

Important changes to the Harmonized Sales Tax (HST)

Major changes to the Harmonized Sales Tax in Canada will come into effect very soon. The purpose of this communication is to summarize some of these changes which will affect both businesses and individuals.

Changes affecting companies located in, or doing business in, Ontario or British Columbia

Effective on July 1st, 2010, Ontario and British Columbia will adopt the HST system of taxation. Goods and services in these provinces will be subject to HST, which will replace their Retail Sales Tax (RST).

Under the old regime, Quebec businesses that sold goods to customers in Ontario or British Columbia, or rendered services to customers/clients in these provinces, would generally collect only the Goods and Services Tax (GST) on these goods and services. Effective on July 1st, 2010, they will be required to collect and remit HST.

The HST rate will be 13% in Ontario (a 5% federal component and a provincial component of 8%) and 12% in British Columbia (a 5% federal component and a provincial component of 7%). The rules of the HST will be very similar to those of the GST, with some variations.

You do not have to apply for an HST number since companies registered for the GST are automatically registered. In Quebec, Revenue Quebec will administer the HST for Ontario and British Columbia and the HST collected from customers in these provinces will be reported on one GST / HST and QST form. Filing periods will remain the same.

Ontario and British Columbia Input Tax Credit restrictions for large businesses or groups (current sales volume in excess of \$10 million)

Similar to the Quebec rules, large businesses will not be able to obtain input tax credits on the Provincial component of HST on the following specified expenditures acquired or brought into Ontario and British Columbia:

- Motor vehicles (except where such vehicles weigh 3,000 kg or more);
- Parts and services acquired in respect of such motor vehicles;
- Fuel (except diesel fuel) used to power the engines of such motor vehicles; However, British Columbia would provide a point-of-sale rebate of the provincial part of the proposed HST (7%) payable on qualifying motor fuels.
- Energy: electricity, gas, combustibles and steam unless it is used for the production of goods for sale;
- Telephone service or other telecommunications services, except toll-free telephones services, Internet access services and web-hosting services;
- Food, beverages and entertainment, to the extent that the expenditure is subject to the existing Input Tax Credit (ITC) restriction (generally 50%) under the Taxation Act.

The new GST / HST and QST remittance forms are not currently available and could be made available only after July 1st, 2010, according to information received from Revenue Quebec.

Transitional Rules

Rules have been proposed for the transition from RST to HST in Ontario and British Columbia. For all transactions concluded between May 1st, 2010 to June 30th, 2010, but which concern the supply of goods or services after that date, HST will apply.

For example, if in May 2010 a company makes a sale involving delivery of taxable goods in Ontario after July 1st, 2010, the sale is subject to HST.

Changes affecting companies doing business in Ontario, British Columbia, and the Maritime Provinces of New Brunswick, Nova Scotia, Newfoundland and Labrador (the "participating provinces")

Changes to the place of supply rules for the HST

HST will be imposed based on the location of the purchaser and will affect companies doing business in the participating provinces.

The place of supply will determine the applicable taxes to be charged. The paramount consideration in determining the place of supply will be the address of the purchaser's place of business or residence.

Prior to July 1st, 2010, a Quebec based business that rendered taxable services to companies located in a "participating province" collected only the GST. As of July 1st, 2010, with few exceptions, the HST will be chargeable.

Special rules will apply to some services, such as personal services, services related to real property, telecommunications, etc. These specific rules are detailed in the Technical Information Bulletin B-103 available on the website of the Canada Revenue Agency (CRA) at <http://www.cra-arc.gc.ca/E/pub/gm/b-103/b-103-e.pdf> .

HST in Nova Scotia

As of July 1st, 2010, the HST rate will increase from 13% to 15% for taxable goods or services delivered to purchasers in the province of Nova Scotia.

Change affecting all businesses whose annual taxable supplies exceed \$1.5 million

Electronic filing

The CRA has announced new requirements for electronic filing of GST / HST effective as of July 1st, 2010 for businesses (excluding charities) with annual taxable supplies of more than \$ 1.5 million. Various electronic filing options are available, including GST / HST Netfile and GST / HST Telefile. Eventually, the CRA plans to make it possible for businesses to transfer data using approved accounting software. For QST, Revenue Quebec will adopt similar requirements for mandatory electronic filing.

Negative Impact

The largest negative impact of these new rules will be felt by businesses in Ontario and British Columbia that currently provide exempt services such as residential apartment rentals, the financial service sector, and health care providers; and ultimately, these businesses' clientele.

In Summary

To prepare for the above noted changes that affect your business, we recommend the following:

- Review the list of your customers to identify those located in Ontario and British Columbia;
- Determine, for customers located in the participating provinces, the place of supply; and
- Ensure the changes are integrated in your accounting system.

If you have questions or need assistance concerning the matters discussed above or consumption taxes in general, please contact us and we will be happy to assist you.