

Harmonized Sales Tax ("HST")

Transition and Planning – Presentation Notes

Society of Iranian Canadian Professional of BC – SICAP

March 28/10 v2. – Presented by: Brian Moul Commodity Tax Manager – BC Hydro

The following materials should be treated as an overview of the HST transition rules and examples of implementation and savings strategies. Attendees are encouraged to use the BC HST website: www.gov.bc.ca/HST, and to seek professional advice on the specific application of these rules and opportunities.

Introduction

Background – From GST to HST in 19-years

- Before 1991 - Federal Sales Tax ("FST") buried in price of goods
- January 1/91 – GST implemented
- Federal Liberals – Redbook 1993
- Quebec partially harmonized in 1994
- Maritimes (not PEI) Harmonized in 1997
- March/09 Ontario announced harmonization
- BC's harmonization announcement followed in July/09
- BC Budget Update September 1/09
- Transitional / Phase-out rules October 14/09
- Legislation may be tabled in BC Legislature before March 31/10?
- HST implemented on July 1/10

HST Overview

- GST 5% federal + 7% BC portion = 12% HST
- HST shifts tax burden from business to consumers
- Significant decrease in marginal tax rate for businesses
- No increase in tax revenue for BC
- HST is 95% the same as the GST
- Like the GST, HST is generally recoverable by claiming and input tax credit ITC
- Recapture of Input tax credits - follows Quebec rules (more below)
- Point of Sale rebates (up to 5% of tax base)
- HST on parking
- Federal and Provincial Governments will pay the HST after July 1
- Diplomats and non-Treaty First Nations – not required to pay the HST

Comparison of the PST to HST – Why its Time to Change

HST Tax on all supply – very broad definition

PST is a tax on defined property and services – fictional tax base

No more PST exemptions / exceptions such as

- Safety equipment rules
- Production Machinery & Equipment (“PM&E”)
- Software services
- Custom Software
- Energy conservation materials

Rather than secure exemptions the focus for business will now be pay and recover

No more self-assessments (except for PSBs, FIs, etc.)

98% of what Business will acquire in Canada will be subject to HST

Supplies that won't attract HST:

- Ambulance services
- Basic groceries
- Municipal permits
- Property taxes
- Medical and assistance devices – not first aid equipment
- Most services acquired from non-residents

Point-of-sale Rebates 12% HST – 7% Prov. Rebate = 5% tax payable

- Books (not newspapers)
- Motor Fuel (not propane)
- Feminine Hygiene products
- Children's clothing and car seats

Supplier registration number

- Same as GST number – most will refer to it as the GST/HST number
- Must have supporting documentation to recover the HST
- GST/HST registration # in supplier record – this is a luxury
- GST/HST registration # must be on invoice
- GST/HST number may also be recorded in the contract

Only GST is payable at the border on commercial imports

Simpler filing and compliance under the HST

HST is easier to refund tax to vendors

First Nations GST – FN GST will not change

HST Transition and PST Phase-out Rules (summarized / generalized)

HST is not payable until May 1, other than pre-payments on real property construction

Invoices issued from May 1 to June 30 may have any combination of the following 3 taxes:

- PST for services rendered or property delivered prior to July 1
- GST for services rendered or property delivered prior to July 1
- HST for services rendered or property delivered on or after July 1

When PST is paid prior to July 1 for a delivery on or after July 1, a PST refund should be available if the claim form is filed before December 31.

Key transitional rules summarized:

Purchase of Tangible Personal Property (“TPP”) – HST will apply to all purchases of TPP where delivery and ownership transfer occurs on or after July 1.

Lease of TPP or Commercial Real Property – The HST will apply to the part of a lease interval that occurs on or after July 1, unless the lease interval begins before July and ends during July, in which case GST and PST where applicable, will apply.

Software Licenses – The general rule provided for intangibles is that HST will only apply to consideration that becomes due or payable on or after Jul 1/10. The PST phase out rules state that PST will cease to apply to the supply of property made by way of a license, for the period that relates to the period on or after Jul 1/10, unless the license period ends in July, in which case PST will apply to the whole license amount. If invoice is dated after May 1/10 GST and PST is payable on the license period prior to July, HST is payable on the balance of the period.

General Services – HST will apply to the portion of services rendered on or after Jul 1/10, unless 90% of the service was rendered before July 1, in which case the GST and PST where applicable would apply. If there is a prepayment for services on or after May 1/10, HST will apply to the portion of the service rendered on or after Jul 1/10.

Passenger or Freight Transportation Services – HST will apply only if the transportation service begins on or after Jul 1/10.

Progress Payments on Construction Contracts – HST will apply to a progress payment to the extent that it relates to property delivered or services to be performed on or after Jul 1/10. Where applicable, there is a requirement to begin paying HST on payments after Oct 14/09.

Release of Holdbacks – The release of a holdback should be treated in the same manner as a progress payment.

Deemed Payment on Substantial Completion – HST will apply to the portion of the progress payment that relates to the period after Jul 1/10.

HST Planning for Consumers

- Broader base / recoverable by business = more tax for consumers
- Travel – several options to save
- Home construction renovation – savings before July 1/10
- “Made in BC” Energy Credit for residential customers – no change
- Soda pop and confectionery – savings before July 1/10
- Basic groceries and alcohol – no change
- New Residential Housing
- Used car purchases – 12% transfer tax after July 1/10
- Bicycles, veterinary services, annual fees, weddings
- ENERGY STAR appliances – no PST before April 1

Transition Planning and Compliance for Businesses

PST Phase-out

- Vendors should stop charging PST on deliveries after June 30
- Savings strategies – see below

HST Implementation

- Delay in claiming ITC for Provincial portion of HST
- Delay in remitting provincial portion of HST
- No requirement to re-issue existing contracts with HST
- Transitional wording should be added to contract templates
- GST (and PST) to be removed from contract templates during the fall

System Changes

- New Tax codes should be added to procurement and A/P systems

- No mass update to change all the existing +PST +GST PO/COs
- A/P process must be able to translate old tax codes (ie PST/GST) in system with invoices are received on or after July 1 with HST
- Change tax factors on employee expense reimbursement system

Procedure Changes

- Procurement staff must be trained on transitional rules
- Some manual procedures relating to self-assessments

Obtaining PST Savings

- Relying on suppliers and system changes for routine savings based on date property of service will be received.
- Ask suppliers to eliminate PST on software licenses or other taxable services for periods after July. (Limited to invoices issued after May 1/10)
- Delay Purchases – if delivery can be delayed until after June a 7% savings should be available
- Use a lease with an early buy-out clause if a delay is not possible
- Seek an equitable adjustment on existing non-residential real property construction projects
- For new real property contracts ensure supplier is aware of the PST phase-out and request that bids clearly indicate how much PST is included.

Winners and Losers under the HST

Winners

- Law firms
- Exporters / manufacturers
- Retailers
- Software suppliers

Losers

- Small business - service providers
- Strata corporations
- Residential rentals
- Entertainment industry

Not Sure

- Restaurant industry
- Public Sector Bodies – municipalities, schools, universities, hospitals etc

Recapture of Input Tax Credits (“RITC”)

This is the major differences between GST and HST

This is not a simplification move – it’s tricky and will be audited

Only applies to the BC portion of the HST for large business >\$10M revenue pa

Separate BC Notice – Feb 19/10

Similar procedure in Quebec – restricted input tax refund.

Double negative = Provincial tax revenue (phase-out after 5-years)

Province of BC will net approx \$150M in tax revenue from RITCs

Must claim full input tax credit (“ITC”) and then set-up RITC on HST return

RITC on the following items:

- Road vehicles < 3,000kg and certain parts and services
- Telecom – not 1-800 services, internet access, rentals, or web-hosting
- Energy – natural gas, electricity steam for use (special rules for producers)
- Meals and entertainment

Actual or estimated RITCs:

- Proxy rates
- Estimate with true-up

Residential Real Property Matters

Generally no GST or HST on used residential property

Self-assessment of GST/HST on substantial completion

Full details in BC HST bulletin issued on Nov 18/09

Rebates for new residential real property

GST – 5%

- 36% of federal portion
- Phased-out from value of \$350K to \$450K

BC portion of HST 7/12 of 12%

- 71.43% of BC portion
- Maximum of \$26,250 (based on \$525K)
- No-phase out

BC rebate intended to neutralize the impact of adding HST to construction costs

Grandfathering: Agreement before Nov 18/09, occupy after Jun 30/10 – GST only

Builder to pay transitional tax based on degree of completion

Transitional PST rebate to builders for residential properties subject to HST

Rebate for PST paid on residential building materials held at June 30/10

General anti-avoidance rules on re-sale of residential real property

Savings on Commercial Construction Projects

No rebate or refund provisions for commercial construction

PST Typically applies to the price of building materials

PST is a cost to the contractor and included in price

Constructions contracts that straddle June 30/10 will trigger a tax savings for contractor equal to 7% of materials installed after that date

Customer should seek an equitable adjustment and encourage the delay of high price finishing materials and mechanical apparatus until after June 30/10 if possible

Questions: