



OCTOBER 8, 2009

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%.

Detailed information concerning the HST has yet to be released, e.g., the transitional and rebate rules for transactions that will straddle the July 1, 2010 implementation date. Nevertheless, businesses and consumers alike should take the time now to study the HST to determine how the tax will affect them and to develop strategies to take advantage of, or to cope with, the new tax.

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 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

Restrictions do not apply to items purchased for resale.

3. Point-of-sale rebates for the **provincial portion** of the HST:
 - 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
4. BC will provide a provincially administered rebate of the **provincial portion** of the HST on residential energy (electricity and natural gas) similar to the existing PST exemption for energy purchased for residential use.

5. A partial rebate of the **provincial portion** of the HST for 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 \$20,000. 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 \$400,000 or more will therefore be entitled to the maximum \$20,000 rebate.
6. Rebates of the **provincial portion** of the HST will be available to municipalities, charities and qualifying non-profit organizations. BC will provide a 75% rebate for local government entities that qualify for the federal municipal GST rebate and a rebate of 57% for registered charities and qualifying non-profit organizations.
7. Besides the PST, other provincial taxes and levies will be eliminated when the HST is introduced. These include: hotel room tax, the Innovative Clean Energy (ICE) levy, the Sustainable Environment Fund (SEF) levy on batteries, the Passenger Vehicle Rental Tax (PVRT), motor vehicle surtax and the Greater Vancouver Parking Sales Tax.
8. BC will retain a provincial sales tax on the private sale of used vehicles, aircraft and boats.
9. A refundable BC HST Low Income Tax Credit will be paid with the current GST credit to offset the impact of the tax on low income individuals and families.

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.

Businesses that provide goods and services currently exempt from PST may consider billing customers promptly for work performed prior to July 2010 so as to minimize the portion of these bills that will be subject to HST.

The transitional rules will have an impact on these decisions. Once the rules are announced, businesses should carefully review them to ascertain their impact.

4. Accounts receivable and billing point-of-sale systems need to be reviewed in detail:

- Different rates of tax – 5%, 12%, 13% - will require adjustments to the systems and to the issuance of sales invoices.
- Systems will 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 is required.
- Testing the systems prior to and after HST implementation is required.

5. Accounts payable systems need to be reviewed in detail:

- Programming will 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 with regards to the restricted input tax credit provisions.
- Templates for employee expense reports will need to be modified.
- Training of key personnel is required.
- Testing the system prior to and after HST implementation is required.

6. Contracts need to be revisited:

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

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

THE INFORMATION PROVIDED IN THIS PUBLICATION IS INTENDED FOR GENERAL PURPOSES ONLY. CARE HAS BEEN TAKEN TO ENSURE THE INFORMATION HEREIN IS ACCURATE, HOWEVER NO REPRESENTATION IS MADE AS TO THE ACCURACY THEREOF. THE INFORMATION SHOULD NOT BE RELIED UPON TO REPLACE SPECIFIC PROFESSIONAL ADVICE.