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TWO GST REGISTERED BUSINESSES

**Trade-ins and leasebacks**

If, in the course of your business, you accept used goods in trade for full or partial payment for goods you sell or lease, special rules apply depending on whether or not the person from whom you are accepting the trade-in has to charge tax on the trade-in.

**When the vendor has to charge tax** TWO INVOICES TWO BN NUMBERS

If the person from whom you accept used goods in trade has to charge GST/HST (for example, if the trade-in is an asset of a registrant's business), two separate transactions occur :

- you purchase the trade-in from your customer, and
- you make a sale or a lease to the same customer.

You have to pay GST/HST on the value of the trade-in, and you have to collect GST/HST on the full price charged for the goods you sell or lease.

**Example**

Axle Corp. a registrant in Alberta, sells new machinery to Gilson Inc. also a registrant, for \$50,000. Axle Corp accepts old machinery as a trade-in valued at \$20,000. Axle Corp. will invoice and collect GST on the full \$50,000 selling price. Gilson Inc. will invoice and collect GST on the trade-in value of \$20,000.

AXLE INVOICE

50,000  
 + 7500  
 \$ 57,500

Both you and your customer may claim an ITC for the GST/HST you both pay or owe.

GILSON INVOICE

20,000  
 3000  
 \$ 23,000

When you accept a trade-in, find out if your customer has to collect GST/HST before you close the deal. If so, make sure you meet the **invoice requirements**, so that you can claim an ITC.

ONE INVOICE FROM GST REGISTERED

**When the vendor does not have to charge tax** ONE INVOICE ONE GST REGISTRANT

A different rule applies for used goods you accept in trade from a person who is not required to charge GST/HST (usually a person who is not required to register for GST/HST). A person may also trade in a leasehold interest in used goods.

In this case, you charge GST/HST on the net amount of the sale or lease, that is, the **price** of the goods you sell or lease **minus** the amount you allow for the **trade-in**. This approach is consistent with the treatment of trade-ins under most provincial sales taxes. For more information on trade-ins, see our Technical Information Bulletin **B-084, Treatment of Used Goods**.

**Example**

John, who only used his car for personal use, goes to a registered car dealer in Manitoba to trade in his used car for a new one. The selling price of the new car is \$25,000, and the dealer allows \$10,000 for his used car. The dealer charges GST on \$15,000.

Selling price of new car	\$25,000
Less trade-in of used car	- \$10,000
<b>Subtotal</b>	<b>\$15,000</b>
GST (\$15,000 × 7%)	+ \$1,050
John pays	\$16,050

personal use only  
 not GST registered