

# Noteworthy 2020 GST/HST developments for corporate commercial operators

January 07, 2021

Two important Goods and Services Tax/Harmonized Sales Tax (GST/HST) case law trends continued in 2020: the Tax Court of Canada (the TCC) confirmed the broad interpretation of “consideration” for GST/HST purposes, and the importance of substance over form when characterizing a legal relationship for GST/HST purposes.

**“Consideration ” for GST/HST purposes includes amounts payable by operation of law, and is interpreted broadly by the courts: CanLII and Casolino .**

## CanLII

GST/HST liability is calculated based on the value of consideration given for a supply. Two TCC decisions this year highlight the broad definition of “consideration” for GST/HST purposes. The broad definition of “consideration” can lead to unanticipated and unrecoverable GST/HST costs for businesses involved in exempt activities but may also lead to GST/HST planning opportunities in other circumstances.

In [Canadian Legal Information Institute v. The Queen](#) (CanLII) the appellant had claimed ITCs on the GST/HST incurred in the course of operating a virtual law library. The CRA denied CanLII’s ITC claims on the basis that its law library was provided free of charge to users and was an exempt supply, which precluded CanLII’s claim to recover GST/HST incurred on their expenses. This is because providing “free” services engages s. 10 of Part VI of Schedule V of the ETA, which provides that a non-profit organization such as the appellant makes an exempt supply if “all or substantially all” of the supplies are for no consideration (subject to some limited exemptions).

The TCC allowed the appeal concluding that the funding the appellant received from the Canadian Federation of Law Societies (the Federation) was consideration for providing the virtual law library even though the service itself was free to the public. The TCC noted that “consideration” for GST/HST purposes is a defined term in the ETA and includes amounts payable “by operation of law.” When the Federation determined each year the annual funding it would provide to the appellant each year, the Federation’s

constating documents required the Federation to pay this funding; it was not discretionary. The mandatory nature of the funding meant it was payable by operation of law.

For more details and commentary on CanLII, see [BLG's previous CanLII commentary](#).

## Casolino

[Casolino v. The Queen](#) (Casolino) is another decision interpreting the meaning of “consideration” for GST/HST purposes. In Casolino, the appellant’s spouse operated a business that could not service its debt obligations under a line of credit secured against the appellant and spouse’s jointly held family home. They refinanced their home in order to satisfy the debt obligation. As part of this transaction, appellant’s husband transferred his interest in the family home to the appellant, and the appellant assumed the debt vis-à-vis the business line of credit.

At the time the family home transferred, the appellant’s spouse owed a debt to the CRA. The CRA tried to recover this tax debt from the appellant pursuant to s. 325 of the Excise Tax Act, which in part allows the CRA to assess the spouse of a tax debtor where the spouse pays consideration exceeding fair market value for property transferred from the tax debtor. The appellant appealed the CRA’s methodology for calculating the consideration paid by the appellant for the family home.

In allowing the appellant’s appeal in part, the TCC confirmed the appellant’s assumption of her spouse’s business’s debt was consideration for a supply. Notably, the appellant did not directly assume this debt - she obtained a mortgage in her own name, and used part of the mortgage funds to pay off her spouse’s business debt. Casolino is a good reminder that the assumption of debt is “consideration” for GST/HST purposes.

## Takeaway

The Casolino and CanLII decisions are stark reminders that “consideration” is not necessarily restricted to the purchase price for a supply; consideration can be found lurking in ancillary arrangements to a transaction (such as in assuming the business debt of a spouse in Casolino), or even a third party’s documents (such as the Federation’s constating documents and agreements with law societies in CanLII). Accurately identifying the consideration for a supply becomes an integral exercise for any business or individual who cannot fully recover the GST/HST incurred on purchases.

## **Substance over form: Zomaron and Montecristo . Courts rely on substance over form when characterizing a transaction for GST/HST purposes.**

In [Zomaron Inc. v. The Queen](#) (Zomaron) and [Montecristo Jewellers Inc. v. the Queen](#) (Montecristo), the TCC stressed the importance of considering the factual substance of parties’ activities when determining the GST/HST implications of a transaction.

## Zomaron

In Zomaron, the CRA assessed the appellant for uncollected GST/HST on the basis the **appellant, a “merchant services provider”, was providing a taxable supply of** promotional, marketing and administrative services. The appellant had operated as if it **were providing a GST/HST-exempt service of “arranging for” financial services by** connecting prospective clients to credit card processing companies. The appellant **appealed the CRA’s assessment to the TCC.**

The TCC allowed the appeal, finding that the “vital” and “predominant” elements of the **appellant’s activities amounted to “arranging for” financial services.** Notably, the TCC made its findings based largely on witness testimony of actual industry practices and the practices of the appellant. This was despite explicit contract language suggesting the appellant was providing marketing, promotional and advertising activities.

For more details and commentary on Zomaron, see [BLG’s previous Zomaron commentary](#).

## Montecristo

Similarly, in Montecristo, the Federal Court of Appeal confirmed that terms of a contract (in this case, implied terms of an unwritten contract) must reflect the actual transaction that occurred. In Montecristo, the appellant was a jeweller who sold jewellery and watches it claimed was either (a) delivered or made available outside of Canada (goods delivered outside of Canada are not subject to GST/HST) or (b) shipped to a destination **outside of Canada (such goods are “zero-rated”, meaning technically taxable but at a rate of 0 per cent).**

The issue with the appellant’s position was that the appellant transferred possession of the goods to its customer after they cleared customs within an airport in Canada, but that the customer would transport the goods to themselves at a destination outside of **Canada. The Federal Court of Appeal affirmed the TCC’s findings that the facts scenario** did not reflect the appellant’s alleged implied terms. The appellant simply provided the jewelry or watches to its customers in Canada, and customers obtained full use and possession of the goods and assumed all risk associated with the jewelry at that time. For more details and commentary on Montecristo, see [BLG’s previous Montecristo commentary here](#).

## Takeaway

When read together, Zomaron and Montecristo confirm the importance of a business ensuring it understands how GST/HST applies to its business, ensuring its business operations are legally documented to reflect the desired business arrangement (and the GST/HST implications of arrangement), and ensuring this intended relationship is being **followed in practice. In other words, “substance” is key, both in practice and in** documenting that practice.

By

[Braek Urquhart](#)

Expertise

[Tax, Corporate Commercial, Financial Services](#)

---

## **BLG | Canada's Law Firm**

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

[blg.com](http://blg.com)

### **BLG Offices**

#### **Calgary**

Centennial Place, East Tower  
520 3rd Avenue S.W.  
Calgary, AB, Canada  
T2P 0R3

T 403.232.9500  
F 403.266.1395

#### **Ottawa**

World Exchange Plaza  
100 Queen Street  
Ottawa, ON, Canada  
K1P 1J9

T 613.237.5160  
F 613.230.8842

#### **Vancouver**

1200 Waterfront Centre  
200 Burrard Street  
Vancouver, BC, Canada  
V7X 1T2

T 604.687.5744  
F 604.687.1415

#### **Montréal**

1000 De La Gauchetière Street West  
Suite 900  
Montréal, QC, Canada  
H3B 5H4

T 514.954.2555  
F 514.879.9015

#### **Toronto**

Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada  
M5H 4E3

T 416.367.6000  
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing [unsubscribe@blg.com](mailto:unsubscribe@blg.com) or manage your subscription preferences at [blg.com/MyPreferences](http://blg.com/MyPreferences). If you feel you have received this message in error please contact [communications@blg.com](mailto:communications@blg.com). BLG's privacy policy for publications may be found at [blg.com/en/privacy](http://blg.com/en/privacy).

© 2025 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.