

GOODS & SERVICES TAX / HARMONIZED SALE TAX
(ALTERNATE COLLECTION MECHANISM)
AND PROVINCIAL SALES TAX
POST SALE ADJUSTMENTS

INTRODUCTION

It is wise, before we examine the concept and details of the “GST/HST post sales adjustments”, that we carefully consider Mary Kay’s thoughts, on two important basics of your business which are directly related to these types of transactions:

THE MARY KAY MARKETING PLAN

- The entire marketing structure is based upon and intended to foster retail sales to the ultimate consumer.
- As an independent sales contractor you purchase cosmetics from the Company at a wholesale price (plus applicable provincial sales tax and GST/HST) and sell to the ultimate consumer of your own choosing at retail – the difference being your basic income.

MARY KAY ASH ON DISCOUNTS

“As I read letters from Independent Sales Directors, I hear more and more about Beauty Consultants offering specials to obtain business – in many cases discounts to hostesses and sometimes even to guests meeting certain criteria. Someone uses this idea, expecting to do so only once, and find that it works – that first time anyway.

On a long-term basis, however, such discounting simply discourages customers from buying product when they need it and encourages them to wait for a Beauty Consultant’s next “sale”. Or they may shop around for the cheapest bargain rather than establish a long-term relationship with one professional Beauty Consultant.

Of course, an Independent Beauty Consultant may determine her own prices, but I urge you not to give your shirt away! In Mary Kay, long-term personal service is the cornerstone of our business.”

THE PROCESS

The GST/HST Alternate Collection Mechanism (ACM) results in Mary Kay Cosmetics td. collecting (and subsequently remitting) the GST/HST based on the suggested retail selling price of the products, at the time the Independent Beauty Consultant purchases the product from the Company.

The Independent Beauty Consultant then recovers this tax from her customer when the product is sold.

However, if the Independent Beauty Consultant:

- A. Chooses to sell products below the suggested retail price,
- B. Decides to use the products personally.
- C. Sells the products to exempt purchasers,
- D. Uses the products as a hostess credit or hostess gift,

The difference between the amount of GST/HST collected from the customer, and the amount initially paid by the Independent Beauty Consultant at the time of the purchase from the Company, may be **refunded to the Independent Beauty Consultant** through the Company’s remittances to Revenue Canada adjusted accordingly.

These GST/HST adjustment claims need to be made by the Independent Beauty Consultant and must be supported by copies of the relevant sales tickets, along with a signed "Sales Tax Adjustment Rebate Form"

A similar system is also in place with each of the Provincial tax authorities so that the Independent Beauty Consultant, through Mary Kay, is permitted to use a single set of documentation to claim both the provincial sales tax and GST or HST adjustments.

To illustrate the application to your Mary Kay business of these Provincial Sales Tax and GST or HST post sales adjustments, we have outlined the following examples, assuming that the transactions took place in Ontario. The methods used for HST also apply for GST and Provincial Sales Taxes.

COST OF PRODUCT TO THE INDEPENDENT BEAUTY CONSULTANT AT THE TIME THE PRODUCTS ARE PURCHASED FROM THE COMPANY:

Suggested retail price	\$50.00
Beauty Consultant discount 50%	\$25.00
Beauty Consultant purchased cost	\$25.00
HST paid by the Beauty Consultant at the time of purchase (ON) ($\$50.00 \times 13\%$)	\$6.50

PRODUCT SOLD BY THE INDEPENDENT BEAUTY CONSULTANT TO HER CUSTOMER AT SUGGESTED RETAIL PRICE:

Suggested retail price	\$50.00
HST 13% charged and collected from her customer	\$6.50
HST paid by the Beauty Consultant at the time of purchase from the company	\$6.50

Therefore, when the Independent Beauty Consultant sells the products to her customer at the suggested retail price, the HST paid at the time products were purchased from the Company are completely recovered.

A. PRODUCT SOLD BY THE INDEPENDENT BEAUTY CONSULTANT TO HER CUSTOMER AT LESS THAN THE SUGGESTED RETAIL PRICE (TRADE DISCOUNT)

The base amount for the provincial sales tax and GST or HST calculation on products sold at a trade discount, is the suggested retail price less trade discount.

For this example, we will assume the following:

The Independent Beauty Consultant sells product with a suggested retail price of \$65.00 and gives her customer a 10% discount. The HST is calculated as follows:

Suggested retail price	\$65.00
Trade discount (10% x \$65.00)	\$6.50
Suggested retail price less trade discount	\$58.50
HST charged and collected from the customer (ON) ($\$58.50 \times 13\%$)	\$7.61
HST paid by the Beauty Consultant at the time of purchase (ON) ($\$65.00 \times 13\%$)	\$8.45
Refund claim of HST through the company ($\\$6.50 \times 13\%$)	\$0.84

B. THE INDEPENDENT BEAUTY CONSULTANT CONSUMES PRODUCT (ORIGINALLY PURCHASED FOR RE-SALE) FOR HER OWN USE:

The base amount for the provincial sales tax and GST or HST calculation on products consumed for the Independent Beauty Consultant's own use, is the cost to the Independent Beauty Consultant at the time of purchase from the company.

For this example, we will assume the following:

The Independent Beauty Consultant places an order of \$1,200.00 (at suggested retail price) at a 50% discount and consumes product at a suggested retail price of \$13.00 but which cost her \$6.50. The HST is calculated as follows:

Suggested retail price	\$13.00
Beauty Consultant discount at the time of purchase (50%)	<u>\$6.50</u>
Beauty Consultant purchased cost	\$6.50
HST paid by the Beauty Consultant at the time of purchase (ON) ($\$13.00 \times 13\%$)	\$1.69
Beauty Consultant (the consumer) absorbs ($\$6.50 \times 13\%$)	\$0.85
Refund claim of HST through the company ($\\$6.50 \times 13\%$)	\$0.84

C. THE INDEPENDENT BEAUTY CONSULTANT SELL PRODUCTS TO A FIRST NATION RESIDENT:

For the provincial sales tax and GST or HST purposes, First Nation Canadians living on the reserve are exempt. Therefore, when the Independent Beauty Consultant sells products to First Nation Canadians, the Independent Beauty Consultant does not collect the provincial sales tax nor the GST or HST from the customer.

For this example, we will assume the following:

The Independent Beauty Consultant sells product at the suggested retail price of \$230.00 to a First Nation Canadian living on a reserve. The HST is calculated as follows:

Suggested retail price	\$230.00
HST paid by the Beauty Consultant at the time of purchase (ON) ($\$230.00 \times 13\%$)	\$29.90
HST collected from the customer	\$0.00
Refund claim of HST through the company ($\\$6.50 \times 13\%$)	\$29.90

D. THE INDEPENDENT BEAUTY CONSULTANT PROVIDES A "HOSTESS CREDIT" TO HER HOSTESS:

A hostess credit (a value given to the hostess) is your way of thanking your hostess for holding a skin care class in her home. This value may be in the form of cash or product. The hostess credit should be determined on the basis of actual class and outside sales, and number of bookings.

The base amount for calculating the provincial sales tax and GST or HST using a hostess credit depends on the nature of the credit as outlined below:

(1) **Hostess credit – in the form of cash:**

For this example, we will assume the following:

The Independent Beauty Consultant holds a skin care class with sales at suggested retail of \$100.00 and two bookings are made. She provides her hostess with a 20% OR \$20.00 ($\$100.00 \times 20\%$) hostess credit. The hostess purchases \$50.00 worth of products at suggested retail. The hostess credit is given to the hostess in cash which is used to pay for a part of her order. The HST is calculated as follows:

Suggested retail price	\$50.00
HST charged and collected from the hostess (ON) ($\$50.00 \times 13\%$)	\$6.50

Hostess credit (20% x \$100.00)	<u>-\$20.00</u>
Total cost to hostess	\$36.50
HST paid by the Beauty Consultant at the time of purchase (ON) (\$50.00 x 13%)	\$6.50
Refund claim of HST through the company (\$6.50 x 13%)	\$0.00

In this example the Independent Beauty Consultant completely recovers from the hostess the full amount of HST paid by the Independent Beauty Consultant at the time of purchase of the product from the Company.

(2) Hostess credit – product in place of cash:

If, in place of cash, the Independent Beauty Consultant substitutes a product which retails for \$20.00, the Independent Beauty Consultant is considered the consumer of the product and, as in section (B), the provincial sales tax and the GST or HST are calculated on her cost. The HST is calculated as follows:

Product at suggested retail price	\$21.00
Beauty Consultant discount at the time of purchase (assumed to be 50%)	<u>\$10.50</u>
Cost of product to the Beauty Consultant	\$10.50
HST paid by the Beauty Consultant at the time of purchase (ON) (\$21.00 x 13%)	\$2.73
HST collected from the customer (hostess)	\$0.00
Beauty Consultant (the consumer) absorbs (\$10.50 x 13%)	\$1.37
Refund claim of HST through the company (\$10.50 x 13%)	\$1.36

In this example, the Independent Beauty Consultant recovers nothing from the hostess, but may claim a refund of \$1.36.

HOW TO CLAIM A SALES TAX ADJUSTMENT REBATE

It is important, at the outset, to understand that Mary Kay Cosmetics Ltd. is granting these tax rebates on **behalf** of the provincial sales tax and GST/HST authorities.

For that reason, we must ensure that all of the documentation required to support these rebates, are factual and properly prepared by her but not collected, by providing copies of customer “Sales Tickets” onto which will be noted:

The details covering the regular sale of product:

- Customer name, address, and signature
- Date, products sold, price, and amount
- Provincial sales tax, if applicable
- GST/HST
- Independent Beauty Consultant’s name and number

In addition, the following information should be shown, where applicable

- Discount – the amount of discount given
- Own use – the cost value or “purchase price”
- Sale to First Nation Canadian – the “Band” number
- Hostess credit – the amount of the credit given

Examples of completed “Sales Tickets” for each of these transactions are outlined on page seven.

Once these tax adjustment transactions have been accumulated, the Independent Beauty Consultant should then complete every three months, the sales tax adjustment rebate form. An example of a complete adjustment from is attached for your guidance. Blank copies of this form are available from the MKOC under business forms.

The completed sales tax rebate form, original copy, signed by the Independent Beauty Consultant, along with the copies of the sales slips noted above, should be mailed or sent by courier to Mary Kay Cosmetics Ltd., 2020 Meadowvale Blvd., Mississauga, ON, L5N 6Y2, Attention: Sales Tax Rebate.

We will review the rebate form along with the attached copies of the sales slips and after verification of the amount involved, and we will add the applicable rebate to your account which can be applied towards an order or added to your monthly direct deposit with your monthly commission payment.

SAMPLES

DISCOUNT

5427567

Jane Smith
CUSTOMER NAME / NOM DU CLIENT (PRINT FIRMLY / ÉCRIRE LISIÈLEMENT EN APPUYANT)

123 Main Street
ADDRESS / ADRESSE

Toronto ON L5N 2M6
CITY / VILLE PROV. POSTAL CODE CODE POSTAL

04/30/14
DATE OF SALE DATE DE LA VENTE

Linda Brown
HOSTESS NAME / NOM DE L'HÔTESSE

CREDIT CARD CHEQUE CASH/COMPTANT

Janesmith
CUSTOMER SIGNATURE DU CLIENT

YES! I'd love to be on your preferred customer mailing list.
OUI! J'aimerais figurer dans votre liste de clientes privilégiées.

QTY. / QTÉ	DESCRIPTION	PRICE / PRIX	AMOUNT / MONTANT
1	TimeWise 3-in-1 Cleanser	30.00	30.00
1	TimeWise Age-Fighting Moisturizer	35.00	35.00
			65.00
	Less 10% discount		6.50

THE ISSUER OF THE CARD IDENTIFIED ON THIS ITEM IS AUTHORIZED TO PAY THE AMOUNT SHOWN AS TOTAL UPON PROPER PRESENTATION. I PROMISE TO PAY SUCH TOTAL (TOGETHER WITH ANY OTHER CHARGES DUE THEREON) SUBJECT TO AND IN ACCORDANCE WITH THE AGREEMENT GOVERNING THE USE OF SUCH CARD.
 SUR PRÉSENTATION CONFORME, L'ÉMETTEUR DE LA CARTE IDENTIFIÉE CI-DESSUS EST AUTORISÉ À PAYER LE MONTANT FIGURANT AU TOTAL. JE PROMETS DE PAYER LE TOTAL (AINSI QUE TOUT AUTRE MONTANT À PAYER) CONFORMÉMENT AUX CONDITIONS RÉGISSANT L'UTILISATION DE CETTE CARTE.

N. Richard RA6873
INDEPENDENT BEAUTY CONSULTANT NAME / NOM DE LA CONSEILLÈRE EN SOINS DE BEAUTÉ INDÉPENDANTE NUMBER / N°

5872 King Street Toronto ON L5N 3X7
ADDRESS / ADRESSE PHONE NO. / TÉL. 416-555-7673

nrichard@gmail.com
EMAIL ADDRESS / ADRESSE DE COURRIER ÉLECTRONIQUE

ADJUSTMENTS	
SUB / SOUS TOTAL	58.50
GST / TPS / HST / TVH	7.61
PST / TVP	
PST ON GST / TVP SUR TPS	
SHIPPING / EXPÉDITION	
TOTAL	66.11

A copy of the statement of cancellation rights can be found on page five of this sales slip, and will be given to you with your receipt.
Vous trouverez en page cinq de cette facture une copie de l'énoncé des droits de résiliation qui vous sera remis avec votre reçu.

INDEPENDENT BEAUTY CONSULTANT COPY
COPIE DE LA CONSEILLÈRE EN SOINS DE BEAUTÉ INDÉPENDANTE

Mary Kay Cosmetics, Ltd., / Les Cosmétiques Mary Kay Itée © 2001 7194 See overleaf / Voir Verso

SAMPLES

HOSTESS CREDIT - PRODUCT

5427572

Linda Brown
CUSTOMER NAME / NOM DU CLIENT (PRINT FIRMLY / ÉCRIRE LISIBLEMENT EN APPUYANT)

CREDIT CARD CHEQUE CASH/COMPTANT EXP / DATE

321 Main Street
ADDRESS / ADRESSE

Toronto ON L5N2M6 Linda Brown
CITY / VILLE PROV. POSTAL CODE CODE POSTAL CUSTOMER SIGNATURE DU CLIENT

04/30/14 Linda Brown
DATE OF SALE DATE DE LA VENTE HOSTESS NAME / NOM DE L'HÔTESSE

YES! I'd love to be on your preferred customer mailing list.
OUI! J'aimerais figurer dans votre liste de clientes privilégiées.

QTY. / QTÉ	DESCRIPTION	PRICE / PRIX	AMOUNT / MONTANT
1	Lash Love Mascara - Black	21.00	21.00
	Less hostess credit		21.00

THE ISSUER OF THE CARD IDENTIFIED ON THIS ITEM IS AUTHORIZED TO PAY THE AMOUNT SHOWN AS TOTAL UPON PROPER PRESENTATION. I PROMISE TO PAY SUCH TOTAL (TOGETHER WITH ANY OTHER CHARGES DUE THEREON) SUBJECT TO AND IN ACCORDANCE WITH THE AGREEMENT GOVERNING THE USE OF SUCH CARD.
 SUR PRÉSENTATION CONFORME, L'ÉMETTEUR DE LA CARTE IDENTIFIÉE CI-DESSUS EST AUTORISÉ À PAYER LE MONTANT INDIQUÉ AU TOTAL. JE PROMETS DE PAYER LE TOTAL (AINSI QUE TOUT AUTRE MONTANT À PAYER) CONFORMÉMENT AUX CONDITIONS RÉGISSANT L'UTILISATION DE CETTE CARTE.

N. Richard RA6873
INDEPENDENT BEAUTY CONSULTANT NAME NUMBER / N°
 NOM DE LA CONSEILLÈRE EN SOINS DE BEAUTÉ INDÉPENDANTE

5872 King Street, Toronto ON
INDEPENDENT BEAUTY CONSULTANT'S MERCHANT NUMBER NUMÉRO DE COMMERÇANT DE LA CONSEILLÈRE EN SOINS DE BEAUTÉ INDÉPENDANTE
 L5N 3X7 PHONE NO. / TÉL. 416-555-7673

nrichard@gmail.com
EMAIL ADDRESS / ADRESSE DE COURRIER ÉLECTRONIQUE

ADJUSTMENTS	
SUB / SOUS TOTAL	0.00
GST / TPS / HST / TVH	
PST / TVP	
PST ON GST / TVP SUR TPS	
SHIPPING / EXPÉDITION	
TOTAL	0.00

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**INDEPENDENT BEAUTY CONSULTANT COPY
 COPIE DE LA CONSEILLÈRE EN SOINS DE BEAUTÉ INDÉPENDANTE**

**MARY KAY COSMETICS, LTD.
SALES TAX ADJUSTMENT REBATE FORM
PROVINCIAL SALES TAX, GOODS AND SERVICES TAX
OR THE HARMONIZED SALES TAX**

DATE: July 15, 2014

TO: Mary Kay Cosmetics Ltd.
2020 Meadowvale Boulevard
Mississauga, Ont. L5N 6Y2
Attn: Resource Centre

FROM: N. Richard
Independent Beauty Consultant Name
RA 6873
Beauty Consultant Number
April 1 - June 30, 2014
Period Covered By Claim

Reason for claim:

A. PRODUCT SOLD AT LESS THAN THE SUGGESTED RETAIL PRICE (TRADE DISCOUNT)

Total amount of customer discount \$ 6.50 (1)
GST/HST Rebate Claimed, Tax 13 % x (1) = Amount \$ 0.84 (a)
PST Rebate Claimed, Prov ON Tax _____ % x (1)* = Amount \$ _____ (b)

B. CONSUMED PRODUCTS ORIGINALLY PURCHASED FOR RE-SALE

Total amount of Beauty Consultant discount on "Own Use" products \$ 6.50 (2)
GST/HST Rebate Claimed, Tax 13 % x (2) = Amount \$ 0.84 (c)
PST Rebate Claimed, Prov ON Tax _____ % x (2)* = Amount \$ _____ (d)

C. PRODUCTS SOLD TO NATIVE INDIANS

Total retail value of product sold to Native Indians \$ 230.00 (3)
GST/HST Rebate Claimed, Tax 13 % x (3) = Amount \$ 29.90 (e)
PST Rebate Claimed, Prov ON Tax _____ % x (3)* = Amount \$ _____ (f)

D. PRODUCTS USED FOR HOSTESS CREDIT

Total amount of Beauty Consultant Discount on Hostess Credit Products \$ 10.50 (4)
GST/HST Rebate Claimed, Tax 13 % x (4) = Amount \$ 1.36 (g)
PST Rebate Claimed, Prov ON Tax _____ % x (4)* = Amount \$ _____ (h)

*For Consultants who reside in the provinces of Quebec or P.E.I., please add the applicable GST to the base amount before calculating the PST rebate claimed.

Total GST/HT Rebate Claimed (a) + (c) + (e) + (g) Amount \$ 32.94
Total PST Rebate Claimed (b) + (d) + (f) + (h) Amount \$ _____

I hereby certify that the above facts are true and correct.

N. Richard
Independent Beauty Consultant Signature

(416) 555-7673
Telephone Number

5872 King Street, Toronto ON L5N 3X7
Beauty Consultant Address