

Ministry of Finance Tax Bulletin



Bulletin CTB 005

Issued: July 2011 Revised: January 2022

[Subscribe](#)

Penalties and Interest

Carbon Tax Act, Motor Fuel Tax Act, Provincial Sales Tax Act and Tobacco Tax Act

Latest Revision: The revision bar (|) identifies changes to the previous version of this bulletin dated April 2018. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin explains how penalties and interest apply to assessments issued for missing tax returns, late payments or underpayments, security not paid, and failure to charge, collect and remit tax as required.

Table of Contents

Overview	1
Definitions.....	2
Interest Charges.....	3
Penalty Charges.....	4
Warning Letters.....	8
Voluntary Disclosure	9

Overview

The Ministry of Finance administers the carbon tax, motor fuel tax, tobacco tax and provincial sales tax (PST), including the municipal and regional district tax (MRDT). We use a number of tax compliance tools to ensure all security and taxes owed to the province are paid and remitted in full and on time.

We may assess you for tax or security if:

- You do not file a tax return as required
- You do not remit tax as required
- You do not pay tax or security as required
- You receive a refund of tax or security you are not entitled to

If we determine you did not charge or collect tax, or pay security, as required, we may impose a penalty equal to the amount of tax you did not charge or collect (a penalty equivalent) or assess you for the amount of security you did not pay. In addition, we may assess interest, impose additional penalties and, if applicable, disallow any commission claimed.

We will issue you a Notice of Assessment identifying the tax, security, penalties (including penalty equivalent) and interest owing.

If you continue to not file tax returns, remit tax, pay tax or security or otherwise not comply with the relevant legislation, we may suspend or cancel your registration, authorization, permit or appointment.

If you are in a principal and agent relationship and you jointly designate one of the parties to collect and remit PST, both parties are liable for any assessments, penalties or interest imposed for failing to charge, collect or remit the PST due. For more information on designation agreements for principals and agents, see [Bulletin PST 001](#), Registering to Collect PST.

Definitions

Audit

A formal examination of an individual's or business's financial records (may include tax returns) to ensure:

- Taxes have been charged, collected, paid or remitted as required
- Security has been paid as required
- Tax or security claimed or received as a refund was correct

We conduct some audits from our desks (desk audits), while others are conducted at business locations (field audits).

Notice of Assessment

A written notice from the ministry of any amount of security, tax, penalties and interest owed to the province.

Security

Security is payable by sellers of fuel and tobacco and is an amount equal to the amount of tax that would have been payable if the fuel or tobacco was sold to an end purchaser.

Assessment

For the purpose of this bulletin, an assessment may include any of the following:

- An amount for tax not paid or remitted, or security not paid
- An amount for tax or security refunded in situations where no refund was payable
- A penalty equivalent to tax not charged (PST)
- A penalty equivalent to tax not collected (motor fuel tax, carbon tax and tobacco tax)

An assessment may result from a missing tax return, a review of a tax return or an audit.

An assessment may be issued to a non-designated party under a PST designation agreement for principals and agents.

Interest Charges

Interest generally applies on all assessments, late payments or underpayments of tax or security, and late or under remittances of tax. Interest is calculated and compounded monthly on the amount that was late or is due.

No additional interest is applied if you pay the amount in full within 30 days of the issue date on the Notice of Assessment.

Fuel Sellers

If you are a fuel seller and you do not pay security on fuel you sell in B.C., and we later determine that your customer would have been entitled to a refund of the security or tax, you will not be assessed for the amount of security you did not pay. However, we may still apply interest on the security amount for 60 days from the date you should have paid the security.

Example

An audit discovers you did not pay the security amount due (\$1,000) for one of your sales and you did not receive security or collect tax on the sale from your customer. The audit determines your customer would have been entitled to a refund of security or tax had it been paid. You would not be assessed for the \$1,000 you did not pay, but you could be assessed interest on that \$1,000 for 60 days from the date you were required to pay the security.

We may issue a warning the first time we identify this error and will generally assess 60 days interest only on second and subsequent errors under each tax type.

Penalty Charges

The references to penalty in this section do not apply to tax assessments of penalty equivalent amounts explained above.

No Penalty

Generally, we will not apply a penalty on an assessment if you have not previously been assessed for the same error, or there is no indication you knew of the liability.

The following are examples of assessments where we would generally not apply a penalty.

- You are on a scheduled tax return filing frequency and, for the first time within 12 months (24 months for bi-annual and annual tax return filers), you:
 - filed your tax return late,
 - remitted or paid tax late
 - under remitted or underpaid tax
 - paid security late, or
 - underpaid security.
- We issue you an assessment for tax as a result of a first audit or inspection of your business because the auditor found an invoice where you correctly charged tax, but you posted the tax collected to a revenue account in error. You have never been assessed for the same error (e.g. failing to remit tax).
- We issue you an assessment for tax or security that was not, but should have been, paid on a purchase and you have had no previous warning, investigation or assessment for tax or security due on your purchases.
- We issue you an assessment for tax you did not pay on goods (includes fuel) imported into B.C. for your own use and you have had no previous warning, investigation or assessment for tax due on goods imported for your own use.
- We issue you an assessment for tax you did not charge your customer but should have and you have had no previous warning, investigation or assessment for the penalty equivalent to tax not charged.
- We issue you an assessment for a refund amount you deducted from your motor fuel tax, carbon tax or tobacco tax return in error, and you have had no

previous warning, investigation or assessment for a refund amount claimed in error.

10% Penalty - Knowledge of Liability or Repeat Errors

We will generally apply a 10% penalty on first assessments if the facts indicate you were aware of the obligation but did not charge, collect, pay or remit the correct amount as required. We will also generally apply a 10% penalty to all assessments if you were previously advised of an error (e.g. failing to charge, collect, pay or remit as required) and you make the same error again. In addition, if you were previously directly advised of how tax or security applies to a particular situation and you make an error in applying tax or security in that same situation, we will apply a 10% penalty.

The following are examples of situations where we would generally apply a 10% penalty on a first tax or security assessment if the facts indicate you were aware of your obligation, but you did not comply.

- You did not file a tax return and we assess you for an estimated amount of tax or security owing.
- You posted tax collected to a revenue account and did not remit it.
- You sold coloured fuel, marine diesel or locomotive fuel to your customer, but did not obtain a signed copy of the Coloured Fuel Certification (Includes Marine Diesel and Locomotive Fuel) ([FIN 430](#)) or a Certificate of Exemption Farmer ([FIN 458](#)) when required. For more information, see [Bulletin MFT-CT 003](#), Coloured Fuels and Other Substances.
- You did not remit tax collected or payable that had accumulated in your records (e.g. the general ledger account, sales journal or other form of accounting record).
- You received specific advice from the ministry (e.g. a tax ruling) on your requirement to charge or pay tax or security and you did not ensure you were charging or paying correctly.

The following are examples of repeat errors where we would generally apply a 10% penalty.

- You are on a scheduled tax return filing frequency and, for the second or subsequent time within 12 months (24 months for bi-annual and annual tax return filers), you:
 - filed your tax return late,
 - remitted tax or paid tax late,
 - under remitted or underpaid tax,

- paid security late, or
- underpaid security.
- You did not correct tax remittance or security payment procedure errors after a first assessment was issued for the same procedural errors.
- You did not pay tax or security correctly on your purchases or imports after receiving a warning letter (see Warning Letters below) or being directly advised about the requirement to pay tax or security on purchases or imports.
- You provided an exemption without obtaining the required documentation at or before the time of the sale after receiving a warning letter (see Warning Letters below) or being directly advised about the requirement to charge tax in these situations.
- You deducted a refund amount from your tax return in error after receiving a warning letter (see Warning Letters below) or being directly advised that you were not entitled to deduct a refund amount in those situations.

25% Penalty - Wilful Evasion or Fraud

We will generally apply a 25% penalty on assessments if there is evidence you evaded the payment of tax or security by wilfully making a false or deceptive statement, or through wilful default or fraud. This applies to situations where you made a conscious or wilful action to avoid the payment of tax or security.

The following are examples of situations where we would generally apply a 25% penalty.

- You claimed and received an exemption (e.g. by signing an exemption certificate) but you knew the exemption did not apply.
- You wilfully misused your PST number to improperly acquire goods for your own use exempt from tax.
- You wilfully did not pay tax on out-of-province purchases of goods you used in B.C.
- You wilfully did not report and pay tax that is overdue on purchases that have been set up in your tax liability account.
- You purchased a vehicle and deliberately attempted to avoid tax (including paying a lower amount of tax) by making a false or misleading statement about the purchase price.
- You wilfully did not pay security on fuel you imported and sold in B.C.
- You wilfully did not pay security on tobacco you brought or sent into B.C., or had delivered to you in B.C.

- You deducted a refund amount from your tax return but knew you were not entitled to deduct that refund amount.
- You received a refund amount by making false statements or submitting false documentation in your refund application.

100% Penalty - Tax Collected but Wilfully Not Remitted or Security Wilfully Not Paid to the Province

Taxes collected are deemed funds held in trust for the province. We will generally apply a 100% penalty if you collected tax and wilfully did not remit it. We will also generally apply a 100% penalty if you collected tax or received security on fuel or tobacco and wilfully did not remit the tax or pay the security.

The following are examples of situations where we would generally apply a 100% penalty.

- You are not registered as required, but you collected tax and wilfully did not report and remit the tax collected.
- You are registered to collect PST and you collected tax, but wilfully did not report and remit the tax collected (e.g. you knowingly understated the tax collected).
- You are registered as a retail dealer of natural gas and you collected tax, but wilfully did not report and remit the tax collected (e.g. you knowingly understated the tax collected).
- You are registered as a collector for motor fuel tax or carbon tax, and you collected tax or received security on fuel but wilfully did not pay security to the province on the sales of that fuel (e.g. you knowingly understated the volume of fuel sold for the first time in B.C. after importation on which you collected tax or received security).
- You are a wholesale dealer of tobacco and you received security on tobacco but wilfully did not pay security to the province on the tobacco you brought or sent into B.C. or had delivered to you in B.C. (e.g. you knowingly understated the volume of tobacco you brought, sent or had delivered to you on which you received security).

Other Penalties

We may also apply penalties in the following situations.

- You wilfully failed to register for PST.
- You did not remit PST electronically when required (e.g. [mandatory electronic filers](#)).

- You sold tobacco products in B.C. without a retail dealer or wholesale dealer permit.
- You sold fuel within B.C. for the first time after it was manufactured in or imported into the province, prior to being appointed a collector.
- You purchased or used coloured fuel, marine diesel or locomotive fuel for an unauthorized purpose. This penalty may be applied on a first assessment and it may be equal to the greater of 3 times the clear fuel tax that should have been paid or an amount of up to \$1,000 for each vehicle per day. For more information, see [Bulletin MFT-CT 003](#), Coloured Fuels and Other Substances.

Dishonoured Payments

You will be charged a \$30.00 administrative fee on all dishonoured payments. This fee is in addition to any fees your financial institution may charge.

Warning Letters

There are situations where you may receive a warning letter for filing a tax return late, making a late payment or remittance, not remitting tax in the method required or for an error discovered in an audit.

Tax Returns, and Associated Payments or Remittances

If you have a good history (12 months for monthly and quarterly filers and 24 months for bi-annual and annual filers) of filing your tax returns and paying or remitting tax or security in full, on time and in the method required (e.g. [mandatory electronic filers](#)), you may receive a warning letter the first time you:

- File your tax return late
- Make a late payment or remittance
- Under pay or under remit tax or security owing
- Take a deduction on your tax return for an adjustment you are not entitled to
- Use an incorrect remittance method

If you receive a warning letter, you will generally not be charged a penalty for the error described in the letter. However, your commission on that tax return may be denied, if applicable. Interest charges will generally still apply.

In the future, if you do not pay or remit amounts owing in full, on time and in the method required, we will generally charge you a 10% penalty and interest. We may also apply a 10% penalty to a corresponding denied commission.

Audits

For audits, we will generally issue a warning letter if there is no penalty imposed on an assessment (see Penalty Charges above). The warning letter advises you of the correct application of tax or security and warns of the penalties for repeat errors.

In addition, we may issue a warning letter to fuel sellers who do not pay security on fuel if it is determined the customer would have been entitled to a refund of security or tax on that fuel if it had been paid. The warning letter advises you of the correct application of security and warns of the potential for a 60-day interest charge on repeat errors (see Interest Charges above).

A warning letter addressed to a senior officer of your corporation who, by the time of the second assessment is no longer with your corporation, is still valid. In this situation, the corporation would be liable for a 10% penalty imposed if the same type of error is found during a later audit.

A warning letter issued to one division of a legal entity applies to the entire legal entity. Therefore, if a later audit of another division of the same legal entity results in an assessment for the same type of error as in the first audit, the 10% penalty will generally apply.

A warning letter only applies to the legal entity it has been issued to. If a business becomes a new legal entity, any warning letter issued as a result of a previous audit will not apply to the new legal entity, even if the new legal entity retains the original management staff. A new legal entity is formed when, for example, a business incorporates or its existing assets and operations are purchased by another corporation or individual.

If there is an amalgamation between two corporations, a warning letter issued to either of the original corporations applies to the amalgamated corporation.

Voluntary Disclosure

If you identify that you have not charged, collected or remitted tax, or paid tax or security as required, you must disclose the liability to us as soon as possible and pay the overdue amounts plus applicable interest.

If you voluntarily disclose a tax or security liability to us, we will not charge you a penalty (other than a penalty equivalent as described in the Overview above) or prosecute you if tax specific conditions are met.

For PST and tobacco tax, you must meet all of the following conditions.

- You pay the overdue amount, plus interest, or make satisfactory arrangements for payment.
- You do not have any outstanding debt on your account.
- It is the first time you have made a voluntary disclosure of the tax or security due under the tax act.
- Before you made the disclosure, we did not identify the liability, issue you a previous warning about the type of error you are disclosing, or contact you regarding an upcoming audit, inspection or in relation to a tax return filing requirement.

For motor fuel tax and carbon tax, you must meet all of the following conditions.

- You pay the overdue amount, plus interest, or make satisfactory arrangements for payment.
- You do not have any outstanding debt on your account.
- It is the first time within 12 months (24 months for quarterly and annual tax return filers) you have made a voluntary disclosure of the tax or security due for a specific motor fuel tax or carbon tax account type.
- Before you made the disclosure, we did not identify the liability, issue you a warning within the previous 12 months (24 months for quarterly and annual tax return filers) about the type of error you are disclosing, or contact you regarding an upcoming audit, inspection or in relation to a tax return filing requirement.

If any of these conditions are not met, we will generally apply penalties as outlined in this bulletin.

Note: Disclosure made by a corporation after we have been in contact with an associated corporation for an audit, inspection or in relation to a tax return filing requirement may not qualify as a voluntary disclosure without penalty. Generally, we will not apply a penalty if there is evidence to support that our contact with the associated corporation did not lead to the disclosure. For example, evidence could be an external audit by a public accounting firm identifying a liability not related to a transaction with the associated corporation contacted by us.

How to Make a Voluntary Disclosure for PST and Tobacco Tax

To make a voluntary disclosure, you must send us a letter identifying the error. If you do not have all the details of the error at the time you make the disclosure, you can state that you will provide the details later. However, you must send us the details within two weeks from the date of the original letter to qualify as voluntary disclosure without penalty or be willing to waive the audit limitation period.

PST

You must send your disclosure letter to us by mail:

Executive Director
Consumer Taxation Audit Branch
Suite 101-10475 138th St.
Surrey, BC V3T 4K4

Tobacco Tax

You must send your disclosure letter to us by email to TobaccoTax@gov.bc.ca.

How to Make a Voluntary Disclosure for Motor Fuel Tax and Carbon Tax

If an error you are disclosing relates to a tax return you have filed for a previous reporting period, to make a voluntary disclosure you must file an amended tax return for that reporting period correcting the error.

If you identify a tax return error that covers multiple years or reporting periods, contact us at FuelTax@gov.bc.ca to determine if we can reduce the number of amended tax returns you need to file.

If you identify that you have not filed a tax return as required and that tax return is not related to an existing motor fuel tax or carbon tax account with a scheduled filing frequency (e.g. you are a collector and you have burned combustibles to produce heat or energy for the first time), to make a voluntary disclosure you must file the applicable tax return for the applicable reporting period.

If you are unsure which tax returns to file, contact us at FuelTax@gov.bc.ca. When we receive your tax returns, we may contact you to determine if you should be assigned a scheduled filing frequency for filing future tax returns.

Need more info?

Online: gov.bc.ca/salestaxes

Toll free: 1-877-388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

Subscribe to our [What's New](#) page to receive email updates when information changes.

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

Latest Revision

January 2022

- Clarified the information on voluntary disclosure of a tax or security liability
 - Clarified that we may apply a penalty if:
 - you purchased or used coloured fuel, marine diesel or locomotive fuel for an unauthorized purpose
 - you sold coloured fuel, marine diesel or locomotive fuel to your customer, but did not obtain specific documentation when required
 - Added information to explain that both parties to a PST designation agreement for principals and agents are liable for any assessments, penalties or interest imposed for failing to charge, collect or remit the PST due
 - Other clarifying revisions
-