GST ON IMPORT

- The transition to CARM has created confusion resulting in recoveries of Division III GST
 - Accounts payable had become accustomed to broker invoices with GST.
 - New process and invoices have confused some AP and accounting departments
- “De-facto importer” pays at border but wrong entity claims - so the *right* entity doesn't claim at all
 - align importer of record with the de-facto importer to ensure ITC recovery
 - Documentation is key

#3. BRITISH COLUMBIA PST RECOVERIES

- Large mining company in BC underwent significant growth and relied on procurement to determine PST tax payable. They provided exemption certificate inconsistently. They also overpaid PST to vendors where exemptions exist.
 - Result: we were engaged to do a review while an audit was performed. Savings exceeded the audit assessment by over \$2M
- Vendors in BC have been conservative in charging BC PST on goods and services that are exempt. Our clients do not have the resources to consistently check and apply for and defend refunds.
 - Real Property Contracts
 - Production Machinery and Equipment
 - Special Sectors
 - Oil and Gas, Mining, Forestry

#2. AUDIT DEFENSE

- Large international mining company
- 2 concurrent audits (CRA & Saskatchewan Finance)
 - GST/HST audit: significant assessment on denied ITCs due to documentary requirements not met
 - Assessed value reduced by \$4.2M by providing supporting documentation
 - Proration is a common practice for assessment. We have had success challenging the proration based off audit sample
 - SK PST audit: audit samples were provided based off the GL. Client was not able to produce the support. We were able to reduce the assessment by working with vendors to provide supporting documents to reduce audit assessment.

#1. DATA RELATED RECOVERIES

- GST/PST return reconciliations are a part of every review.
- Large multinational Canadian client, confident in their internal processes however wanted a review to validate
 - In preparing returns, they did not include typical doc types in with the GST ITC
 - Ie KR, RE doc types, did not consider Z or Y doc types
 - Resulting in 7 figure recovery
- Large unchecked adjustments in the ITC account
 - Coding errors – Large credit entry for holdback release reduced ITC
 - Unadjusted clearing entries in the tax accounts

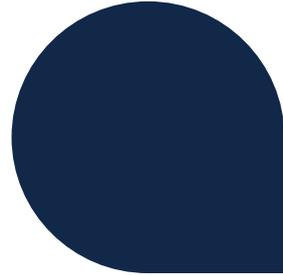
BEST PRACTICES TO CONSIDER

- Implement a reconciliation process to validate all indirect tax returns
- Automate manual processes to minimize errors. i.e. PST self-assessments
- Encourage training on indirect taxes in non-tax departments that have influence in the process. i.e. Procurement and Accounts Payable
- Include an Indirect Tax Review as a part of your regular process to validate controls and identify any issues that cause exposures or reasons for recoveries.

Q&A



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