



Transition to Harmonized Sales Tax in Ontario – Personal Property and Services

 Canada Revenue Agency
Agence du revenu du Canada

Canada

This presentation reflects the proposed tax changes as announced in the 2009 Ontario Budget and the following notices released by the Government of Ontario:

- Information Notice No. 1, *Single Sales Tax* issued on June 3, 2009
- Information Notice No. 3, *General Transitional Rules for Ontario HST* issued on October 14, 2009

Any commentary in this presentation should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

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3. Transitional rules
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Outline

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5. Input tax credits (ITCs)
6. CRA publications

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Introduction

Federal part	5%
Provincial part	8%
HST rate	13%

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Introduction

Transitional rules for property and services refer to these important dates:

- **October 14, 2009:** Date the Government of Ontario announced the general transitional rules
- **May 1, 2010:** Date the HST will apply on the consideration for certain property and services provided by businesses on or after July 1, 2010
- **July 1, 2010:** Implementation date of the HST in Ontario

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Introduction

What stays the same:

- Property and services previously subject to GST will be subject to HST
- Zero-rated or exempt supplies of property and services will still be zero-rated and exempt
- Registrants will use the same GST/HST forms, returns and reporting periods
- Registration, elections and approvals will still be in effect

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Introduction

For businesses supplying property and services in Ontario:

- Update accounting systems and cash registers for HST rate
- Update systems for point-of-sale rebates
- Consider whether transitional rules apply to supplies being made
- Consider whether self-assessment is required

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General GST/HST concepts

Transitional rules based on the earlier of:

- when consideration becomes due
- when consideration is paid without having become due

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General GST/HST concepts

Generally, consideration becomes due on the earliest of:

- the date of the invoice
- the day the supplier first issues the invoice
- if undue delay in issuing the invoice, the day the supplier would have issued the invoice
- the day the recipient is required to pay under a written agreement

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General GST/HST concepts

Example

- A supplier enters into a written agreement with a client
- Under the agreement, the client is required to pay the total amount on April 30th
- The supplier issues an invoice dated April 15th

The amount becomes due on April 15th

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General GST/HST concepts

For property supplied by way of lease or licence under an agreement in writing, consideration becomes due on the day the recipient is required to pay the consideration according to the agreement

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lease
licence

General GST/HST concepts

Example

- A supplier enters into a written agreement with a client for the lease of machinery
- The client is required to make monthly payments on the 30th of each month
- For the payment due on April 30th, the supplier issues an invoice on April 15th

The amount becomes due on April 30th

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General GST/HST concepts

Consideration is paid without having become due when a 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

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General GST/HST concepts

Example

- A supplier enters into a written agreement with a client for a supply of a service
- Under the agreement, the client is required to pay the amount on April 30th
- No invoice is issued
- The client pays on April 15th

April 15th is the day the consideration is paid without having become due

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General GST/HST concepts

When more than one invoice is issued or more than one payment is made, each invoice or payment must be considered separately

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General GST/HST concepts

Before determining if a transitional rule applies:

- determine whether there is a single supply or multiple supplies
- determine what the supply is

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General GST/HST concepts

Before determining if a transitional rule applies:

- determine whether the supply is made in Ontario
- determine when the supply is made

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Transitional rules – Sales of goods

When the consideration becomes due or is paid on or after May 1, 2010:

- GST applies when goods are delivered **or** ownership transfers before July 2010
- HST applies when goods are delivered **and** ownership transfers on or after July 1, 2010

GST applies when the consideration becomes due or is paid before May 2010

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Transitional rules – Sales of goods

Example

- An individual buys furniture on June 30, 2010
- Supplier issues an invoice on June 30, 2010
- Furniture is delivered on July 5, 2010
- Ownership transfers at time of delivery

HST applies

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Transitional rules – Sales of goods

Example

- An individual buys a boat on May 15, 2010
- Under the terms of the agreement, the individual must make twelve monthly payments starting on June 1, 2010
- The boat is delivered on June 1, 2010
- The individual does not own the boat until the consideration is paid in full

GST applies to all payments

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Transitional rules – Sales of goods

Exchanges

Goods purchased before July 2010 and exchanged on or after July 1, 2010 but before November 2010:

If the original purchase was subject to PST:

- If the consideration for the exchanged good exceeds the consideration for the original good, HST applies to the difference
- If the consideration for the exchanged good is less than or equal to the consideration for the original good, HST does not apply

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Transitional rules – Sales of goods

Exchanges

If the original purchase was not subject to PST, HST applies to the full consideration for the exchanged good

HST applies to the full consideration for any exchange on or after **November 1, 2010**

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Transitional rules – Sales of goods

Example

- An item is sold in June 2010 for \$100
- The item is subject to PST
- In July 2010, the customer exchanges it for another one that costs \$150

HST applies to the \$50 difference

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Transitional rules – Sales of goods

Example

- An item is sold in June 2010 for \$100
- The item is subject to PST
- In July 2010, the customer exchanges it for another one of equal value

HST does not apply

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Transitional rules – Sales of goods

Example

- An item is sold in June 2010 for \$100
- The item is **not** subject to PST
- In July 2010, the customer exchanges it for another one that costs \$150

HST applies to the \$150

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Transitional rules – Sales of goods

Example

- An item is sold in June 2010 for \$100
- The item is subject to PST
- In November 2010, the customer exchanges it for another one of equal value

HST applies to the \$100

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Transitional rules – Sales of goods

Returns

When goods (subject to PST) are purchased before July 2010 and returned on or after July 1, 2010, the customer may be entitled to receive:

- a refund of PST
- a refund of the GST according to the general GST rules

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Transitional rules – Sales of goods

Example

- An item is sold in June 2010
- The item is subject to PST and GST
- The customer returns it in July 2010

The customer gets a refund of the PST and GST

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Transitional rules – Sales of goods

Subscriptions to periodical publications

- GST applies to consideration paid before July 2010
- HST applies to consideration paid on or after July 1, 2010

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Transitional rules – Sales of goods

Example

- In June 2010, a person pays for an annual subscription to a magazine
- Editions of the magazine will be delivered each month for twelve months starting in July 2010

GST applies

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Transitional rules – Sales of goods

Example

- A publisher sells a subscription to a magazine
- The publisher issues an invoice on June 30, 2010
- The subscriber pays the amount on July 6, 2010

HST applies

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Transitional rules – Leases and licences

Rules apply to goods and certain intangible personal property supplied by way of lease, licence or similar arrangement, the consideration of which is rent, royalties or similar payments

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Transitional rules – Leases and licences

- GST applies when the lease interval begins before July 2010 and ends before July 31, 2010
- HST applies when the lease interval begins on or after July 1, 2010

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Transitional rules – Leases and licences

When the lease interval begins before July 2010 and ends on or after July 31, 2010:

- GST applies to the consideration that becomes due or is paid before May 2010
- When the consideration becomes due or is paid on or after May 1, 2010:
 - GST applies to the consideration for that part of the lease interval that occurs before July 2010
 - HST applies to the consideration for that part of the lease interval that occurs on or after July 1, 2010

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Transitional rules – Leases and licences

Example

- Car lease payment due on the 15th of each month
- Payment made for the lease interval from June 16, 2010 to July 15, 2010

GST applies

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Transitional rules – Leases and licences

Example

- Equipment leased from May 1, 2010 to October 31, 2010 for \$1,200
- Lease interval is for six months
- Lease payment due on May 1, 2010

GST applies on \$400

HST applies on \$800

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Transitional rules – Services

General transitional rules for services apply to all services other than:

- passenger transportation services
- freight transportation services
- prepaid funeral and cemetery services

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Transitional rules – Services

GST applies when 90% or more of the service is performed before July 2010

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Transitional rules – Services

When more than 10% of the service is performed on or after July 1, 2010:

- GST applies to the consideration that becomes due or is paid before May 2010
- When the consideration becomes due or is paid on or after May 1, 2010:
 - GST applies to the consideration that relates to the portion of the service performed before July 2010
 - HST applies to the consideration that relates to the portion of the service performed on or after July 1, 2010

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Transitional rules – Services

Example

- A couple hires a painter to paint their house
- The service is performed from June 2, 2010 to July 2, 2010
- The painter invoices the total amount on July 2, 2010

GST applies

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Transitional rules – Services

Example

- A non-profit organization runs a week-long overnight children's camp from June 28, 2010 to July 4, 2010 (7 days)
- The organization charges \$300 for the week
- Full amount becomes due on May 15, 2010

GST applies on \$128.57 ($\$300 \times 3/7$ days)

HST applies on \$171.43 ($\$300 \times 4/7$ days)

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Transitional rules – Intangible personal property

Transitional rules apply to intangible personal property:

- supplied by way of sale
- supplied by way of lease, licence and similar arrangement where the payments do not vary with the amount of use or profits from the property

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Transitional rules – Intangible personal property

- GST applies when the consideration becomes due or is paid before July 2010
- HST applies when the consideration becomes due or is paid on or after July 1, 2010

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Transitional rules – Intangible personal property

Example

- A Web site operator sells rights to use digital picture files
- Customers must pay before downloading the files
- On June 25, 2010, a customer pays for that right
- On July 2, 2010, the customer downloads the files

GST applies

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Transitional rules – Intangible personal property

Example

- Business sells annual subscriptions to access on-line editions of books
- Subscriber pays by making payments on June 1, 2010, July 1, 2010 and August 1, 2010

GST applies to June payment

HST applies to July and August payments

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Transitional rules – Intangible personal property

Example

- A golf club charges an initiation fee for the right to acquire a membership in the club
- The club issues an invoice dated April 2, 2010

GST applies

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Transitional rules – Admissions

Transitional rules apply to an admission to:

- a place of amusement
- a seminar
- an event
- an activity

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Transitional rules – Admissions

GST applies when 90% or more of the event takes place before July 2010

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Transitional rules – Admissions

When more than 10% of the event takes place on or after July 1, 2010:

- GST applies to the consideration that becomes due or is paid before May 2010
- When the consideration becomes due or is paid on or after May 1, 2010
 - GST applies to the consideration that relates to the portion of the event that takes place before July 2010
 - HST applies to the consideration that relates to the portion of the event that takes place on or after July 1, 2010

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Transitional rules – Admissions

Example

- Admissions to a 10-day event sold on June 15, 2010
- Event begins on June 22, 2010 and ends on July 1, 2010

GST applies

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Transitional rules – Admissions

Example

- Admissions to a rock concert sold to a consumer on April 15, 2010
- Event takes place on July 15, 2010

GST applies

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Transitional rules – Admissions

Example

- Admissions to a concert sold on May 15, 2010
- Concert takes place on July 15, 2010

HST applies

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Transitional rules – Admissions

Example

- Admissions to an event sold to a group organizer
- Event takes place on June 20, 2010
- Invoice issued on July 2, 2010 and amount paid on July 15, 2010

GST applies

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Transitional rules – Admissions

Example

- Admissions to a five-day event sold on May 15, 2010
- Each admission costs \$100
- Event takes place from June 28, 2010 to July 2, 2010

GST applies on \$60 ($\$100 \times 3/5$ days)

HST on \$40 ($\$100 \times 2/5$ days)

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Transitional rules – Memberships

Different transitional rules apply to memberships and lifetime memberships

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Transitional rules – Memberships

GST applies when 90% or more of the membership period is before July 2010

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Transitional rules – Memberships

When more than 10% of the membership period is on or after July 1, 2010:

- GST applies to the consideration that becomes due or is paid before May 2010
- When the consideration becomes due or is paid on or after May 1, 2010:
 - GST applies to the consideration that relates to the portion of the membership period that is before July 2010
 - HST applies to the consideration that relates to the portion of the membership period that is on or after July 1, 2010

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Transitional rules – Memberships

Example

- Membership in a fitness club sold on April 2, 2010
- Membership entitles the member to use the facilities from April 5, 2010 to July 4, 2010
- The fee is payable in full on April 2, 2010

GST applies

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Transitional rules – Memberships

Example

- On May 8, 2010, an association issues invoices for renewal of annual memberships
- Membership costs \$600
- Membership period is June 1, 2010 to May 31, 2011

GST applies on \$50 ($\$600 \times 1/12$ months)

HST applies on \$550 ($\$600 \times 11/12$ months)

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Transitional rules – Memberships

Example

- On April 10, 2010, a golf club issues invoices for renewal of memberships
- Each membership costs \$1,000
- Membership period is May 1, 2010 to October 31, 2010

GST applies

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Transitional rules – Memberships

Lifetime memberships

When consideration becomes due or is paid after October 14, 2009 and before July 2010 for a lifetime membership, HST applies to the amount that exceeds 25% of the total consideration for the lifetime membership

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Transitional rules – Memberships

Example

- An association sells lifetime memberships for \$3,000
- The fees are payable in three instalments of \$1,000
- First instalment payment due on December 1, 2009
- Second and third instalment payments due on December 1, 2010 and December 1, 2011

HST applies to part of the instalment (\$250) due on December 1, 2009 and GST applies to the balance

HST applies to instalments of \$1,000 due in 2010 and 2011

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Transitional rules – Memberships

Example

- An association sells lifetime memberships for \$5,000
- The fees are payable in five monthly instalments of \$1,000 each
- First instalment payment due on June 1, 2010

GST applies to instalment payment made in June 2010

HST applies to the four other instalment payments

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Transitional rules – Imported goods

HST applies to:

- non-commercial goods imported by a resident of Ontario on or after July 1, 2010
- non-commercial goods imported by a resident of Ontario before July 2010 but accounted for under the *Customs Act* on or after July 1, 2010

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Transitional rules – Imported goods

Example

- A resident of Ontario purchases an item from the United States on June 28, 2010
- The item is a non-commercial good
- The item is accounted for on July 5, 2010

HST applies

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Transitional rules – Goods brought into Ontario

HST generally applies to specified motor vehicles or commercial goods brought into Ontario from outside Canada on or after July 1, 2010

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Transitional rules – Goods brought into Ontario

Residents of Ontario may have to self-assess the 8% provincial part of HST for property or services acquired outside Ontario for consumption, use or supply in Ontario on or after July 1, 2010

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Self
Assess

Accounting for the GST/HST

The previous rules explain whether GST or HST applies to supplies made in Ontario during the period that includes July 1, 2010

The following explains who accounts for the tax and when the tax is accounted for on prepayments

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Accounting for the GST/HST

When HST applies and the consideration becomes due or is paid on or after May 1, 2010 and before July 2010, suppliers account for:

- the 5% federal part of the HST in their GST/HST return according to the normal rules
- the 8% provincial part of HST in their GST/HST return for the reporting period that includes July 1, 2010

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Accounting for the GST/HST

Example

- A supplier sells a sailboat on June 24, 2010
- The purchaser pays the full amount at that time
- The sailboat is delivered, and ownership is transferred, in July 2010

The supplier accounts for:

- the 5% federal part of the HST in its reporting period that includes June 24, 2010 and
- the 8% provincial part of the HST in its reporting period that includes July 1, 2010

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Accounting for the GST/HST

Example

- A service is performed in August 2010
- The customer prepays \$1,000 on June 25, 2010
- The balance of \$2,000 is paid on August 13, 2010

For the amount paid in June, the supplier accounts for:

- the 5% federal part of the HST in its reporting period that includes June 25, 2010 and
- the 8% provincial part of the HST in its reporting period that includes July 1, 2010

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Accounting for the GST/HST

When the consideration becomes due or is paid after October 14, 2009 and before May 2010:

- suppliers charge the GST and account for the GST in their GST/HST return according to the normal rules
- certain purchasers have to self-assess the 8% provincial part of the HST on certain supplies

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Accounting for the GST/HST

Self-assessment of the 8% provincial part of HST for:

- sales of goods to the extent that goods are delivered and ownership is transferred on or after July 1, 2010
- property by way of lease or licence to the extent that the lease interval occurs on or after July 1, 2010
- services to the extent that the service is performed on or after July 1, 2010
- passenger transportation services when the continuous journey begins on or after July 1, 2010

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Accounting for the GST/HST

Self-assessment of the 8% provincial part of HST for:

- freight transportation service when the continuous freight movement begins on or after July 1, 2010
- membership to the extent that the membership period occurs on or after July 1, 2010
- admission to an event to the extent that the event occurs on or after July 1, 2010
- transportation pass to the extent that pass period occurs on or after July 1, 2010

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Accounting for the GST/HST

Self-assessment rule applies only to a non-consumer that:

- does not purchase the supply for consumption, use, or supply exclusively in its commercial activities
- is using a simplified accounting method to calculate its net tax
- is acquiring a supply that is subject to an input tax credit recapture of the 8% provincial part of the HST or that is subject to a net tax adjustment
- is a charity that uses the net tax calculation for charities
- is a selected listed financial institution

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Accounting for the GST/HST

A non-consumer accounts for the provincial part of HST either:

- on the GST/HST return for the reporting period that includes July 1, 2010 if the due date for that return is before November 2010
- by completing Form GST489 and paying that amount before November 2010

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Accounting for the GST/HST

Example

- A registrant who uses the Quick Method purchases security equipment on April 28, 2010
- The registrant pays the total amount on April 28, 2010
- The equipment is delivered and ownership is transferred on July 2, 2010

Registrant self-assesses the 8% provincial part of the HST

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Input tax credits (ITCs)

- Rules for claiming eligible ITCs generally remain the same
- When HST applies and consideration becomes due or is paid on or after May 1, 2010 and before July 2010, registrants claim eligible ITCs:
 - for the 5% federal part of the HST according to normal rules
 - for the 8% provincial part of the HST in the reporting period that includes July 1, 2010

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Input tax credits (ITCs)

Large businesses and certain financial institutions are subject to a recapture of ITCs (RITCs) on:

- energy (except when purchased to produce goods for sale)
- telecommunication services (except for Internet access and toll-free numbers)
- certain road vehicles and fuel for those vehicles
- meals and entertainment currently subject to the ITC repayment under the ETA

Farming businesses and public service bodies are not subject to RITCs

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CRA publications

Notice:

- *Harmonized Sales Tax for Ontario and British Columbia – Questions and Answers on General Transitional Rules for Personal Property and Services (GST/HST Notice No. 247)*

GST/HST Info Sheets:

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Services (GI-056)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Intangible Personal Property (GI-059)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Passenger Transportation Services (GI-054)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Freight Transportation Services (GI-053)*

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CRA publications

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Admissions (GI-058)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Memberships (GI-057)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Transportation Passes (GI-055)*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Returns and Exchanges*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Direct Sellers*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Prepaid Funeral and Cemetery Arrangements and Interment Rights*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements*
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Tour Packages*

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CRA publications

CRA publications on point-of-sale rebates:

- *Harmonized Sales Tax for Ontario and British Columbia – Point-of-Sale Rebate on Books*
- *Harmonized Sales Tax for Ontario and British Columbia – Point-of-Sale Rebate on Children's Goods*
- *Harmonized Sales Tax for Ontario and British Columbia – Point-of-Sale Rebate on Feminine Hygiene Products*
- *Harmonized Sales Tax for British Columbia – Point-of-Sale Rebate on Motor Fuels*
- *Harmonized Sales Tax for Ontario – Point-of-Sale Rebate on Newspapers*
- *Harmonized Sales Tax for Ontario – Point-of-Sale Rebate on Prepared Food and Beverages*

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Any questions?

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