



CHARTERED ACCOUNTANTS LLP

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KNV TAX MEMO

HST (HARMONIZED SALES TAX)

On July 23, 2009 the government of BC announced that it intends to harmonize the Social Service Tax (“PST”) with the federal Goods and Services Tax (“GST”) effective July 1, 2010. The Harmonized Sales Tax (“HST”) will combine a 7% BC rate (“provincial portion”) with the 5% federal GST for a combined HST rate of 12%.

The BC Ministry of Finance and the Canada Revenue Agency (“CRA”) have issued a number of technical publications relating to the introduction of the HST and to the phase-out of the PST. For your reference, a list of some of the more important publications is included at the end of the memo along with a link to the document on the applicable tax authority’s website.

HIGHLIGHTS

1. HST will be based on the same rules as the GST – what is presently taxed for GST will be taxed for HST. This means that many services and some products that currently do not attract PST will attract the proposed tax.
2. Businesses engaged in commercial activity will generally be able to recover the HST paid on their business expenses. However, large businesses (sales greater than \$10 million including sales of associated persons) will be temporarily restricted from claiming input tax credits (“ITCs”) on the **provincial portion** of the HST on the purchase of the following items:
 - Energy, except purchased by farmers or used to produce goods for resale
 - Telecommunication services other than internet access and toll-free numbers
 - Road vehicles weighing less than 3,000 kilos (and parts and certain services)
 - Food, beverages and entertainment

The restricted ITCs do not apply to items purchased for resale.

Large businesses will be required to separately identify and report the restricted ITCs on their GST/HST return. To simplify compliance large businesses will be able to elect to use an estimation, installment and reconciliation approach to account for restricted ITCs. Optional proxy methods will also be available to help determine the portion of certain expenses that are not subject to the restrictions.

For more information on this topic refer to HST Notice #4 published by the BC Ministry of Finance (for the link to the document on the Ministry’s website please see the listing at the end of the memo).

3. Transitional rules to determine the application of HST, GST and PST to transactions that straddle the HST implementation date of July 1, 2010 have been published. All suppliers and purchasers should be aware of these rules to ensure that the correct tax is applied in the circumstances.

For more information on this topic refer to HST Notices #1 and #3 as well GST/HST Notices No. 246 and 247 published by the BC Ministry of Finance and the CRA, respectively (for the link to the documents on the applicable websites please see the listings below).

4. In order to charge the correct amount of tax, suppliers will be required to determine the province in which a taxable supply of property (including intellectual and intangible property) or a service is made. Revised place of supply rules have been introduced for this purpose. These rules should be reviewed carefully, especially in terms of the supply of intangible property and services.

For instance, after June 2010, a taxable supply of property that is considered to be made in BC will attract HST @ 12%. However, if the same property is determined to be supplied in Alberta or Ontario GST @ 5% and HST @ 13% would apply, respectively.

For more information on this topic refer to GST/HST Technical Bulletin 103 published by the CRA (for the link to the document on the website please see the listing below).

5. CRA recently announced that certain GST/HST registrants will be required to file their GST/HST returns electronically. This requirement generally includes registrants with annual taxable supplies greater than \$1,500,000 (including supplies made by associates). The requirement will come into effect for reporting periods that end after June 2010.

For more information on this topic refer to GST/HST Notice No. 249 published by the CRA (for the link to the document on the website please see the listing below).

6. Point-of-sale rebates for the **provincial portion** of the HST will automatically be deducted at the point of sale for the following items:

- Gasoline, diesel fuel, marine diesel and aviation fuel
- Children sized clothing and footwear
- Books
- Children's car seats and car booster seats
- Diapers and feminine hygiene products

7. Subject to some transitional rules, HST at the rate of 12% will apply to the purchase of a new home after June 2010. A partial rebate of the **provincial portion** of the HST paid on new homes will be available. The new housing rebate will be 71.43% of the **provincial portion** of HST paid up to a maximum of \$26,250. The rebate will be available regardless of the price of the new house or whether or not the new housing is to be owner occupied or rented. Houses valued at over \$525,000 will therefore be entitled to the maximum \$26,250 rebate.

Rebates for the federal portion of the HST (5%) will continue to be provided in the same manner as they are today.

8. Rebates of the **provincial portion** of the HST will be available to municipalities, universities, public colleges, school authorities, hospital authorities, charities and qualifying

non-profit organizations. BC will provide a 75% rebate to local government entities that qualify for the federal municipal GST rebate and to universities and public colleges; school authorities will receive a rebate of 87%; hospital authorities will receive a 58% rebate; registered charities and qualifying non-profit organizations will receive a 57% rebate.

Rebates for the federal portion of the HST (5%) will continue to be provided in the same manner as they are today.

9. After June 2010, the tax on private sales made in BC of vehicles, boats and aircraft will be at the rate of 12%.

PLANNING

1. Prior to the implementation of the HST businesses should consider the impact of the new tax on the following:
 - Budgets and cash flows
 - Sales, purchasing and other systems
 - Documentation
 - Pricing strategies
2. Those persons providing GST-exempt supplies (and consumers) should determine whether it is advantageous to purchase goods and services that are currently not subject to PST before July 2010.
3. Businesses that are able to recover the GST may want to delay purchasing goods and services that will be eligible for input tax credits under the HST until July 2010. Businesses may also wish to examine the benefit of leasing goods rather than purchasing the goods prior to July 2010.
4. Accounts receivable and billing point-of-sale systems should be reviewed in detail:
 - Different rates of tax – 5%, 12%, 13% - may require adjustments to your systems and to the issuance of sales invoices.
 - Systems may have to accommodate the point-of-sale rebates.
 - PST rates should remain in the system for a transitional period to accommodate adjustments made after implementation.
 - New tax codes may need to be introduced to facilitate the broader scope of HST.
 - Training of key personnel may be required.
 - Testing the systems prior to and after HST implementation is recommended.
5. Accounts payable systems should be reviewed in detail:
 - Programming may be required to track various rates of tax – 5%, 12% and 13% in Ontario and the Maritime Provinces.
 - The federal and provincial portion of HST will likely need to be tracked separately by large businesses with regards to the restricted ITC provisions.
 - Templates for employee expense reports may need to be modified.
 - Training of key personnel may be required.
 - Testing the system prior to and after HST implementation is required.

6. Contracts should be revisited:

- Review of the tax clauses is recommended to see whether the wording is adequate.
- Establish whether a contract is crafted on a tax extra vs. tax-inclusive basis is recommended to determine which is most advantageous and modify where possible.
- Review contracts that straddle the HST implementation date is recommended to ensure the correct tax is applied.

If you have any questions regarding HST, or any sales tax matter, please contact us through your KNV advisor at 604-536-7614 or 1-800-761-7772.

TECHNICAL PUBLICATIONS

1. HST Notice #1 – The General Transitional Rules for British Columbia HST
http://www.sbr.gov.bc.ca/documents_library/notices/HST_Notice_001.pdf
2. HST Notice #3 – Residential Housing, New Housing Rebates and Transitional Rules for British Columbia HST
http://www.sbr.gov.bc.ca/documents_library/notices/HST_Notice_003.pdf
3. HST Notice #4 – Temporary Recapture of Input Tax Credits Requirement
http://www.sbr.gov.bc.ca/documents_library/notices/HST_Notice_004.pdf
4. GST/HST Notice No. 246 – HST for BC – Q&A on Housing Rebates and Transitional Rules for Housing and Other Real Property Situated in BC
<http://www.cra-arc.gc.ca/E/pub/gi/notice246/notice246-e.pdf>
5. GST/HST Notice No. 247 – HST for Ontario and BC – Q&A on General Transitional Rules for Personal Property and Services
<http://www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf>
6. GST/HST Technical Information Bulletin 103 – HST – Place of Supply Rules for Determining Whether a Supply is Made in a Province
<http://www.cra-arc.gc.ca/E/pub/gm/b-103/b-103-e.pdf>
7. GST/HST Notice No.249 – Q&A on the New reporting Requirements for GST/HST Registrants
<http://www.cra-arc.gc.ca/E/pub/gi/notice249/notice249-e.pdf>

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