



Transition to Harmonized Sales Tax - Information for Businesses

Ontario



Canada Revenue
Agency

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Canada

Introduction

- The provinces of Ontario and British Columbia have agreed to implement the harmonized sales tax (HST), which would replace existing provincial sales taxes and the federal goods and services tax in those provinces beginning **July 1, 2010** and would be administered by the Canada Revenue Agency.
- Legislation to enact the HST has been passed into law by the Governments of Canada and Ontario. Similar legislation is expected to be introduced soon in the province of British Columbia and, subject to legislative approval, would also provide for the implementation of HST in British Columbia beginning July 1, 2010.

Overview

- Harmonized Sales Tax (HST)
 - July 1, 2010 implementation
 - All businesses in Ontario and those supplying property and/or services in Ontario
 - The Provincial Sales Tax (PST) + Goods and Services Tax (GST) = HST
 - Operation would generally follow the same rules and tax base as the GST, with some exceptions.
 - HST is currently administered by the Canada Revenue Agency (CRA) in the following provinces:
 - Nova Scotia
 - New Brunswick
 - Newfoundland and Labrador

How would it work?

- The HST rates, including the provincial and federal portions, would be:

Breakdown	Ontario
Provincial portion	8%
Federal portion (GST)	5%
HST rate July 1, 2010	13%

How would HST affect your business?

- Need to update accounting systems
- New point-of-sale rebates
- Changes to the rebates for housing and public service bodies would affect qualified applicants
- Businesses already registered for GST are automatically registered for HST
- Registrants would report their HST according to their current GST filing frequency

GST/HST Mandatory Registration

- You sell taxable goods and services in Canada;

AND

- Your total taxable worldwide revenues are more than \$30,000 (\$50,000 Public Service Bodies) in the current calendar quarter or in the previous four consecutive calendar quarters;

OR

- You are a taxi or limousine operator whose fares are regulated by federal or provincial laws, regardless of total taxable worldwide revenues.

Tax Status of Supplies

Taxable Supplies

- 13%
 - most property and services
- 0% rated
 - prescription drugs, medical devices, basic groceries, certain agriculture and fishing products, exports

Exempt Supplies

- long-term rentals of residential housing, most educational services, most health care services, day care services, legal aid services, some supplies by charities and public sector bodies, most financial services

Transitioning to HST (Outline)

- General Rules
 - Key Dates
 - Tangible personal property (goods)
 - Services
 - Intangible personal property (e.g., contractual rights, patents)
 - Consideration due or paid

Transitioning to HST – Key Dates

- **June 18, 2009**
 - Date of release of transitional rules for housing
- **October 14, 2009**
 - Date of release of general transitional rules
- **October 15, 2009**
 - Date some non-consumers may have to start self-assessing the provincial part of the HST
- **May 1, 2010**
 - Date that HST would generally apply to amounts that become due or are paid without having become due for property and services supplied on or after July 1, 2010
- **July 1, 2010 – Implementation Date**
 - Date that HST would generally begin to apply

Consideration Due or Paid

- Whether HST is charged is dependent, in part, upon when consideration (the amount payable for a supply) becomes due
- Under the ETA, consideration for a supply becomes due on the earliest of:
 - The date of an invoice;
 - The day the supplier first issues that invoice in respect of the supply;
 - The day the supplier would have, but for an undue delay, issued that invoice in respect of the supply; and
 - The day the recipient of the supply is required to pay the consideration pursuant to a written agreement.
- Consideration is paid without having become due when:
 - The recipient pays the consideration before the date of an invoice or before a supplier issues, or would have issued, the invoice; or
 - The recipient is required to pay the consideration under a written agreement and no invoice has been issued

Sales of Tangible Personal Property (Goods)

- HST would apply when goods are delivered **and** ownership is transferred on or after July 1, 2010 **and** consideration becomes due or is paid without having become due on or after May 1, 2010.

Example:

On May 3, 2010, I sell and collect payment for a refrigerator and deliver it to my customer on July 15, 2010.

HST would apply to this sale.

Sales of Tangible Personal Property (Goods)

- HST would not apply when ownership is transferred **or** the good is delivered before July 1, 2010 regardless of when consideration becomes due or is paid without having become due.

Example:

On May 3, 2010, I sell a refrigerator and deliver it to my customer on June 15, 2010. The customer does not pay for the refrigerator until July 15, 2010.

HST would not apply.

Exchanges & Returns of Tangible Personal Property (Goods)

- Special rules apply to exchanges made on or after July 1, 2010 and before November 1, 2010 for goods purchased before July 1, 2010.
 - Exchanged good exceeds what was paid for the original good, then the HST would apply to the difference; and
 - Exchanged good is less than or equal to that paid for the original good, then the HST would not apply.
 - If provincial sales tax did not apply to the good purchased before July 2010, and the good is exchanged on or after July 1, 2010, then the provincial part of the HST would apply to the full consideration for the replacement good.

HST would apply to all exchanges on or after November 1, 2010.

Exchanges & Returns of Tangible Personal Property (Goods)

Example:

On May 3, 2010, I sell a refrigerator and deliver it to my customer on June 15, 2010.

On July 2, 2010, the refrigerator is returned and exchanged for a refrigerator costing \$100 more. HST would apply to this \$100 difference.

If the refrigerator is returned and exchanged for a refrigerator costing \$100 less, HST would not apply to this \$100 difference.

If the refrigerator is returned and exchanged on or after November 1, 2010, the HST would apply to the exchange.

Tangible Personal Property (Subscriptions)

- The HST would not apply to any consideration that is paid before July 2010 for a subscription to a newspaper, magazine or other periodical publication.
 - June 2010 to May 2011, paid in full on June 15, no HST
 - June 2010 to May 2011, paid in full on July 15, full HST
 - June 2010 to May 2011, paid monthly
 - June, GST would apply
 - July and onwards, HST would apply

Leases and Licences of Personal Property

- Tangible or intangible personal property supplied by way of lease, licence, or similar arrangement where the consideration is rent, royalties, or similar payments.
 - HST **would** apply to that part of a lease or license period (a lease interval) that begins on or after July 1, 2010.
 - HST would **not** apply to that part of a lease interval that begins before July 1, 2010 and ends before July 31, 2010

Example 1:

Lease interval starts July 1, 2010 and ends July 31, 2010

HST would apply.

Example 2:

Lease interval starts June 30, 2010 and ends July 30, 2010

HST would not apply.

Services - General Rule

- HST would apply to any consideration due or paid after May 1, 2010, for a supply of a service, when the consideration relates to the **portion** of the service performed on or after July 1, 2010.

Example:

Service for June and July 2010. 50% of the service is performed in June 2010. Invoiced August 2010.

HST would apply to 50% - the July portion

GST would apply to 50% - the June portion

Services - General Rule

- If **90% or more** of the service is performed before July 2010, **no HST** would be payable on the consideration for the service.

Example:

Service from May 1, 2010 to July 2, 2010, invoiced July 2, 2010.

HST would not apply to any part as more than 90% of the service was supplied before July 2010.

GST would apply to the total amount.

Services - Special Rules

Passenger Transportation Services

- The HST would not apply to any consideration for the part of a passenger transportation service that is performed on or after July 1, 2010, if the service is part of a continuous journey that begins before July 2010.

Example:

I sell a continuous journey in May 2010 that consists of a flight from Toronto to Halifax, a cruise around the Maritimes and up the St. Lawrence River to Montreal, and a flight from Montreal to Toronto. The flight from Toronto leaves on June 26, 2010 and the return flight leaves Montreal on July 3, 2010.

The HST does not apply to the consideration for any of the passenger transportation services in the continuous journey, since the continuous journey starts before July 2010.

Freight Transportation Services

- HST would not apply to any consideration for the part of a freight transportation service if the service is part of a continuous freight movement that begins before July 2010.

Example:

I provide a freight transportation service that starts on June 29, 2010, and ends on July 3, 2010. I am the only carrier of the property and I invoice my client for the service on July 15, 2010.

The HST does not apply to the consideration for the freight transportation service, since it is a continuous freight movement that begins before July 2010.

Intangible personal property

- A sale of intangible personal property would be subject to the HST if the consideration for the supply becomes due, or is paid without having become due, on or after July 1, 2010.
- Examples of intangible personal property :
 - Contractual rights
 - Patents
- Special rules for :
 - Transportation passes
 - Memberships
 - Admissions

Passenger Transportation Passes

- On or after May 1, 2010, HST would apply where the pass period:
 - begins on or after July 1, 2010; or
 - begins before July 2010 and ends after July 2010 to any part of the pass period on or after July 1, 2010.
- The HST would not apply if the pass period begins before July 2010 and ends before August 2010.
- Municipal transit tickets and transit passes are not subject to GST/HST.

Passenger Transportation Passes

Example 1:

I operate a commercial inter-city bus service. I sell bus passes that provide my customers with unlimited inter-city travel for four months. I sell a pass on May 20, 2010, for use from June 1, 2010 to September 30, 2010.

Since the pass covers a period that starts before July 2010, and that ends after July 31, 2010, the HST would apply to the portion of the consideration for the pass that covers the period on or after July 1, 2010 (i.e., for three of the four months).

Passenger Transportation Passes

Example 2:

I operate a commercial inter-city bus service. I sell bus passes that provide my customers with unlimited inter-city travel for 30 days. I sell a pass on June 10, 2010, for use from June 15, 2010 to July 14, 2010.

The HST would not apply, since the pass covers a period that starts before July 2010, and ends before August 2010.

Admissions

- HST would apply to the consideration for a supply of an admission to a place of amusement, a seminar, an event or an activity that becomes due, or is paid without having become due, on or after May 1, 2010 to the extent that it relates to the part of the event or activity that occurs on or after July 1, 2010.
- However, the HST would not apply to the consideration for a supply of an admission if 90% or more of the event or activity to which the admission relates occurs before July 2010.

Admissions

Example 1:

I sell admissions in May 2010 to a 10-day event that begins on June 22, 2010, and ends on July 1, 2010.

The HST would not apply to the consideration for the admissions, since 90% or more of the event occurs before July 2010.

Example 2:

I sell admissions in May and June 2010 to a five-day event that begins on June 28, 2010, and ends on July 2, 2010.

Since less than 90% of the event occurs before July 2010, HST would apply to the portion of the event that occurs on or after July 1, 2010 (i.e., two of the five days).

Supply & Install Contracts

- A special rule applies where property and or services are supplied together as one supply.
 - If ownership or possession is transferred to a recipient before July 2010, and that property would not be subject to the HST under the general transitional rules if it were supplied separately, the supply of that property would be deemed to be a separate supply from the service or other property.

Supply & Install Contracts

Example:

I sell home theatre equipment to a customer on June 26, 2010. Installation of the equipment in the customer's home is part of the supply. The equipment is delivered to the customer on June 30, 2010 and installed on July 2, 2010.

The HST does not apply to the portion of the consideration attributable to the home theatre equipment, since the equipment is delivered to the customer before July 2010.

The HST does apply to the portion of the consideration attributable to the installation service, since the service is performed on or after July 1, 2010.

Collection and Accounting

- Consideration that becomes due, or is paid without having become due, **on or after May 1, 2010 and before July 2010**

- Supplier:
 - Supplier would be required to collect provincial part (8%) of HST from purchaser at time consideration becomes due;
 - Provincial part (8%) of HST would be deemed to be due on, and not to have been paid before, July 1, 2010;
 - Supplier accounts for provincial part of HST in GST/HST reporting period that includes July 1, 2010;
 - Supplier accounts for federal part (5% GST) in reporting period when consideration for supply **actually** became due, or was paid without becoming due.

Collection and Accounting

Example:

In May 2010 I sell an airline ticket for one-way travel between two cities in Ontario on August 1, 2010. The customer pays the fare plus HST at that time.

I account for the provincial part (8%) of the HST as if it was paid on July 1, 2010, i.e. in my reporting period that includes that date.

I account for the federal part (5% GST) in the reporting period the payment was actually made, i.e. May 2010.

Collection and Accounting

- Consideration that becomes due, or is paid without having become due, **on or after May 1, 2010 and before July 2010**
- Purchaser:
 - When HST is paid or payable by the purchaser who is a registrant in the above period, the purchaser is able to claim available input tax credits for provincial part of HST in the GST/HST reporting period of the purchaser that includes July 1, 2010;
 - For available GST input tax credits, purchaser would claim in reporting period that GST is paid or payable.

Requirement to self-assess provincial part of HST

- Consideration that becomes due, or is paid without having become due, **after October 14, 2009 and before May 2010 by non-consumers**
- Certain non-consumers would be required to self-assess the provincial part of HST for:
 - A supply of goods made by way of sale to the extent the goods are delivered, **and** ownership transferred to the non-consumer on or after July 1, 2010;
 - A supply of property by way of lease, licence or similar arrangement to the extent that the consideration is attributable to that part of a lease or licence interval that occurs on or after July 1, 2010 (unless lease interval begins before July 2010 and ends before July 31, 2010).

Requirement to self-assess provincial part of HST

- Consideration that becomes due, or is paid without having become due, **after October 14, 2009 and before May 2010** by non-consumers
- Certain non-consumers would be required to self-assess the provincial part of HST for:
 - A supply of service, to the extent that the consideration relates to the part of the service that is performed on or after July 1, 2010.
 - A supply of membership in a club, organization, or association to the extent that the consideration is attributable to the part of the membership period that occurs on or after July 1, 2010.
 - A supply of an admission to an event or activity to the extent that the consideration is for the part of the event or activity that occurs on or after July 1, 2010.

Requirement to self-assess provincial part of HST

Example:

In April 2010 a consultant enters into an agreement with a registrant who uses the Quick Method for a service to be performed in August 2010 for the amount of \$10,000. The consultant issues two invoices: one dated April 10, 2010 for the amount of \$2,000 and one dated August 10, 2010 for the amount of \$8,000.

GST applies to the amount that becomes due on April 10, 2010. Therefore, the consultant charges and accounts for the GST in its GST/HST return that includes April 10, 2010.

Requirement to self-assess provincial part of HST

In addition, the registrant has to self-assess the provincial part of the HST on the amount of \$2,000 because:

- it is not a consumer;
- the service is performed on or after July 1, 2010;
- the amount is paid after October 14, 2009 and before May 2010; and
- the registrant uses the Quick Method.

The registrant accounts for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010 if the return is due before November 2010.

Otherwise, the registrant would account for the provincial part of the HST by completing Form GST489, *Return for Self-Assessment for the Provincial Part of Harmonized Sales Tax (HST)* and paying that amount before November 2010.

Requirement to self-assess provincial part of HST

- Consideration that becomes due, or is paid without having become due, **after October 14, 2009 and before May 2010** by non-consumers
- Certain non-consumers would be required to self-assess the provincial part of HST for:
 - A supply of a passenger transportation pass to the extent that the consideration is for part of the pass period that occurs on or after July 1, 2010, and ends on or after August 1, 2010.
 - An imported taxable supply to the extent that the consideration is for goods supplied by way of sale that are delivered, made available or transferred on or after July 1, 2010, for services performed on or after July 1, 2010, or for the part of the lease interval of intangible personal property that occurs on or after July 1, 2010.

Consideration Due

- Persons required to self-assess the provincial part of the HST would account for that tax by the due date of their GST/HST return for the reporting period that includes July 1, 2010, if the due date of that return is before November 2010.
- In all other cases, the provincial part of the HST would be required to be self-assessed in prescribed form before November 2010.

Point-of-Sale Rebates

- Point-of-sale rebates for the Ontario part (8%) of the HST would be introduced for:
 - children's clothing and footwear
 - children's car seats and car booster seats
 - children's diapers
 - books (including audio books)
 - feminine hygiene products
 - print newspapers
 - qualifying prepared food and beverages ready for immediate consumption sold for a total price for all qualifying items of \$4 or less. Examples are salads, sandwiches, hot beverages, muffins and cookies
- The federal part (5%) of the HST would still be charged on these items

For additional information:

- Canada Revenue Agency Web-site
 - www.cra.gc.ca/harmonization
- CRA Business Enquiries Telephone
 - 1-800-959-5525