

Tax **Bulletin**

The Wilkinson Tax Group

Harmonized Sales Tax Frequently Asked Questions

The province of Ontario announced in its March 2009 Budget that it would harmonize the retail sales tax (the Ontario RST) with the federal Goods and Sales Tax (GST). The effective date for implementation of this harmonization is July 1, 2010.

Both the federal and provincial governments passed the enabling legislation on December 15, 2009. While the laws have been enacted, many of the details are just now being released which will impact the actual implementation of these rules.

This Bulletin uses a questions and answers format to discuss common questions that have been asked of our firm.

Implementation and Transition	1
Changes in Amounts of Taxation and Items Exempt from HST	3
Accounting for the HST – General	4
Large Corporations	5
New Home Builders	8
Public Service Bodies (PSB)	9
Quick Method of Accounting for HST	10
Selling Outside of Ontario (Place of Supply)	11
Importing into Ontario	12
Administration and Filing of Returns	12

Implementation and Transition

When does it start?

The HST will apply to goods and services provided on or after July 1, 2010. Except for the “prepaid” rule mentioned below, the key issue is the date upon which the goods are delivered or the service is provided (the payment for the sale is not the relevant issue). Those provided before that time will be subject to GST and/or PST as applicable.

Will I need to charge PST after June 30?

No, the Ontario PST regime is dead as of July 1, 2010.

Does it apply to payments made after July 1 if the goods/services were delivered prior to July 1?

No, the HST will only apply to transactions occurring after July 1.

Does the HST apply if the transaction is paid for prior to July 1 but not delivered/performed until after July 1?

If the payment is made on or after May 1 with respect to a good or service to be delivered on or after July 1, 2010 then the HST must be charged. The onus is on the supplier to collect the HST in this situation. Technically, these “prepaid” transactions will attract HST if the amount is due (i.e. invoiced) after April 30, 2010 or is paid after April 30, 2010. PST will not apply to this transaction.

If the Payment was made on or after October 15, 2009 and before May 1, 2010 with respect to a good or service to be delivered on or after July 1, 2010 then the HST may be applicable. The onus is on the recipient to self-assess the HST in this situation if the recipient is a non-consumer (i.e. a business or organization) and one of the following applies:

1. The good or service is not used exclusively in a commercial transaction (a commercial transaction is generally either subject to GST or is zero-rated, like exports, for GST purposes),
2. The recipient is subject to an Input Tax Credit (ITC) restriction or recapture,
3. The recipient uses the simplified method of accounting for GST/HST, or
4. The recipient is a selected listed financial institution.

A progress payment with respect to contracts to construct, renovate, alter or repair real property or ships or other vessels will be subject to the HST if the payment was made on or after October 15, 2010 with respect to goods or services to be provided on or after July 1, 2010. Unlike the above situation, the onus is on the supplier to collect the HST in this situation.

If HST is collected or self assessed in October, 2009 to June 30, 2010 when does it have to be remitted?

The HST collected or self-assessed must be included in the HST return that includes July 1, 2010. Annual filers will be required to complete a special form/remittance prior to November 2010 if they have not filed their return that includes July 1, 2010 by that time.

Are there any special situations that these general rules don't apply to ?

The HST will not apply in the following situations:

1. Services that were 90% complete prior to July 1, 2010.
2. Funeral services provided pursuant to a written agreement entered into prior to July, 2010 where all or part of the consideration was paid into a trust prior to the service.
3. The portion of a round trip travel ticket after June 30, 2010 where the trip commenced prior to July, 2010.

What about lease periods that straddle July 1, 2010?

HST will apply to the portion of the lease which occurs after June, 2010 unless the lease period ends before July 31, 2010 and commences before July 1, 2010. The total length of the lease and when it was entered into are irrelevant.

How are exchanges or refunds dealt with?

Provided the exchange is prior to November 1, 2010, any PST or GST paid on the original purchase can be refunded as normal. If the good is exchanged, HST would apply to any additional amount charged.

For exchanges after October 31, 2010, the GST (5%) can be refunded by the vendor but the PST must be refunded directly from the Government of Ontario.

Changes in Amounts of Taxation and Items Exempt from All or a Portion of the HST

What items will be subject to HST that were not subject to PST?

1. Services (such as professional fees and maintenance),
2. Real property (used residential property exempt and new homes subject to rebates),
3. Electricity, and
4. Gasoline (heating and vehicle).

What items are exempt from the Ontario portion of the HST (OVAT)?

The following items will only be taxed at the GST rate of 5%:

1. Qualifying prepared food and beverages sold for \$4.00 or less,
2. Print newspapers,
3. Children's clothing and footwear,
4. Children's car seats and car booster seats,
5. Diapers,
6. Feminine hygiene products, and
7. Books (including audio books).

The above items are entitled to a “point-of-sale” rebate and the vendor can either simply charge the GST rate or disclose the gross tax of 13% and then show a rebate of the Ontario portion of the HST (the 8% called the OVAT).

What items are not subject to HST?

These items are not subject to HST (and were not subject to GST):

1. Basic groceries,
2. Prescription drugs,
3. Certain medical devices,
4. Child care,
5. Residential rents,
6. Municipal public transit,
7. Most health and education services,
8. Legal aid,
9. Most financial services,

- 10. Tutoring, and
- 11. Music lessons.

What will be the tax rate on private sales of used vehicles?

Ontario will increase the PST rate on the sale of used vehicles to 13% from 8%.

Accounting for the HST – General

How do I update my accounting records for the HST?

For business with less than \$10M in revenue (for an associated group of companies) the accounting for the HST will be nearly identical to the accounting for the GST. HST collected will be posted to one account and the HST paid will be posted to another. The HST return will be prepared from those two accounts. These do not need to be new accounts; your old GST accounts can be used.

The additional accounting required for large businesses, public service bodies and new home builders are discussed later in this memo.

I Revenues

Based upon our experience with the three existing HST provinces the invoice to the customer does not have to distinguish the 5% old GST and the Ontario portion of the HST (OVAT) of 8%. The total tax is just 13%. As well the liability payable to the federal government is simply the one tax. Complications which can arise out of this, which will affect the tax collected are:

- Retailers who sell point-of-sale items such as children's clothing will only charge the 5%. They can either invoice the gross tax of 13% and then identify a rebate of the OVAT or simply charge the 5%. The form to the government will not have to identify the rebated OVAT.
- The place of supply rules affect the amount of the tax collected if the taxable supply arises in a province other than Ontario. If the place of supply is in one of the following provinces, the GST/HST charged is as follows:
 - Ontario 13%
 - New Brunswick 13%
 - Newfoundland 13%
 - Nova Scotia 15% (13% until June 30, 2010)
 - Prince Edward Island 5%
 - Quebec 5%
 - Manitoba 5%
 - Saskatchewan 5%
 - Alberta 5%
 - British Columbia 12%

When the tax is collected by a resident in a participating province and the taxable supply is made to a resident of another province, there is no segregation of the tax on the

remittance form. The tax collected is simply reported, hence at this time the ledgers only have to record the net tax collected. This may change, since the different provinces will have to get their share of the HST.

II *Purchases*

In most cases, regular small businesses will have to record the gross HST paid on purchases made in the ledgers as one tax. It will not be necessary to calculate the 5% GST and the OVAT separately. Certain GST payments are currently restricted, such as the GST on meals and entertainment expenses. These restrictions will equally apply to the HST. If the client accounted for these reductions to the GST Input Tax Credit at the end of the fiscal year, then they will continue to do so for the HST in a similar fashion.

Large Corporations/Entities Subject to Special Rules

What are Restricted Input Tax Credits (RITCs)?

HST registrants are normally allowed to claim a full Input Tax Credit (ITC) when they pay an expense subject to GST/HST. In Ontario, certain entities will not be able to claim the provincial portion of the HST (OVAT) on certain expenditures (i.e. only an ITC of 5%).

There are special penalties that will apply when an entity does not reduce their monthly ITC claims when they are required to do so.

What entities will be affected?

Financial institutions and associated groups with taxable sales in excess of \$10M will be subject to these rules. The following types of entities are not subject to these rules:

1. Farms and
2. Public service bodies (MUSH sector and charities).

What expenditures will be subject to these rules?

1. Energy (except when used to produce goods for resale),
2. Telecommunications other than internet or toll free numbers,
3. Road vehicles weighing less than 3,000kg, except for vehicle inventory and taxis,
4. Fuel used to power road vehicles weighing less than 3,000kg, except diesel, and
5. Food, beverages and entertainment.

How long will these RITCs be Restricted?

There will be a full 100% RITC until June 30, 2015. Subsequent to that, the amount of restriction will be reduced by 25% after each June 30 until it is eliminated (i.e. full ITC) after June 30, 2018.

<i>Restriction of OVAT</i>	<i>From</i>	<i>To</i>
<i>100% of 8%</i>	<i>July 1, 2010</i>	<i>June 30, 2015</i>
<i>75% of 8%</i>	<i>July 1, 2015</i>	<i>June 30, 2016</i>
<i>50% of 8%</i>	<i>July 1, 2016</i>	<i>June 30, 2017</i>
<i>25% of 8%</i>	<i>July 1, 2017</i>	<i>June 30, 2018</i>
<i>0% of 8%</i>	<i>After June 30, 2018</i>	

How do I prepare my HST return when I have RITCs?

Persons subject to the RITC requirement would separately identify recaptured ITCs in their GST/HST NETFILE returns and would not simply forego claiming these ITCs in their calculation of net tax. In other words, you cannot just ignore the RITC, but must identify it monthly.

Can this process be simplified?

An election can be made to use an estimated amount of RITCs throughout its fiscal year and reconcile the actual amount after the fiscal year. The election is made after the completion of a fiscal year with respect to at least the next fiscal year. The business must estimate its expected RITCs for the year and allocate them pro-rata on its HST returns for the year.

This estimated amount for the year is reconciled to actual RITCs after the end of the fiscal period. The difference is reported on the HST return for the period that includes the day that is 90 days after the year-end.

In addition, RITCs with respect to food, beverage and entertainment can be accounted for at year-end whether or not the above election is made.

How do I account for RITCs?

I *Revenues*

The treatment of the revenue collected by large businesses (associated revenue greater than \$10M) will require the same system requirements as a regular small business. However, given

the opportunity for larger businesses to be selling across the country and exporting, you will have to be aware of the different tax rates applied to these sales outside of Ontario.

II *Purchases*

Most purchases for large businesses will be accounted for in the same way as small businesses. Where the accounting will differ is when the OVAT portion of ITCs are restricted.

You must report both total ITCs paid before any recapture and the amount of ITCs restricted in each of Ontario and BC. This information must be reported on every HST return or it will be subject to penalties.

We think the best way to do this is to identify the RITCs when the expenditure is recorded. In this situation you will have to do the following when posting a payment or payable in your accounting software:

- One line item to record the expenditure with the HST tax code (13%)
- One line item equal to the RITC amount (usually 8%) with no tax code debited to the expenditure account
- One line item equal to the RITC amount with no tax code credited to the RITC account

The HST returns could then be filled out directly from your accounting records. Note that the GST report generated by most accounting software will likely not pick up the RITC amount so you will need to be aware of this account when preparing GST returns.

This will require that your accounts payable staff be able to identify the types of expenses subject to restriction when the transaction is recorded. Management should also be reviewing the account coding on the invoices to verify it is being recorded correctly.

If the above entry were posted by journal entry, it would be recorded as follows for a \$100 expense with RITCs:

Dr.	Expense	108	
Dr.	HST ITC	13	
Cr.	HST RITC		8 (balance sheet)
Cr.	A/P	113	

If the election to use estimated RITCs throughout the year has been made the estimated amount must still be reconciled to the actual and the difference must be accounted for with the return that includes the day that is three months after the end of the fiscal year. The accounting entry to record the monthly RITC amount would be:

Dr.	RITC clearing	XX	(income statement)
Cr.	HST RITC	XX	

When the estimated RITC amount is reconciled to the actual RITC amount the clearing account should be allocated to the appropriate expenses.

New Home Builders

New home builders and entities which substantially renovate a home (i.e. builders) will be subject to the same rules as small and large suppliers (if applicable). There are two special adjustments which only apply to builders, the Transitional Tax Adjustment and the Transitional Tax Rebate. While the determination of these amounts is complicated, the accounting for them is not. Please review our Tax Bulletin entitled “HST – Home Builders” for a more detailed discussion on those topics. This memo will only discuss the accounting issues faced by new home builders.

- New house builders will have to segregate the 5% GST and the 8% OVAT separately on the invoice to the customer on the sale of a new house as well as segregate the two components of the monthly (or other periodic remittance) to the government. It is not required that they segregate the two components of the HST charged on the sale in the general ledger, however, they do have to segregate the two on the rebate application form GST 190.

I Transitional Tax Adjustment

Where an agreement to build a new home was entered into on or before June 18, 2010 and where ownership and possession will pass after June 30, 2010 the home is not subject to HST (only GST). This is referred to as a grandparented home.

A builder of a grandparented home will have to pay a Transitional Tax Adjustment with the GST return that includes the day possession transfers to the owner.

This tax would be recorded as follows:

Dr. Cost of sales
Cr. HST payable

II Transitional Tax Rebate

An individual who purchases a new home or substantially renovated house will be able to claim an RST Transitional Tax Rebate where the construction straddles the July 1, 2010 implementation date. This Rebate does not apply to a sale of a grandparented home. The rebate can be obtained by the individual from the CRA or from the builder. If the buyer obtains the rebate directly from the CRA the builder has nothing to record.

Where the rebate is obtained through the builder (usually as a reduction of the purchase price) the builder should record the rebate receivable as a reduction of the amount owing from the customer and a receivable for the same amount:

Dr. PST rebate receivable

Cr. Receivable from customer (or whatever account is appropriate)

Public Service Bodies (PSB)

What rate should be used for the GST/HST rebate calculation?

Certain PSBs currently receive a rebate of the GST they pay on their purchase for which they do not claim an ITC on (i.e. the expenses are not related to a taxable supply). The rebate rate they receive is based on the type of entity they are (between 100% and 50%). Certain entities are also currently allowed to claim a PST rebate for capital acquisitions of real property.

Under the new rules, PSBs will remain eligible for the same rebate of the federal portion of the HST (5%) that they received before. In addition, they will be eligible for a rebate of the OVAT paid on eligible expenditures. The applicable rates are as follows:

	Federal Rebate	Ontario Rebate
Municipality	100%	78%
University or public college	67%	78%
School authority	68%	93%
Hospital authority	83%	87%
Charity or Qualifying NPO	50%	82%

As a charity we decided to use the net tax method, we currently remit 60% of our GST collected on taxable supplies; will this rate remain the same under the HST?

Yes, there is no change to the net tax calculation for charities. Consequently, charities will remit 60% of the 13% HST charged on taxable supplies.

How do we account for the HST?

I Revenues

PSBs will account for the HST collected the same way they did before, except that they will charge the 13% HST rate instead of 5% on taxable supplies.

PSBs should not have to make any special modification to their accounting systems with respect to HST collected other than the standard changes that all registered entities will be making.

II Purchases

PSBs which provide taxable supplies will have to follow the same rules as other registrants with respect to claiming and recording ITCs. Note however that PSBs are not subject to the RITC rules.

Entities must track the amount of the provincial rebate they are eligible for separately from the federal portion so two accounts will be required.

A \$100 eligible expense by an eligible NPO should be recorded as follows (federal rebate of \$2.5 (50% of \$5) and Ontario rebate of \$6.56 (82% of \$8):

Dr. Expense	103.94	
Dr. GST rebate receivable	2.50	
Dr. OVAT rebate receivable	6.56	
Cr. A/P		113

In most accounting software programs it is possible to record the expense amount inclusive of taxes and have the program calculate the amount of the rebate from that number. In that situation the following ratios should be used to determine the rebate amounts:

Federal	(rebate rate x 5%) /113
Ontario	(rebate rate x 8%) /113

Some PSBs currently prefer to simply allocate 100% of the GST paid to the rebate account and reconcile to the correct rebate amount when the application form is prepared. This could also be done with the HST provided the OVAT is tracked separately from the GST.

Quick Method of Accounting for HST

I use the quick method for reporting GST, what rates should I use after the HST commences?

The rates for the quick method of reporting HST are as follows:

For businesses in Ontario that purchase goods for resale:

Sales in Ontario or another HST province: 4.4%

Sales in a non- HST province: 0% (with a 2.8% credit)

For businesses in Ontario that provide services:

Sales in Ontario or another HST province: 8.8%

Sales in a non- HST province: 1.8%

The quick method of reporting HST generally means that a registrant will remit the applicable above percentage of their sales (including GST/HST) as HST collected and not claim ITCs for operating expenses. ITCs are allowed for capital purchases. An election must be made to use this method.

What other changes are there with respect to the simplified method?

You will have to self-assess the Ontario portion of the HST in the following circumstances:

1. you bring goods into Ontario from a non-HST province;
2. you have goods delivered or made available to you in Ontario by a non-resident who is not registered for GST/HST purposes;

3. you acquire services or intangible property (e.g., a right) in a non-HST province; or
4. you import commercial goods, services, or intangible property that are not acquired for consumption, use, or supply exclusively in the course of your commercial activities in the participating provinces.

These rules are in addition to the normal self-assessment rules which apply when goods are purchased from a non-registered non-resident.

Selling Outside of Ontario (Place of Supply)

When I sell goods or services to other provinces when do I charge HST?

Charge HST on the following:

Goods

- sales in or delivery to a participating province
- short-term leases (for a term of three months or less) where the supplier delivers or makes the property available in a participating province
- leases (for a term of longer than three months) where the ordinary location of the goods is in a participating province at the beginning of each lease interval.

Services

- where the supplier has obtained an address of the recipient, the supply will be deemed to have been made in the province of that address, if multiple addresses exist, the supply will be deemed to be made in the province most closely connected with the service,
- if no Canadian address was obtained, the supply will be deemed to be made in the province where the service was performed (or the majority of it was performed),
- if the supplier cannot determine a single province the service was performed in because it was made equally in two or more HST provinces, the supply will be deemed to be made in the province with the highest HST rate, and
- if both provinces have the same rate than that rate should be charged.

Supplies of real property

- situated entirely in one or more of the participating provinces
 - to the extent of the value of consideration attributable to the real property situated in a participating province
 - a service in relation to real property of 90% or more of the real property is situated in a participating province (otherwise, the place-of-supply rules for services, as described above, will apply)

Intangibles

- where the Canadian rights in respect of the property can only be used primarily in a particular HST province then the supply will be deemed to be made in that province,
- where the property can be used in multiple provinces and more of it can be used in one province than the other, the supply will be deemed to occur in that HST province,

- if that rule doesn't apply, the consideration is less than \$300 and the supply is physically made in the presence of the supplier, the supply will be deemed to be made at that location,
- if the previous rules don't apply, where the supplier has obtained an address of the recipient, the supply will be deemed to have been made in the province of that address, if multiple addresses exist, the supply will be deemed to be made in the province most closely connected with the supply,
- if the previous rule doesn't apply, the supply will be deemed to be made in the province with the highest HST rate, and
- if the rate in the provinces is the same than that rate shall be used.

Importing into Ontario

When do I have to self-assess the OVAT when I import from a non-HST province?

The OVAT must be self-assessed where goods or services are brought into Ontario unless the goods are brought into Ontario by registrant for exclusive use in their commercial activities. Services always need to be self-assessed although an ITC can be claimed if applicable.

What tax do I have to pay when I import from outside Canada?

The GST must be paid where goods or services are brought into Canada even if they are for use in a commercial activity by a registrant. The OVAT will be paid unless goods are brought into Ontario by registrant for exclusive use in their commercial activities. Services always need to be self-assessed although an ITC can be claimed if applicable.

This HST will be collected when the goods cross the border and may be paid by the importer in some situations.

Administration and Filing of Returns

Electronic filing

Commencing July 1, 2010, the following business will be required to file their GST returns electronically using Netfile, Telefile, EDI filing and remitting, or internet file transfer.

1. GST/HST registrants with greater than \$1.5 million in annual taxable supplies, including associated companies (except for charities);
2. all registrants required to recapture input tax credits for the provincial portion of the HST on certain inputs in Ontario or British Columbia (i.e. RITCs); or
3. builders affected by the transitional housing measures announced by Ontario or British Columbia.

The preferred method of electronic filing is the Netfile method. The other methods face certain restrictions.

There are special penalties for not E-filing when you are required to.

How should I change my accounting with respect to the HST?

If you are not a builder, charity and expect to have taxable sales of less than \$10M until 2018 (i.e. subject to RITC rules) then your accounting will not need to change significantly. The following will still need to be done:

1. Change all references to GST to read HST (including invoices and account description)
2. Your bookkeeping software may need to have the following tax codes for invoices:
 - a. 13% (full HST)
 - b. 5% (not subject to Ontario portion of HST)
 - c. 0% HST exempt sales and tax-free sales
 - d. Insurance companies will need an 8% provincial tax rate
3. Any cash registers will need to be updated to reflect the above rates.
4. You will need to track the transitional OVAT charged between May 1, 2010 and June 30, 2010 and Ontario portion of the HST self-assessed between October 15, 2009 and May 1, 2010. If the transitional OVAT is charged, then the PST will not apply to that sale.

If you are a builder, charity or are subject to the RITC rules you will have to separately track the Ontario portion of the HST paid. Consequently you will have to set up at least two new accounts, OVAT collected and OVAT paid.

What about the "Transition Support Payment" for businesses?

Small businesses will receive support payments of up to \$1,000 if they are not a listed financial institution, are resident in Ontario, an HST registrant on July 1, 2010, make HST taxable sales, and have taxable revenue of less than \$2M.

The revenue used to determine whether the \$2M threshold was passed will be the revenue for the first fiscal year commencing after June 30, 2010. Another twelve month period may be used if the Minister considers it appropriate.

What about the "Transition Support Payment" for individuals?

The following requirements will be used to determine who is eligible for payments.

For the June 2010 benefit payment you must:

1. be a resident of Canada on December 31, 2009 and file a 2009 income tax return by April 30, 2011; or if you were not a resident of Canada on December 31, 2009, provide a statement of 2009 world income to CRA, by April 30, 2010,
2. be 18 years of age or older or have a spouse or common-law partner or live with your dependant child on May 31, 2010, and
3. be a resident of Ontario on May 31, 2010.

For the December 2010 benefit payment you must:

1. be a resident of Canada on December 31, 2009 and file a 2009 income tax return by April 30, 2011; or if you were not a resident of Canada on December 31, 2009, provide a statement of 2009 world income to CRA, by April 30, 2011,

2. be 18 years of age or older or have a spouse or common-law partner or live with your dependant child on November 30, 2010, and
3. be a resident of Ontario on November 30, 2010.

For the June 2011 benefit payment you must:

1. be a resident of Canada on December 31, 2010 and file a 2010 income tax return by April 30, 2012; or if you were not a resident of Canada on December 31, 2010, provide a statement of 2010 world income to CRA, by April 30, 2012,
2. be 18 years of age or older or have a spouse or common-law partner or live with your dependant child on May 31, 2011, and
3. be a resident of Ontario on May 31, 2011.

Individuals will receive the following transition support payments:

Ontario Sales Tax Transition Benefit				
Payment Month	Single Individuals		Single Parents or Couples	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	\$100	\$80,000 - \$82,000	\$330	\$160,000 - \$166,600
Dec. 2010	\$100	\$80,000 - \$82,000	\$335	\$160,000 - \$166,700
June 2011	\$100	\$80,000 - \$82,000	\$335	\$160,000 - \$166,700
Total	\$300		\$1,000	

Where can I get more information?

These notices are published by the CRA:

Notice 244 - Housing Rebates and real property:

<http://www.cra-arc.gc.ca/E/pub/gi/notice244/notice244-e.pdf>

Notice 247 - General transitional rules:

<http://www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf>

Notice 249 - Reporting requirements:

<http://www.cra-arc.gc.ca/E/pub/gi/notice249/notice249-e.pdf>

Notice 253 – Questions and Answers for Public Service Bodies

<http://www.cra-arc.gc.ca/E/pub/gi/notice253/notice253-e.pdf>

The Ontario Ministry of Finance has five information notices that can be found here:

<http://www.rev.gov.on.ca/en/taxchange/publications.html>

Information is current to May 15, 2010. The information contained in this Tax Bulletin is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. For more information, contact our offices.