SALES TAX TROUBLE SPOTS

Federal Sales Tax Issues for Canadian Organizations

Prepared for: McMaster University

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Sales Tax Trouble Spots

Federal Sales Tax Issues for Canadian Organizations

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Sales Tax Trouble Spots

Federal Sales Tax Issues for Canadian Organizations

Reference Materials


B. Common Audit Exposures, Chapter 5, “Documentary Requirements”


D. Canada Revenue Agency, GST/HST Info Sheet, GI-039, “Applying the 2008 GST/HST Rate Reduction to Allowances and Reimbursements”

E. Canada Revenue Agency GST/HST Notice No. 247, October 2009, “Harmonized Sales Tax for Ontario and British Columbia – Questions and Answers on General Transitional Rules for Personal Property and Services”

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BASIC CONCEPTS – GST/HST
What is GST?

- federal tax
- value-added tax
- 5% or 13% on taxable supplies made available in Canada

- GST is a federal tax that is calculated on the value of taxable goods or services made or deemed to be made available in Canada.

- Organizations registered for the tax (registrants) charge GST on all taxable supplies (goods or services) made available in Canada.

- The GST collected is remitted to the Canada Revenue Agency ("CRA").

- As a value-added tax, this tax is really only a cost to the final consumer. Most organizations may claim input tax credits for GST paid. As a result, there is no cost to these organizations for GST paid.

- There are two rates of tax in Canada, 5% and 13%. HST at 13% is applicable to goods and services made available in the participating provinces (Nova Scotia, New Brunswick and Newfoundland). HST is essentially GST at 13%. Goods and services made available elsewhere in Canada are subject to GST at a rate of 5%, plus any applicable provincial sales tax.

- Taxable supplies include property and services. Property includes goods, real property and intangibles. Services are defined to include everything other than property except money, salaries and wages.
As a starting point, most goods and services are taxable in Canada. Tax is generally not collected only where goods or services have been specifically identified as exempt or zero-rated under the legislation.

A "taxable supply" means a supply that is made in the course of an organization’s commercial activities, which generally includes everything other than the provision of exempt supplies. Therefore, this term includes supplies taxed at 5% or 13% for GST or HST purposes. It also includes zero-rated supplies.

Zero-rated supplies are goods and services that are subject to tax, but at a rate of 0%. Examples include:
- prescription drugs and medical devices;
- basic groceries;
- agriculture and fishing supplies; and
- exports of goods and certain qualifying services.

In addition, supplies of printed books, and updates to printed books, bearing an ISBN, made after May 8, 1996, are zero-rated. Furthermore, a supply of a talking book, or its carrier, acquired by a person as a result of a visual handicap, is also zero-rated, effective the same date. These supplies would be considered taxable for GST purposes.

One of the underlying principles of a value-added tax system is that the tax does not form part of the cost of a supply. In order to avoid tax paid becoming a cost input, organizations that provide taxable goods and services, whether at 0%, 5% or 13%, are generally eligible to claim input tax credits ("ITCs") for tax paid in respect of expenses incurred to provide those taxable goods or services.
In addition to taxable and zero-rated supplies, the legislation provides for exempt supplies. These supplies are not subject to tax. The supplier is not required to collect tax on exempt supplies. However, they are also not entitled to claim ITCs in respect of expenses incurred to provide exempt supplies. Therefore, the tax becomes a cost to these organizations and will generally form part of the cost of goods or services. Note that certain qualifying organizations (e.g., universities) may be eligible to claim a rebate for a portion of the tax paid.

Examples of exempt supplies include:
- used residential real property;
- health care services;
- educational services;
- supplies made by public sector bodies (MUSH sector); and
- supplies of financial services (GST/HST only).

Organizations that make both taxable and exempt supplies will generally be required to allocate tax paid in respect of the provision of these supplies between their commercial and non-commercial activities. The allocation method selected must be used consistently throughout a fiscal year, and must be fair and reasonable.
• GST is a destination based tax. As a result, tax generally follows the goods and not the billing address. Therefore, if goods are delivered to a place in Canada but are invoiced to a U.S. address, GST will generally apply. If goods are delivered to a place in Nova Scotia, but are invoiced to a Quebec address, HST at 13% will apply.

• Services performed in whole or in part in Canada are subject to GST. Therefore, if part of a service is performed in Canada, but most of the service is performed outside of Canada, GST will apply. Note that certain services provided to non-residents may qualify to be zero-rated. Only where a service is performed entirely outside of Canada will GST not apply.

• For HST purposes, if a service is performed “all or substantially all” (90% or more) in a participating province, HST applies. Special rules apply if less than 90%, but more than 10%, of the service is performed in a particular province. In such a situation, one generally looks to the place of negotiation in order to determine the place of supply. The place of negotiation is the province in which the person who negotiated the contract on behalf of the supplier generally reports to work. Therefore, if at least 10% of the service is performed in the place of negotiation province, that province determines the tax rate for the service (i.e., 5% or 13%).

• The place of supply for a repair service and any parts supplied in conjunction with the service is the province in which the goods are ordinarily located, generally the province to which the goods are returned to the recipient.
Unlike retail sales taxes, which often provide exemptions based on who is acquiring the supply or the intended use of the supply, GST/HST legislation does not generally provide exemptions based on who is purchasing a supply or the recipient's intended use of a supply. Instead, the tax status of a supply is generally determined by the nature of the supply (e.g., basic groceries) or the person making the supply (e.g., supplies made by a charity), and is not affected by the recipient's eligibility to claim ITCs. However, an exemption from paying tax on taxable supplies is permitted for certain provincial governments and status Indians.

- It is the federal government's policy to pay its own tax, but based on reciprocal taxation or administrative agreements, it does not pay provincial retail sales taxes. The vendor must maintain evidence to support the non-collection of tax, including a certificate signed by an authorized official acknowledging that the entity is exempt from GST.

- Status Indians and Indian bands are relieved from paying GST/HST on goods delivered to a reserve or services performed on a reserve. This exemption does not extend to corporations owned by status Indians. Specific support must be maintained including details from the status Indian identification card or a band number and proof that shipments were made to a reserve address.
The legislation imposes the liability for the payment of GST/HST on the recipient of the supply. However, the liability to collect tax generally rests with the supplier. Failure to do so may result in an audit assessment for the uncollected tax, plus interest and penalties (effective April 1, 2007, GST/HST assessments are only subject to interest, albeit at a higher rate, due to the harmonization of administrative policies amongst several federal tax acts).

In contrast, a liability exposure for failure to pay tax on taxable supplies consumed in Canada is generally not created for organizations involved in commercial activities, since auditors are required to audit to net tax. In such a situation, any assessment for failure to pay tax would be immediately offset by an available ITC.

Collection of the tax from the recipient occurs in a number of ways:
- suppliers may be registered to collect tax on taxable supplies made in Canada;
- the “CRA will collect the tax (GST only) on commercial goods from the importer of record on importations of goods into Canada; or
- importers of taxable services and intangibles may be required to self-assess tax where the imports relate to non-commercial activities.

Except for this requirement to self-assess tax, and the reverse collection rules that apply to real property, the Excise Tax Act (“ETA”) generally does not provide for self-assessment where a recipient has not paid tax to the CRA, or a registered supplier has failed to collect the tax from the recipient. However, provisions exist to allow a supplier that has been assessed for failing to collect tax to recover the tax from the recipient, and for the recipient to then claim an ITC, even where outside the statutory period.
• Under the general rules, tax is collected by registered suppliers on goods supplied in Canada. Special provisions were required to capture tax in situations not covered by the general provisions, such as goods and services imported into Canada.

• For GST purposes, tax will be collected at the border under Division III by the Canada Border Services Agency (“CBSA”), on behalf of the CRA, on goods imported into Canada, regardless of the point of entry or final destination in Canada.

• HST is not collected by the CBSA on commercial imports into the harmonized provinces from a place outside Canada.

• The application of GST under Division III is not dependent on the tax status of the supplier (i.e., registered or not) or the person importing the goods. Rather, it is determined by the tax status of the imported goods. As a result, it is possible to pay GST twice on the same goods: once to the CBSA as the importer of record; and again, to a registered non-resident supplier. A GST registrant, using the goods in its commercial activities, may recover both amounts as an ITC. An organization involved in exempt activities would want to avoid this situation as the two amounts of GST paid would have to be expensed in its accounting records.

• The federal government has also entered into agreements to collect provincial sales taxes, on non-commercial imports of goods, but only where the goods clear customs at a Canadian border.
Public sector bodies

- includes
  - government (federal & provincial)
  - non-profit organizations
  - municipalities
  - school authorities
  - hospitals
  - universities and public colleges

- Part VI of Schedule V to the ETA provide a long list of exemptions for supplies made through the public sector. Unlike the general charity exemption - for which supplies are presumed exempt unless an exception applies - unless a specific exemption can be identified, a supply made through a registrant public sector agency is presumed taxable.

- The list of public sector exemptions applies to various types of organizations operating in the public sphere. Many of the provisions apply generally to all types of public sector organizations, whereas others are targeted at specific entities, such as universities, political parties, and labour unions.

- A complete discussion of all of these exemptions is outside the scope of this presentation. However, the following lists the various exemptions that apply to supplies made by a public sector body. Some of these will be expanded on in the following pages:
  - low value sales made by volunteers;
  - admissions to places of amusement for a nominal charge;
  - admissions to volunteer-operated gambling events;
  - programs for children, underprivileged and disabled individuals;
  - relief of poverty, suffering, or distress;
  - meal programs;
  - memberships; and
  - library privileges.
• Sales of goods, other than alcoholic beverages and tobacco products, are exempt if all of the following criteria are met:
  − the vendor is not in the business of selling such goods;
  − all the salespeople are volunteers;
  − the price of each item is not more than $5; and
  − the sales are not made at an event where people who are in the business of selling such goods are also making sales.

• The fees charged by a public sector body for admission to bingos, casino nights, or similar gambling events are exempt if the following conditions are satisfied:
  − volunteers perform 90% or more of the administrative and other functions required to operate the event and take the bets; and
  − for bingos and casinos, the event is not held in a place that is used primarily (more than 50%) for gambling activities.

• If an event does not satisfy the above criteria, GST/HST will apply unless the admission fee is $1 or less. Thus, admissions to events held in a commercial bingo hall, or any temporary structure that is used primarily for gambling activities (e.g., a bingo tent on a fair ground), are taxable unless the admission fee is $1 or less.

• An exemption applies to a supply by a public sector body of a right conferring borrowing privileges at a public lending library.
A couple of exemptions are aimed specifically at “public service bodies”, which are defined to be public sector bodies, excluding federal and provincial governments:

- non-profit organizations;
- Universities;
- public colleges;
- charities;
- municipalities;
- school authorities; and
- hospital authorities.

Two important exemptions apply to public service bodies: the direct cost and real property exemptions.

Note: supplies of tangible personal property or services and most supplies of real property made by a municipality after March 9, 2004 are taxable, regardless of whether or not the price for the supply exceeds direct cost.
Supplies made for consideration which does not exceed direct cost or for nil or nominal consideration are exempt.

“Nominal consideration” refers to an amount that is less than the direct cost of the goods or services provided. GST/HST does not apply to goods or services that are purchased for resale if the price charged is less than direct cost.

“Direct cost” is the cost of material or parts making up the goods that are produced or manufactured. It includes any GST/HST, QST, PST, and any other taxes or duties paid but not recovered as an input tax credit. If supplies are purchased for resale, the direct cost of the goods or services is the purchase price. Direct cost does not include administrative or overhead expenses, or employee salaries that are incurred to provide the goods or services.

For example, goods acquired by a university in Ontario for a GST and PST-included price of $11.30 (i.e., $10 plus 50¢ GST and 80¢ PST), and generally resold for an amount less than $11.30, will be exempt, even though a portion of the GST may be rebatable to the body.

Where goods are usually sold at an amount below direct cost, the sales are exempt. However, if the goods are usually sold at a mark-up but are being sold at cost or below cost to sell off excess stock, these sales will still be subject to tax.

Services are also included in this provision. Services that are acquired for resale and sold for an amount that does not exceed direct cost are exempt.
Most supplies of real property made by a public service body are GST/HST exempt. However, certain supplies of real property are excluded from the general exemption provision, including sales of residential property (exempted elsewhere). The following discusses other exclusions from the exemption.

The exemption does not apply to the sale of vacant land to an individual or a trust where all the beneficiaries are individuals. The exemption does not apply where the real property was used by the public service body in commercial activities. In such situations, an organization must look at whether the property as a whole was used primarily in commercial activities.

Short-term accommodations are taxable; essentially, this would include a lease or rental of residential accommodation to the same person for less than one month.

Short-term rentals of property that are not residential property, or any “license” to use real property, whether short-term or not, are taxable. Examples include:
- the supply of ice time by a university at a hockey rink;
- the rental of classrooms for a meeting; and
- parking (even if for a period of more than one month).

Where the rental is for continuous possession of one month or more, the supply is exempt, unless it is excluded under another provision. Limited access to the premises is also a characteristic of a license to use real property, which is taxable regardless of its length, in contrast to a lease. Other characteristics of a license include: limited right to sub-license the property; limited or no further real/immovable property interest in the property, and the likelihood that the license will extinguish upon sale of the property by the supplier.
Special rules apply to the recovery of tax on improvements to real property. Generally, these include improvements that are capitalized against the property’s adjusted cost base for income tax purposes. The amount of recovery on capital real property improvements is based on the percentage of use of the underlying property, not just the percentage of use of the improvement.

This should be contrasted with the recovery of tax on general repairs, maintenance or services in respect of real property, which are determined, based on the percentage of use in commercial activity of the actual repair.

For example, an improvement to real property where the property is used 75% in commercial activity would be limited to a recovery of 75% of the tax paid even if the improvement related solely to the commercial aspect of the property. Repairs, on the other hand, that do not qualify as an improvement, would be 100% recoverable if 90% or more of its use was related to the organization’s commercial activities.
A “public institution” is a registered charity for income tax purposes, that is also a university, public college, school authority, hospital authority, or local authority that has been determined to be a municipality.

Certain exemptions apply only to supplies made by public institutions and non-profit organizations. Exemptions specific to public institutions generally parallel exemptions available for supplies made by charities, though they are not as extensive.

A general exemption covering supplies made by public institutions applies to any supplies of personal property or services, subject to an extensive list of exclusions some of which are noted below:

- zero-rated supplies
- supplies of property used in commercial activities
- capital property used primarily in commercial activities
- goods for resale
- property leased, etc., in conjunction with real/immovable property
- catering contracts
- memberships
- performing artists
- recreational activities
- gambling activities
- courses and examinations
- admissions
- fund-raising events
Public institutions

- recreational programs and activities
  - generally taxable
  - exempt supplies
    - must be directed primarily to
      - children 14 and under
      - underprivileged individuals
      - disabled individuals

- Supplies by public institutions of services involving, or memberships or other rights entitling persons to, supervision or instruction in any recreational or athletic activity are generally taxable, i.e., campus recreation/sports center.

- Many programs of recreation, athletics, outdoor activities and hobbies that are offered primarily to children 14 and under, underprivileged individuals, or the disabled are exempt.

- Fees for recreational programs (or for memberships in such programs) are exempt from GST/HST, provided the program consists of a series of supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, crafts, or other recreational pursuits, designed primarily for children 14 years old and under.

- However, if there is overnight supervision throughout a substantial part of the program, the fee is taxable.

- Recreational programs provided primarily for underprivileged individuals, or for people with disabilities, are generally exempt from GST/HST. These programs may include board and lodging at recreational camps or similar places, as well as recreational services, including those provided on an on-going basis at a community centre.
• The general exemption available for supplies by public institutions does not cover admissions in respect of a place of amusement.

• Universities and colleges often host seminars and conferences that compete with similar events put on by the private sector. Admissions to such seminars and conferences are excluded from the general exemption for public institutions. Where what is being offered is an instructional course rather than a seminar, it may be exempt under the education exemption. The dividing line between a seminar and a course may not always be obvious in practice.

• To some extent, this is a relieving measure. Many conferences are attended primarily by business people and paid for by businesses that can claim full input tax credits for GST/HST charged on conference fees, and therefore do not care if those fees bear tax. By making such fees taxable, the legislation allows the university or college to claim full input tax credits in respect of the tax paid on its costs of hosting the conference.

• A fund-raising event is excluded from the general exemption for supplies by public institutions. However, if any portion of the ticket is considered to be a donation for income tax purposes, the entire charge will be exempt.

• Sales of personal property or services made by a public institution in the course of an occasional fund-raising activity are generally exempt. The exemption is subject to certain conditions, e.g., new books sold at a fund-raising book sale conducted once a year by a university that is a registered charity will be exempt. However, if the book sale is held on a regular or continuous basis throughout the year, the books will be taxable, even if they are sold by volunteers.
• Supplies made by a public institution under a contract for “catering for an event or occasion sponsored or arranged by another person” is generally taxable. Catering by a university for its own activities is generally not taxable.

• University and college meal plans are generally exempt, as long as they meet the following conditions:
  – the supply is a meal;
  – it is made to a student enrolled at a university or public college where the meal is provided;
  – the plan is for a period of not less than one month; and
  – the student acquires a right for a single consideration to receive at a restaurant or cafeteria at the university or college not less than 10 meals weekly throughout the period.

• This exemption does not depend on whether the student purchasing the meal plan lives on or off campus. However, the meal plan must be for use by university, or public college students at a campus cafeteria or restaurant. A qualifying meal plan would not cover purchases at an on-campus mini-mart or convenience store.

• Further exemption is granted to supplies of food and beverages, including catering services, made to a school authority, university or public college. This will be the case if the supply is made under a contract to supply food and/or beverages to students under an exempt meal plan or in an elementary or secondary school cafeteria to students of the school.
Public institutions

- goods for resale
  - taxable

- Goods acquired, manufactured, or produced by a public institution for the purpose of resale of the property are not accorded exemption under the general exemption. In addition, any service related to the property for sale will also be subject to GST. Not covered by this exclusion is property donated to the institution and property used by another person prior to its acquisition by the institution.

- Excluded from this provision are supplies by the charity or public institution of prepared food under a contract for catering.

- This provision was intended to apply to instances where a public institution sets up a business, such as a retail store (e.g., a university book store). This puts the public institution on an equal footing with other businesses that it may compete with. As a result, where a public institution purchased new books for resale, GST will apply. In addition, the sale of yearbooks and photocopies by public institutions to students would likely be taxable.

- It should be noted that there is no parallel exclusion from exemption for services provided by a public institution in a business context (other than services relating to tangible property).
Most supplies made by a university will be subject to the exemption provisions affecting supplies made by public sector bodies, public service bodies and public institutions. A complete discussion of all of these exemptions is outside the scope of the presentation.

A “university” is a recognized degree-granting institution or an organization that operates a college affiliated with, or a research body of, such an institution.

A foreign-based institution may be recognized by the CRA as a university for purposes of these exemptions (see Policy Statement P-214R, Foreign-based Entities Which Qualify as a “University” in the Excise Tax Act (“ETA”)), provided it is a foreign-based degree-granting institution:

− that grants degrees at least at the bachelor or equivalent level, and is licensed or otherwise authorized under the appropriate governmental agency or department in its home jurisdiction to do so;

− that qualifies under the Income Tax Act as a “university outside Canada” for purposes of the tuition credit in paragraph 118.5(1)(b) of that Act; or

− whose degrees are accepted for entry into post-graduate studies in at least one Canadian university.

A rebate, equal to 67% of the GST paid (and 78% of the provincial component of the Ontario HST, effective July 1, 2010), is available to universities that are established and operated otherwise than for profit. Therefore, if a profit-motivated university offers approved courses, these courses are exempt. However, the school would not be able to claim a rebate.
Exemptions provided for educational services cover both the supply of specified instructional courses and programs, as well as a list of related services provided to students, including certain additional or mandatory materials fees, busing services, food services, etc. Many of the exemptions are contingent on the supply being made by, or to, a university or like entity.

Examples of exempt supplies are as follows:
- school bus services provided by a school authority to elementary and secondary school students to transport them to and from school;
- credit courses for diploma or degree provided by a school authority, public college or university;
- courses in respect of recognized professional or trade designations provided by a vocational school, university, public college, etc;
- supply made by a school authority, vocational school, public college, or university of a service of instructing individuals in, or administering examinations in respect of, courses leading to certificates; diplomas; licenses or similar documents; or classes or ratings in respect of licenses;
- a service of instructing individuals or administering examinations in respect of French or English second-language courses is exempt where it is supplied by a vocational school, university, public college, etc; and
- supply by a university or public college of meals under certain meal plans to students.

Examples of taxable supplies include: certain non-credit courses in subjects such as dancing, skating, wine-tasting and cooking; seminars; sales in bookstores; and parking fees.
Transfer payments

- **consideration for a taxable supply**
  - direct link exists
  - person receiving grant must be registered for GST/HST

- **Non-taxable supply**
  - In general, transfer payments made in the public interest or for charitable purposes will not be regarded as consideration for a supply (i.e., there is no “supply” being made to the grantor).

- **Taxable supply**
  - If there is a direct link between a transfer payment received by a person and a supply provided by that person, either to the grantor of the transfer payment or to third parties, the transfer payment will be regarded as consideration for the supply. If a transfer payment is consideration for a supply, then it must be determined whether or not the supply is taxable.

- For example, a university receives a grant for research and then gives the copyright on a research report to the grantor and also provides royalties on sales to the grantor; a direct link will exist between the payment and a supply. Since there is a purchase purpose, the transfer payment will be regarded as consideration for a taxable supply.

- The person receiving the transfer payment must be registered for GST/HST in order for the payment to become taxable. The purchaser needs to obtain certain documentation from the registrant before an ITC can be taken on any GST/HST that applies to the transfer payment. It should be noted that attempts to re-characterize grants received from provincial governments as non-taxable consideration for a taxable supply (and thereby trigger input tax credits) have been hotly contested by the CRA.

• The supply of a service or a supply by license to use a copyright, trademark, trade-name or other similar property by a public sector body to a sponsor for use exclusively in publicizing the sponsor's business, is deemed not to be a supply.

• An exception is provided, however, where the service offered by the body is primarily advertising on radio or television or in newspapers, magazines or other periodicals.

• This allows public sector bodies such as a university and non-profit organizations (e.g., hockey or baseball teams, and Olympic associations) not to collect GST on their sponsorship money.

• For example, a corporation agrees to sponsor a university sporting event. In return, the university allows the corporation to print the organization's logo on the corporation's products. CRA does not consider the payment received from the corporation to be payment for a good or service. Therefore, the payment is not taxable or exempt. It is simply not subject to tax.
RECOVERY OF TAX
In order that tax not be incorporated into the cost of goods or services under a value-added tax system, registrants involved in commercial activities are generally permitted to recover tax paid by way of an ITC in respect of expenses relating to their commercial activities, subject to certain conditions.

The fact that tax is collected and remitted on sales does not automatically provide a person with the right to claim ITCs for tax paid. Before filing a claim organizations must address a number of issues prior to recovering the tax to avoid the possibility of the recovery being denied during the course of an audit.

Firstly, only the recipient of a supply is permitted to recover the tax. The recipient of a supply is generally the person who has the legal obligation to pay for the goods or services (usually indicated as the “bill to” on an invoice).

In addition, the goods or services supplied to the recipient must have been acquired for consumption, use or supply in a commercial activity carried on by the recipient. Where goods and services are acquired partly for use in commercial activity and partly not, it is generally necessary to allocate the tax available for credit between qualifying commercial activities and non-commercial activities to determine the amount of any claim.

Where a purchase is invoiced to one person but is paid by another, even where the other person is acquiring the supply for use in their commercial activities, the provisions entitling that person to an ITC will not generally be met unless a valid agency relationship can be substantiated.
Organizations who want to recover tax paid must be able to show that tax was paid to a registrant. A person is therefore required to obtain certain supporting documentation from the supplier to support their right to claim an ITC or a rebate.

The disclosure requirements that a supplier must make in respect of the collection of tax are limited to clearly indicating either the amount of the tax charged in respect of a supply, or where the supply is made on a tax-included basis, an indication to that effect (and generally a notation as to the rate of tax). This disclosure will not normally satisfy the documentary requirements that must be met by the recipient prior to claiming an ITC. However, a supplier must provide, upon request by the recipient, the appropriate information in order to permit the recipient to recover the tax.

Theoretically, an ITC should become available as soon as the tax becomes payable. However, prior to making a claim, the person must have on hand sufficient evidence to enable the amount of the recovery to be determined. In addition, the person must have obtained certain prescribed information. As a result, a claim is generally only available once the person has received an invoice clearly indicating tax was charged by a registrant.

Note that organizations involved in non-commercial activity are also subject to these rules when claiming rebates.

Reference: Common Audit Exposures, Chapter 5, “Documentary Requirements”, included in appendix “B”.

RECOVERY OF TAX

Documentary requirements

• must be provided to recipient on request
• must be obtained prior to claiming an ITC
• prescribed information required
Where all of the required information is not obtained prior to claiming an ITC, an organization’s claim could be denied and they could be subject to interest\(^1\) during the course of an audit.

An auditor may permit a taxpayer to obtain the necessary information after the fact, at which point, assuming the time limitations have not expired\(^2\), the ITCs could be claimed. However, interest will still be applicable.

For purchases over $30, registrants are generally required to obtain, among other things, the GST registration number of the supplier and the amount of tax paid on the invoice, or an indicator that the price is “GST/HST-included” at a rate of 5% or 13%.

Under the CRA’s current policy, it is the purchaser’s responsibility to validate the registration number of a supplier for purposes of establishing an entitlement to an ITC. Numbers may be confirmed by contacting the local CRA Tax Services Office. As of April 3, 2006, registration numbers may be confirmed on the GST/HST Registry web page located on the CRA’s web site at: [http://www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html](http://www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html)

\(^1\) Effective April 1, 2007, administrative provisions were standardized within four acts that the CRA administers. This standardization has eliminated the 6% penalty; however, interest will be charged at the 90 day T-bill rate rounded up to the nearest whole percentage point plus 4%.

\(^2\) Other than for “specified persons” (whose time limit is usually 2 years) the time limit for claiming input tax credits/rebates is generally four years but is reduced to two years for tax charged in error. A specified person includes a person whose threshold amounts, for each of the fiscal years that includes the period the tax was payable and the previous fiscal year, exceed $6 million. Excluded from this are persons whose supplies were all or substantially all taxable (i.e., engaged exclusively in commercial activity) during the two fiscal years preceding the year the tax was payable.
Universities may claim a rebate at a prescribed percentage for non-creditable tax charged on taxable property or services.

"Non-creditable tax charged" includes tax paid or, in certain cases, deemed to be paid (such as in the case of employee allowances and reimbursements). It excludes tax for which the body may claim an ITC, or for which a rebate or remission is available under some other provision of the legislation or another statute, or which is adjusted, refunded or credited to the person by credit/debit note.

The prescribed GST rebate rate for a university (non-profit) is 67%.

Universities that operate in multiple capacities, such as a university that also operates a hospital authority, must apportion their rebates to take into account the appropriate rate — in this case, 67% for tax payable on university-related expenses and 83% for those that relate to hospital activities.

However, where a public service body purchases goods in a participating province for consumption, use, or supply exclusively outside a participating province, it may be eligible to claim a rebate for the provincial part of HST paid by using Form GST495, Rebate Application for Provincial Part of Harmonized Sales Tax (HST). In order to claim a rebate of the provincial part of the HST in these circumstances it is necessary that the purchaser pay the appropriate provincial sales tax (e.g., ORST) in the province of use (a non-participating province). Where services are acquired in a participating province, a rebate for the provincial part of HST paid is available by completing Form GST189, General Application for Rebate of GST/HST.

Reference: Canada Revenue Agency Guide RC4034, “GST/HST Public Service Bodies’ Rebate”.
In order for an organization to claim an input tax credit in respect of GST/HST paid for goods or services, the supply must have been acquired for consumption, use or supply in a commercial activity carried on by the registrant. Generally, if substantially all (90% or more) of a supply is acquired for consumption, use or supply in the course of a commercial activity, a full ITC may be claimed.

If substantially all of a supply is acquired for exempt activities, no ITC may be claimed. However, a university would generally be eligible to claim the 67% rebate.

Where goods and services are acquired partly for use in commercial activity and partly not, it is necessary to allocate the tax available for credit between commercial and non-commercial activities in order to determine the amount of tax recoverable.

A full ITC is available to universities for GST/HST paid on the acquisition or import of capital personal property, and improvements to that capital property, if the property is used more than 50% in commercial activity. If not, no ITC is available, and then tax is generally not required to be collected on the ultimate disposition of that property.

A full ITC is also available for GST/HST paid on the acquisition of capital real property, and improvements to that property, if the property is used more than 50% in commercial activity. If not, no ITC is available (but the rebate is). Most sales of real property used other than primarily in commercial activity by a public service body are exempt. In order to determine whether or not a university is entitled to claim input tax credits on capital real property, it will be necessary to calculate the extent of use of the entire parcel (legal description) in commercial activities rather than the extent of use of a particular portion of the property (i.e., entire building versus a floor in the building).
The legislation provides for a 100% rebate of GST paid on printed books purchased by specified persons. The definition of specified persons includes universities.

However, the provincial component of the HST payable on a qualifying book may be rebated by the vendor at the point of sale. The effect is that qualifying books supplied in a participating province are only taxed at 5%. If the vendor collects tax at the 13% HST rate, the purchaser may claim an input tax credit for the full 13% where the book is for use in commercial activities. If the purchaser is not eligible for a full input tax credit, a rebate may be claimed for the provincial component of the HST within four years from the time tax became payable by submitting a general rebate application (form GST 189).

Goods eligible for the rebate are:

- printed books or updates of such books;
- audio recordings all or substantially all of which are spoken readings of printed books; and
- bound or unbound printed versions of religious scriptures.

The term "printed book" is ascribed its ordinary meaning, but is defined to exclude:

- a newspaper;
- a magazine or periodical acquired otherwise than by subscription;
- a magazine or periodical in which the printed space devoted to advertising is more than 5% of the total printed space;
- a brochure or pamphlet;
- a sales catalogue, a price list, or advertising material;
- a warranty booklet or an owner's manual;
- a book designed primarily for writing on;
- a colouring book or a book designed primarily for drawing on or affixing thereto, or inserting therein, items;
- a cut-out book or a press-out book;
- a program relating to an event or performance;
- an agenda, calendar, syllabus, or timetable;
- a directory, an assemblage of charts, or an assemblage of street or road maps, but not including a guidebook or an atlas; a rate book;
- an assemblage of blueprints, patterns or stencils;
- prescribed property; or
- any item similar to items listed above.

The rebate is only available for books acquired for use other than in a supply by way of "sale". The term "sale" includes books acquired to sell to others, to be given as a gift or where ownership is transferred at no consideration.
Some of the most significant audit assessments relate specifically to a person's failure to obtain sufficient documentation prior to claiming an ITC on taxable purchases used to provide taxable goods and services. Similarly, audit assessments may be created where a person fails to obtain sufficient documentation prior to claiming a rebate on taxable purchases used to provide exempt goods and services. This may be as simple as not having the supplier's GST registration number on hand prior to claiming the credit or rebate, or can involve issues relating to who is the true recipient of the supply.

Unless tax is charged by a registrant, and the appropriate documentation is obtained, ITCs and rebates cannot be claimed. An organization should never assume an invoice includes tax and calculate an ITC at 5/105 (or 13/113 for HST) or rebate unless the appropriate documentation is available. If tax is not paid to a registrant, an organization is not generally eligible to file a claim.

ITCs and rebates are often claimed by the wrong entity within a closely-related group of registered taxpayers, (e.g., where the supplier has invoiced the wrong party). Note that assessments may be limited to the wash transaction penalty of 4% if each of the parties involved is entitled to a full ITC in any case.

Exposures occur where taxes are claimed on invoices from non-registants, as well as from registrants whose transactions are poorly documented. Non-resident vendors, in particular, are not always familiar with Canadian rules and regulations. Even if they are registered, they may not provide sufficient documentation to support a recipient's claim for ITCs or rebates.
Opportunities

- issues
  - miscellaneous payments
  - unusual expenses
  - tax-included invoices
  - invoices from non-resident vendors
  - employee reimbursements

- ITCs and rebates are missed for a number of reasons.

- Often, ITCs and rebates are missed on miscellaneous payments — payments that may not go through the usual payment procedures (e.g., manual or rush cheques, c.o.d. payments, petty cash, etc).

- ITCs or rebates may be missed for GST/HST paid on unusual payments or any payments that are out of the ordinary for an organization (e.g., legal and recruiting expenses).

- Invoices may not clearly identify the amount of GST/HST charged. Vendors may show tax-included amounts on their invoices, as long as this fact is indicated on the invoice.

- ITCs or rebates may be missed on invoices from registered non-resident vendors, simply because Canadian registrants are not expecting a non-resident vendor to charge tax.

- Reimbursements and/or allowances paid to employees may include a component of GST/HST.
The general rule for claiming ITCs and rebates requires that the person claiming the credit be the person who is liable to pay the consideration for the supply (i.e., the recipient of the supply). Without some special provisions under the ETA, an employer would not normally be permitted to recover tax paid by an employee even where it was incurred in respect of the person’s commercial activities.

An employer, partnership, charity or public institution is deemed under the legislation to have paid tax where the expense was reimbursed to an employee, partner or volunteer who paid tax in respect of a property or service that was acquired or imported for use in the activities of the person.

A reimbursement is understood by the CRA to mean "a payment by an employer to an employee to repay the employee for amounts spent by the employee on the employer’s business." Organizations are still generally required to meet the documentary requirements in order to extract tax on qualifying reimbursements. The 50% meals and entertainment expense restriction generally applies to ITCs claimed for restricted meals expenses included on an employee expense report.

However, the 50% meals and entertainment expense restriction does not apply to ITCs claimed by a public institution. Such bodies may claim ITCs, to the extent otherwise entitled, in respect of tax paid on such expenses without restriction. Therefore, a public institution that is a registrant may generally claim full ITCs for tax paid on food, drink and entertainment expenses where they are incurred in the course of commercial activities.

The meals and entertainment expense restriction also does not apply to rebate claims made by public service bodies. As a result, organizations that are entitled to claim rebates in respect of tax paid on meals and entertainment relating to non-commercial activities are not required to adjust their rebate claims for the 50% restriction. This applies to all organizations that claim rebates and not just charities and public institutions.
As an alternative to meeting the general documentary requirements, which are often lacking on expense reports, organizations may choose to use the prescribed simplified factors in order to determine ITCs and rebates.

For GST purposes, the factor is:
- 4/104 where all or substantially all of the expenses are taxable (other than zero-rated) supplies; or
- 12/112 where all or substantially all of the supplies for which the reimbursement is made are subject to HST.

The factor is set at 4/104 (or 12/112 in the harmonized zone) to take into account tips and other non-taxable expenses. Other than the 12/112 factor to be used for expenses incurred in the harmonized zone, the factor does not vary depending on which province the expenses were incurred (e.g., Ontario vs. Alberta).

However, the factor is not available for expenses incurred outside of Canada.

If the factor is used, it must be used for an entire fiscal year and must be applied consistently within each category of reimbursed expenses. It cannot be used to “cherry pick” GST/HST for ITC purposes where particular invoices or receipts do not adequately disclose GST/HST charged or meet other documentary requirements. Nor may it be used inconsistently from employee to employee depending on the degree of documentation provided by a particular employee.

Reference: Canada Revenue Agency, GST/HST Info Sheet GI-039, “Applying the 2008 GST/HST Rate Reduction to Allowances and Reimbursements”, included in appendix “D”. 

• Reference: Canada Revenue Agency, GST/HST Info Sheet GI-039, “Applying the 2008 GST/HST Rate Reduction to Allowances and Reimbursements”, included in appendix “D”.

Prescribed simplified factor – GST/HST

• available for expenses incurred in Canada
  - generally 4/104
  - 12/112 where all or substantially all the expenses were subject to HST
A similar deeming rule applies to allowances paid by an employer, partnership, charity or public institution, deeming tax to have been paid on the underlying expense in respect of qualifying allowances paid to an employee, partner or volunteer.

A person is deemed to have paid tax equal to:

- 5/105 for GST purposes where all or substantially all of the expenses are taxable supplies (other than zero-rated supplies); or
- 13/113 for HST purposes where all or substantially all of the allowance relates to supplies subject to HST; and

Examples of reasonable allowances that may be eligible for ITCs and rebates include: board and lodging allowances for special work sites or remote locations; overtime meal allowances (GST/HST only); allowances for special uniforms/clothing or boots/shoes; and car allowances (GST/HST only).

In order for tax to be recoverable with respect to an allowance, it must be:

- paid in respect of supplies acquired in Canada at least 90% of which are taxable;
- deductible for income tax purposes; and
- considered reasonable by the employer at the time they are paid.
Automobile allowances

- based only on business kilometres
- rate per km is reasonable
  - 52 cents per km for the first 5,000 km
  - 46 cents per additional km
- no additional automobile reimbursement

- Car allowances are considered reasonable where all of the following conditions exist:
  - the allowance is based solely on the number of business kilometres driven;
  - the rate per kilometre is reasonable; and
  - the recipient of the allowance is not reimbursed in whole or in part for car expenses, in addition to the allowance.

- Flat rate periodic allowances, such as $600 per month, will not be considered reasonable.

- Where an employee is paid a combination flat rate and reasonable allowance per kilometre, no ITCS are allowed for either portion of the allowance.

- The federal government announced that the per kilometre allowance limits for 2010 are 52 cents per kilometre for the first 5,000 kilometres and 46 cents per additional kilometre. These rates were the same for 2009 and 2008. Note that these limits are each 4 cents higher in the Territories.
Frequently, ITCs and rebates are claimed on expenses purchased through the use of a company credit card based on a factor, such as 5/105 or 13/113 of the amount paid on the credit card statements. There are two concerns regarding the use of a factor to claim ITCs and rebates on credit card purchases: inadequate documentation and inaccurate computation.

Firstly, a registrant may not claim an ITC or rebate unless it has first obtained certain supporting documentation. This information is generally not present on a credit card statement. As a result, registrants should ensure that credit card receipts are maintained containing the required prescribed information. Often this will necessitate obtaining a copy of the supporting invoice, since credit card vouchers rarely meet the documentation requirements.

Secondly, using a derived factor will result in an overstatement of ITCs and rebates where non-taxable amounts, such as provincial sales tax, tips, and non-taxable expenses are included in amounts paid. Where documentation requirements have been met, the use of a factor to extract the actual tax paid should reflect these non-taxable amounts.

In addition, even where a factor is designed to accurately extract the tax based on the taxes that should have been charged or to reflect other non-taxable amounts included in a supply, exposures will be created where a supplier fails to charge tax correctly since the factor will extract tax based on the assumption that the supplier has correctly charged tax.
An expenditure made by an employee on a company credit card is generally considered to have been incurred by the registrant (the company) directly, and ITCs for tax paid with such a card must be supported by the appropriate documentary evidence.

For GST/HST purposes, relief is available where the employer and employee are jointly and severally liable under the cardholder agreement. In this case, the CRA considers the payment of the credit card statement to be an employee reimbursement, allowing the employer to claim an ITC using the simplified factor of $\frac{4}{104}$ (GST) or $\frac{12}{112}$ (HST).
Procurement cards are generally used to accommodate high-volume, small-dollar payments, with the goal being to eliminate unnecessary paper flow. However, where expenses have been incurred through the use of such a card, claims for ITCs and rebates must be documented like any other purchase. In addition, the simplified factor is not generally available, since most procurement card agreements are not jointly and severally liable.

The CRA have announced administrative policies dealing with procurement cards for businesses engaged exclusively in commercial activity. Therefore, these policies are not for use by organizations in the public sector (i.e., universities) nor by financial institutions.

To qualify for the policies, registrants must submit to the CRA, along with their requests for exemption, electronic data showing purchases for a sample period and requested calculations/analysis of specific purchase ratios in accordance with the audit policy on procurement cards. In addition, a written confirmation must be obtained from the registrant’s external auditor that the internal controls for procurement card purchases are reliable. This confirmation must be provided to the CRA along with other information requests.

Once the sampling results have been verified and the eligible purchases ratios approved, the registrant will be eligible to claim ITCs at the rate of 5/105 (or 13/113 HST) of the total amount of purchases (including taxes) appearing on the card issuers’ report, per the ratios calculated in accordance with the audit policy on procurement cards. Note that the ratios will be valid for a period of five years. Upon expiry, a new request must be submitted for approval. Each jurisdiction reserves the right to reassess at a later date if the ratios are found to be applied incorrectly or not updated for significant business changes affecting purchasing.

Once the ratios have been approved by the CRA, the registrant is exempt from the general ITC documentary requirements for purchases made using the procurement cards. There are, however, minimum information requirements that must be met.
The deeming rule in the ETA that permits an organization to claim ITCs and rebates on employee expense reports does not apply to non-employees, including:
- consultants or independent contractors; and
- employees of unregistered, non-resident parent companies.

As a result, GST/HST paid as part of a reimbursement to these persons may not generally be recovered by an organization under the employee reimbursement provisions.

There are four common law tests that are applied to determine the existence of an "employer-employee" relationship:
- control test (i.e., Who has the ultimate authority over the worker?);
- integration or organization test (i.e., Do the tasks performed form an integral part of the business?);
- economic reality test (i.e., ownership of the tools of work, chance of profit, and risk of loss); and
- specific result test.

This is a very common problem area for companies. Many companies who have downsized have now hired "consultants" to do the work that was previously done by employees. These consultants are no different than any other supplier, and any reimbursement of expenses is generally regarded as additional consideration for the supply of their services.
Expense reimbursements to non-employees

- registrant
  - re-supply of “exempt” costs
- non-registrant

- GST/HST are value-added taxes, which require suppliers to charge tax on the full consideration charged for taxable goods or services. Where a supplier includes a charge for the reimbursement of costs or expenses, other than as a legal agent of the recipient, the charge for the reimbursement is considered to be additional consideration for the supply. As a result, tax must be charged on the full amount, including any reimbursements.

- Even where the recipient of a supply is provided with copies of the original vendor’s invoices for reimbursement to its supplier, an ITC or rebate may not be claimed on those invoices, since they have been issued to the supplier. The supplier must claim the ITCs and expressly charge tax to its customer in order for tax to be recovered by the ultimate recipient of the supply.

- Since the re-supply of out-of-pocket expenses forms part of the consideration for a supply, organizations may find themselves paying tax on supplies that are not normally taxable. For example:
  - salaries and wages;
  - zero-rated air travel; and
  - expenses incurred outside Canada.

- Where the supplier is not registered, any tax incurred by that person is not recoverable and will ultimately form part of the cost of the supply.
CROSS–BORDER TRANSACTIONS
Imported goods

- GST
  - collected by CBSA
  - paid by the “importer of record”
  - flow-through provisions for GST paid by an unregistered non-resident

- GST is collected by CBSA on taxable goods brought into Canada. It is paid by the “importer of record”.

- Where the “importer of record” is a GST registrant (either the purchaser or the vendor), GST paid at the border may be recovered as an ITC where the goods are for use in commercial activities. Organizations who are not registered for GST or who are not using the goods in commercial activities, however, cannot recover the tax as an ITC, but may be eligible to claim a rebate.

- It is possible to pay GST twice on the same goods: once, to the CRA as the importer of record; and again, to a non-resident supplier that is registered for GST. A GST registrant using the goods in its commercial activities may recover both amounts as input tax credits. However, organizations providing exempt supplies are ineligible for input tax credits and are advised to avoid this situation by having the supplier act as importer of record.

- Often, unregistered non-residents who pay GST at the border try to recover the GST from their Canadian customers by charging “GST” on the invoice. As previously discussed, this is really not “GST”, and the Canadian company cannot claim an ITC/rebate.

- Section 180 provides for a flow-through of the ITC/rebate where GST is paid at the border by an unregistered, non-resident on goods supplied to a registered Canadian recipient. This mechanism will allow the Canadian customer to recover the GST paid by the unregistered non-resident company as an ITC/rebate. The supplier must provide its Canadian customer with sufficient documentation to show that tax was actually paid, e.g., CRA customs B3 import entry documents.

- In this situation, the general documentary requirements are waived to reflect the fact that the tax would ultimately have been recovered by the recipient if the tax had flowed through a chain of registrants. However, this provision generally, only applies to the supply of goods, and will not extend to the supply of most services, such as legal services.
It is impractical, if not impossible for the CRA to collect tax on imported services and imported intangible property at the border. Instead, imported services and intangibles are taxable on a self-assessment basis under the imported taxable supply rules.

As a result, the Canadian recipient must self-assess GST under Division IV in the following circumstances:

- services are acquired outside Canada;
- intangibles are acquired outside Canada;
- goods on lease in Canada from an unregistered non-resident are transferred to another recipient in Canada for consumption, use or supply other than exclusively in the course of commercial activity;
- goods drop-shipped on behalf of an unregistered non-resident to a Canadian recipient tax-free are acquired by the recipient for consumption, use or supply other than exclusively in the course of commercial activity; and
- goods acquired tax-free using an export trading house certificate or an export distribution centre certificate are not in fact exported.

The main objective in taxing imported services is to ensure that persons engaged in non-commercial activities cannot avoid tax on, for example, engineering services, management services, data processing, and other services for use in Canada by acquiring the services outside Canada or from unregistered non-resident suppliers. The CRA has ruled, for example, that the tax applies to training services rendered in Canada by an unregistered non-resident and to charges for advertising a Canadian employment opportunity in a foreign publication.
Importation of services and intangible property – GST

- imported taxable services
  - exclusions
    - exclusive use – generally > 90%
- does not apply where Canadian vendors fail to collect tax

- Self-assessment is not required where:
  - property or services are acquired for consumption, use or supply exclusively in the course of commercial activity;
  - property or services are acquired for consumption, use or supply in the course of activities engaged in exclusively outside Canada;
  - services are performed in respect of:
    - goods situated outside Canada at the time the service is performed; or
    - real property situated outside Canada.
  - the services are transportation services; or
  - the services relate to litigation outside Canada.

- Administratively, the CRA interprets exclusive use as 100% in the case of financial institutions, and 90% in other cases. The exclusion from the tax on services imported for use exclusively in commercial activities ensures registrants do not have to self-assess tax on an importation where they would otherwise be entitled to recover any tax paid by claiming ITCs.

- Note that where GST registered suppliers fail to collect tax (under Division II) on taxable supplies, the legislation does not provide for a similar self-assessment mechanism. For organizations that are not eligible to claim full ITCs for GST paid, it is important not to create an unrecorded liability. Accordingly, we suggest that they contact any suppliers that are not correctly charging GST on taxable goods and services to ensure that tax is correctly charged and to eliminate any exposure.

- It should be noted that a supply by a small supplier is not subject to tax. This does not in any way change the status of the supply as a taxable supply. It merely provides that no tax is payable. Where a supply is obtained by public service body from a small supplier no self-assessment is required on the purchase.
In addition, some examples of services for which tax does not have to be self-assessed include:

- exempt services;
- zero-rated services;
- services acquired for use or supply exclusively in commercial activities;
- services acquired for use or supply exclusively in activities that are engaged in exclusively outside Canada if the activities do not form part of business carried on in Canada;
- services consumed by an individual outside Canada, other than training services supplied to a person who is not a consumer;
- litigation services (but not services rendered prior to the commencement of the litigation);
- transportation services; and
- services in respect of real property situated outside Canada.

Specific examples would include:

- entertainment services (excluding training services) consumed by employees while on business travel outside Canada;
- architectural services in respect of real property located outside Canada; and
- transportation services in respect of employees or goods located outside Canada.

Reference: Common Audit Exposures, Chapter 20, “Imported Taxable Supplies”.
A taxable supply of intangible personal property is subject to tax as an imported taxable supply if the supply is made outside Canada to a person who is resident in Canada.

Intangible personal property includes:
- contractual rights;
- options;
- intellectual property;
- rights in relation to goods that are not in possession; and
- other rights that are enforceable by the courts.

Intellectual property includes patents, trade secrets, trade-marks, trade names, industrial designs, and know-how.

Some examples of intangibles that tax does not apply to include:
- exempt intangible property;
- zero-rated intangible property;
- intangible property acquired for use or supply exclusively in commercial activities;
- intangible property that may not be used in Canada; and
- intangible property that relates to real or personal property situated outside Canada or to a service to be performed wholly outside Canada.
BASIC CONCEPTS – PROPOSED HARMONIZATION
The province of Ontario has announced the harmonization of their provincial sales tax with the federal GST, effective July 1, 2010. This new Harmonized Sales Tax ("HST") will operate in much the same way as HST in the participating provinces of Newfoundland and Labrador, Nova Scotia, and New Brunswick. However, the HST in each province will have distinct differences.

The cornerstone for this sales tax harmonization is the Memoranda of Agreement between Canada and the provinces of Ontario that set out the framework for the new HST. Under this agreement, both levels of government have agreed to conclude deals, subject to legislative approval, that will:

- provide the policy framework for the application of a single, value-added sales tax, effective July 1, 2010, which will be administered by the Canada Revenue Agency and the Canada Border Services Agency;
- enable Ontario to:
  - provide consumer exemptions (through point-of-sale rebates) on a limited number of items, such as children’s clothing, feminine hygiene products; books; printed newspapers; and prepared food and beverages sold for less than $4.
  - phase in certain business input tax credits ("ITCs") over a transitional period of up to eight years; and
  - establish provincial rebate rates and thresholds for items such as new housing and public service bodies;
- negotiate possible employment arrangements with the federal government for provincial employees affected by the change; and
- provide the provinces with federal transfer payments ($4.3 billion to Ontario).
2010 Ontario Sales Tax Harmonization

• rate - 13%
  – federal component - 5%
  – provincial component - 8%
• temporary ITC restrictions
• point of sale rebates
• public service bodies rebates
  – different than GST

• The proposed HST in Ontario will have a combined tax rate of 13%, consisting of a provincial component of 8% (which matches the existing general rate of the Ontario Retail Sales Tax ("ORST")) and a federal component of 5% (the current GST rate).

• The legislation will restrict the recovery of the provincial component of HST by large businesses and financial institutions on telecommunications expenses (excluding internet access and 1-800 numbers), meals and entertainment expenses, fuel for licenced road vehicles, licenced road vehicles under 3,000 kilograms (and associated parts and certain services), and energy not used to manufacture goods for sale or in farming operations.

• Ontario will provide point of sale rebates for children’s clothing and footwear; children’s car seats and booster seats; diapers; feminine hygiene products; books (including certain audio books); print newspapers; and prepared food and beverages costing not more than $4.

• Rebates of the provincial component of the HST will be available to public service bodies, although the rebate rates will differ from the rates available for the federal component of the HST. The rebate rates available for the two components of the tax are noted below.

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<tr>
<th></th>
<th>Provincial Component of Ontario HST</th>
<th>GST</th>
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<tbody>
<tr>
<td>Municipalities</td>
<td>78%</td>
<td>100%</td>
</tr>
<tr>
<td>Universities and colleges</td>
<td>78%</td>
<td>67%</td>
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<tr>
<td>School boards</td>
<td>93%</td>
<td>68%</td>
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<tr>
<td>Hospitals</td>
<td>87%</td>
<td>83%</td>
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<tr>
<td>Charities and qualifying NPOs</td>
<td>82%</td>
<td>50%</td>
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</tbody>
</table>
After the implementation of the HST, Ontario will continue to levy a tax of 8% on certain types of insurance, such as premiums paid on group insurance policies, which are currently subject to ORST, but will be exempt from HST. However, there will be no change to the sales tax exemption on automobile insurance.

The government has announced that it will retain a retail sales tax on private transfers of used motor vehicles. Therefore, the new Ontario HST will not create inequities between motor vehicles sold privately and sales by used car dealerships. This tax treatment will be consistent with the other HST provinces.

Under the ORST system, tax is collected on alcohol sold at a licenced eating establishment at a rate of 10%, and at a rate of 12% on alcohol sold through retail stores. With the introduction of the new HST, the tax rate on these products will decrease to 8%.

In order to maintain its current revenue level, the Ontario government has indicated that it will adjust the fees, levies and charges that currently apply to alcohol products to compensate for the decreased tax rate. In addition, the government is proposing to replace other alcohol fees and charges with taxes in order to augment their operational structure and improve clarity.

In addition, Ontario will continue to levy separate commodity taxes on fuel, gasoline and tobacco.
PROPOSED TRANSITIONAL RULES
HST will generally be payable at 13% in Ontario, where the consideration for a taxable supply is paid or becomes payable on or after July 1, 2010.

Under the general timing of liability rule, GST/HST on the consideration for a supply is payable on the earlier of the day payment is made and the day the supplier issues an invoice. The payment terms on an invoice are irrelevant.

However, if there is an undue delay in issuing an invoice, GST/HST becomes payable when the invoice would have been issued if there had been no delay. In addition, if either the date of an invoice or the payment date under a written agreement is earlier than the date the invoice is issued, GST/HST becomes payable on the earlier date.

An override rule stipulates that if GST/HST is not otherwise payable by the last day of the calendar month after the calendar month in which any of the following events takes place, it becomes payable on that day:

- in the case of a sale of tangible personal property (other than a sale referred to below), the buyer acquires ownership or possession of the property;
- in the case of a sale of tangible personal property on approval, consignment, sale-or-return basis or similar terms, the buyer acquires ownership of the property or re-supplies it to someone other than the seller; and
- in the case of a supply under a written agreement for construction, renovation, alteration or repair of real property, or of a ship or other marine vessel when the work is reasonably expected to last more than three months, the work is substantially completed.
The current transitional rules use four key dates to identify when the HST will come into effect. In order to interpret the transitional rules, certain definitions and terminology must be understood.

- The “announcement date” refers to the date the federal government formally acknowledges a province’s intention to implement the HST. It is also the date on which the transitional rules were released. This is not the date – as commonly thought – that each province announced its intention to harmonize. The announcement date is October 14, 2009.

- The purpose of the announcement date is to prevent the application of HST to any existing contracts that may have been formalized prior to the notice of the intended change in sales taxes, similar to a grandfathering provision. HST will generally not apply to consideration that becomes due, or is paid without having become due, on or before October 14, 2009.

- The “implementation date” is the date on which the HST comes into effect. Any taxable supplies made on or after this date will be subject to HST. The implementation date is July 1, 2010.

- The third key date is referred to as the “specified pre-implementation date”, which is May 1, 2010. Consideration that is paid or becomes due on or after this date will generally be subject to HST where the actual supply is made on or after the implementation date. For example, where a company has purchased a specialized piece of machinery and has prepaid for the machinery after May 1, 2010, but before July 1, 2010, with delivery of the machinery taking place after July 1, 2010, HST will still apply to the transaction.

- Ontario has announced a cut-off date of October 31, 2010, on which retail sales tax will be deemed payable for any taxable supplies made prior to the implementation date, where the consideration has not yet been paid or become due.
HST will not apply to tangible personal property supplied by way of sale where the consideration is paid or has become payable prior to July 1, 2010, and the property is delivered and ownership has transferred prior to that date.

Where the transfer of ownership and the delivery of the tangible personal property takes place on or after July 1, 2010, HST will generally apply to the supply. This includes situations in which the consideration for the supply becomes due, or is paid without having become due, on or after May 1, 2010 and before July 1, 2010.

The HST on any prepayments made for tangible personal property is determined by the “specified pre-implementation date” (i.e., May 1, 2010) and not the implementation date. For payments made on or after May 1, 2010, where the delivery and transfer of ownership of the goods takes place on or after July 1, 2010, these payments will be subject to HST.

For example, the purchase of a piece of machinery that is paid for on June 1, 2010, with delivery and the transfer of ownership to the purchaser occurring on July 15, 2010 (post-implementation), will be subject to HST.

This provision is, in essence, an anti-avoidance rule put in place to deter taxpayers from prepaying for a supply in advance of the implementation date in order to avoid paying the provincial component of the HST on the purchase.
Examples

- sale of tangible personal property
  - example 1 – payment terms
  - example 2 – deferred payment
  - example 3 – progress payments

Example 1 – payment terms
- An invoice, dated May 15, 2010, is generated for the sale of computer hardware that will be delivered to Ontario with payment terms of net 60. Should GST or HST be charged on this sale?
- Since the GST/HST became payable on the date of the invoice and this was before July 1, 2010, GST at the rate of 5% should be charged where the hardware is delivered to the customer prior to July 1, 2010. Note that the date the tax became payable (i.e., the invoice date) may be earlier than the actual payment date. However, where the hardware is delivered to the customer on or after July 1, 2010, HST would be applicable.

Example 2 – deferred payment
- A customer in Ontario entered into an agreement to purchase production machinery in May 2010, without having to make any payments until August 2010. Would GST or HST apply to this sale? The customer actually receives ownership and possession of the machinery in June 2010, but will not receive an invoice for payment until August 2010.
- In this situation, since the production machinery is delivered to the customer in June 2010, HST will not apply to this purchase.

Example 3 – progress payments
- In June 2010, Company A, located in Ontario, contracts with Company B to produce a mould for use by Company A. Under the written agreement, Company A must make six equal monthly payments from June 2010 to November 2010. Possession and ownership of the mould will be transferred in November 2010. Does GST or HST apply to the payments made?
- Since ownership and possession of the mould is transferred on or after July 1, 2010, HST applies to the total consideration for the mould, including the payment made in June 2010.
Generally, the HST will apply to services supplied on or after July 1, 2010. However, the HST will not apply if all or substantially all (90% or more) of the service is completed before July 1, 2010.

Services performed on or after July 1, 2010, for which the consideration becomes due or is paid on or after May 1, 2010 and before July 1, 2010 would also be subject to HST. The HST paid on these services must be filed with the GST/HST return for the reporting period that includes July 1, 2010.

Apportionment may be required for services that straddle the July 1, 2010 implementation date, where all or substantially all (90% or more) of the service is not complete by July 1, 2010. For example, if a consultant is hired to perform a service for four months starting in June 2010 and the service is completed in September 2010, what rate of tax would apply? HST would apply to the services performed in July, August and September, which would be 75% of the total consideration.
Generally, the HST will apply to consideration that becomes due or is paid without having become due, on or after July 1, 2010 for supplies of intangible personal property by way of sale. For example, if a person purchases the right to reproduce certain portions of a book in July 2010, the HST will apply to the transaction.

On the other hand, HST will not apply where consideration is paid or becomes due for the supply of intangible personal property before July 1, 2010. To extend the above example, the same book rights paid for in June 2010 would not be subject to HST.

Memberships are generally defined as a right by most individuals. However, under the ETA, enrollment in a club, association or organization is considered a supply of a service. Therefore, the purchase of a membership will follow the transitional rules laid out for services.

One variation from the general rules applies to the consideration for a lifetime membership in a club, organization or association which becomes due, or is paid without having become due, after October 14, 2009 and before July 1, 2010. In such cases, where the consideration exceeds 25 per cent of the total consideration for the membership, the amount in excess of the 25 per cent portion will be treated as having become due on, and not to have been paid before, July 1, 2010, and will be subject to HST.
Examples

- services and intangibles
  - example 1 – partial payment
  - example 2 – advance payments
  - example 3 – annual subscriptions

Example 1 – partial payment
- We receive a partial payment of $10,000 on May 22, 2010 for computer services that will be performed in Ontario after July 1, 2010. The total consideration for the services is $50,000. The invoice for these services will be issued in August 2010 and the customer will pay the remaining balance once they receive the invoice. Does GST or HST apply the computer services performed?
- HST applies to the partial payment of $10,000 and the outstanding $40,000 balance paid by the customer in August 2010, since the services are being performed for the customer in the harmonized zone after July 1, 2010.

Example 2 – advance payments
- We entered into an agreement for the provision of computer hardware maintenance services for a computer located in Ontario on May 1, 2010. The payments are due on the last day of the previous month for each particular month covered by the agreement. As a result, the monthly payment for the July 2010 services is due on June 30, 2010. Does GST or HST apply to the payment made on June 30, 2010?
- Since the service is performed in the harmonized zone and the actual services will be performed on or after July 1, 2010, the payment made on June 30, 2010 will be subject to HST, since it is consideration for services provided after the implementation date.

Example 3 – annual subscriptions
- We have purchased an annual subscription to an information service that will commence on May 1, 2010 and we are required to make four payments for this service. The payments for this service are due on May 1, 2010, June 1, 2010, July 1, 2010 and August 1, 2010. We will not make these payments before they are actually due. Will HST apply to any payments made for the information subscription?
- HST does not apply to the payments made on May 1, 2010 and June 1, 2010, since the payments became due prior to July 1, 2010. The payments made on July 1, 2010 and August 1, 2010 will be subject to HST, since they only became due after the HST implementation date of July 1, 2010.
Generally, a taxable sale of real property includes any sale of real property other than used residential real property and certain personal-use real property sold by individuals. On taxable sales (as opposed to leases, licences, or other similar arrangements) of real property, GST/HST is generally not collected by the vendor; instead, the tax is self-assessed and remitted by the purchaser where the recipient of the supply is a GST/HST registrant or the supplier is a non-resident of Canada. These rules are referred to as the “reverse collection rules”.

HST will apply to the consideration for the sale of taxable real property (other than residential housing) where both possession and ownership of the property is transferred on or after July 1, 2010.

Where the possession and ownership of taxable real property is transferred prior to July 1, 2010, the transaction will not be subject to HST.

For leases of real property, HST will apply to the part of a lease interval in respect of a lease, licence or similar arrangement that occurs on or after July 1, 2010.

It should be noted that a concession is made where the lease interval commences prior to July 1, 2010 and terminates before July 31, 2010. In this case, HST will not apply to the consideration for that lease interval.

Similar rules apply to the lease or licence of tangible personal property.

The HST will also generally apply to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 1, 2010, for a supply of property by way of lease, licence or similar arrangement, to the extent that the consideration is for the part of a lease interval that occurs on or after July 1, 2010 (except as noted above).
Real property - examples

- sales
  - example 1 – commercial property
- leases
  - example 2 – rental of office space

Other leases - example
  - example 1 – vehicle leases

Real property

Example 1 – commercial property
- A registrant purchases a commercial building in Ontario that is fully leased to retail tenants. The registrant entered into the agreement of purchase and sale with another registrant prior to May 1, 2010, and will receive ownership and possession after July 1, 2010. Will the HST tax rate apply to the acquisition?
- The taxable supply of the commercial building is subject to HST at 13%, since ownership and possession are transferred after July 1, 2010. The exception to this general rule only applies to the purchase of a new or substantially renovated residential complex and not to commercial real property.

Example 2 – rental of office space
- Rent for office space is paid on the 15th of every month. We have issued post-dated cheques to our landlord for the entire lease period, ending December 31, 2010, and have included GST at 5% with each post dated cheque. Would GST or HST apply to the payment dated June 15, 2010 that covers the rent for the month of July 2010?
- Since the lease interval for the office space being rented begins on July 1, 2010, HST applies to the June 15, 2010 payment. This is because the consideration for the July lease interval becomes due on July 1, 2010 and, as a result, HST applies to that portion of the lease.

Other leases

Example 1 – vehicle leases
- We entered into 36-month leases for passenger vehicles for use by our employees in April 2010. A lease payment is due on June 1, 2010 for the lease interval covering the period June 1, 2010 to June 30, 2010. The terms of the lease payment are net 30, so we will not make the lease payment for the June lease interval until July 2010. Does HST apply to the payment that we make for the June lease interval?
- The lease payment made in July 2010 is in respect of the June 2010 lease interval. Since this lease interval occurs before July 1, 2010, it will not be subject to HST.
Prepayments and deposits

- prepayments
  - goods
  - pre-implementation date is key
- deposits

- The application of HST to prepayments for tangible personal property is determined by the specified pre-implementation date (May 1, 2010) and not the implementation date. Payments made on or after May 1, 2010, with the delivery and transfer of ownership of the goods taking place on or after July 1, 2010, will be subject to HST.

- Where a deposit is given in respect of a supply, the deposit is not regarded as consideration for the supply unless and until the supplier applies the deposit against an amount payable for that supply. It is only at that time that tax becomes payable on the amount placed as a deposit. The CRA administratively defines a deposit to be an amount given by a recipient as security for the performance of an obligation. This rule applies whether or not the deposit is refundable.

- To illustrate the rule for deposits, if a person makes a deposit of $100 in April 2010 for a supply that is made after July 1, 2010, the $100 will not be treated as consideration for the supply until it has been applied to the person’s account. Where this occurs after July 1, 2010, HST will apply to the consideration for that supply.

- It is important to distinguish amounts paid as deposits from prepayments, the latter being subject to tax based on the general transitional rules. Revenue recognition is helpful in making this determination. Prepayments represent consideration for a supply in respect of which an agreement is in place and will generally be reported on the income statement of the recipient, whereas deposits are reported on the liability section of the recipient’s balance sheet. Prepayments are not dependent upon any further condition being met by the recipient, and are rarely refundable. A prepayment may be subject to GST or HST even if, at the time the payment is made, the supply has not in fact occurred (i.e., the property has not been transferred, or the service has not yet been rendered). This is because the meaning of “supply” extends to agreements to make or receive a supply.
An admission to a place of amusement, seminar, activity or other event is considered a supply of a service for HST implementation purposes. Where an advance ticket is sold on or after May 1, 2010 and prior to July 1, 2010, with the event held on or after July 1, 2010, HST will apply to the sale.

Notwithstanding the general transitional rules for services, HST will not apply to the consideration for freight and passenger transportation services that are performed on or after July 1, 2010 if the service is part of a continuous journey or freight movement that begins before July 1, 2010.

For example, if an individual purchases a ticket to fly from Toronto to Ottawa on June 29, 2010, and returns from Ottawa on July 3, 2010, HST would not apply to the ticket price.

A special rule applies to passenger transportation passes, under which the HST does not apply to the supply of a transportation pass if the pass period begins before July 1, 2010 and ends before August 1, 2010.

Progress payments that become due, or are paid without having become due, after October 14, 2009 and before July 1, 2010, in respect of a contract to construct, renovate, alter or repair real property, will be subject to HST to the extent that the progress payment can reasonably be attributed to property or services delivered on or after July 1, 2010.

Similarly, a holdback from a progress payment may also be subject to HST, to the extent that any part of the payment can reasonably be attributed to property or services delivered on or after July 1, 2010.
A separate set of rules apply where prepaid goods are purchased by non-consumers. Generally, where consideration becomes due, or is paid without having become due, after the announcement date (October 14, 2009), but before the specified pre-implementation date (May 1, 2010), for a supply of goods by way of sale to be delivered, and for which ownership will transfer, on or after the implementation date (July 1, 2010), a non-consumer (such as a business or public service body) may be required to self-assess the provincial component of the HST.

The requirement to self-assess the provincial component of the HST will generally only apply to:

- non-consumers acquiring supplies otherwise than for use exclusively in commercial activities (i.e., for use in making exempt supplies);
- non-consumers acquiring supplies for use exclusively in commercial activities where the items in question would be subject to an input tax credit restriction;
- public service bodies and small businesses that use the approved simplified procedures for calculating their net tax; and
- selected listed financial institutions that use the special attribution method for calculating their net tax.

Similar rules apply to the lease or licence of property, as well as the acquisition of services and intangibles.
The provincial component of the HST will generally apply to supplies of property and services brought into Ontario on or after July 1, 2010 from a non-participating province.

Generally, where consideration becomes due, or is paid without having become due, after October 14, 2009 for a taxable supply or a part of a taxable supply provided on or after July 1, 2010, the provincial component of the HST may apply.

With the implementation of the HST, Ontario will become participating provinces for the purposes of the imported taxable supply rules.

Persons involved exclusively in commercial activities will not be required to self-assess the HST on imports or the provincial component of HST on supplies brought into a participating province on or after July 1, 2010.

However, organizations involved in exempt activities may be required to self-assess the HST on imports or the provincial component of HST on supplies brought into a participating province on or after July 1, 2010.

Imports

- supplies brought into province
- imported goods
  - commercial activities
  - exempt activities
WINDING DOWN ORST
The Ontario Retail Sales Tax ("ORST") will, for the most part, cease to exist on July 1, 2010 and will not apply in the following situations:

- the sale of goods where the goods are delivered and ownership of the goods are transferred on or after July 1, 2010;
- the supply of services that are performed on or after July 1, 2010, provided all or substantially of the services were not completed before July 1, 2010;
- the supply of property by way of lease, licence or similar arrangement that occurs after July 1, 2010; however, where the lease begins before July 1, 2010 and ends before July 31, 2010, the retail sales tax would apply;
- the sale of property or a service delivered or performed on a continuous basis by means of a wire, pipeline or similar channels or satellite or other telecommunications facility to the extent the property or service is delivered, performed or made available on or after July 1, 2010; and
- goods brought into Ontario or imported into Ontario by a resident, on or after July 1, 2010.
- Ontario will not charge retail sales tax on sales of an admission, including tickets sold on a subscription or season ticket basis, for entry to a place of amusement on or after July 1, 2010 and paid for before July 1, 2010. The HST will apply to these transactions.
Announcement and pre-implementation date

- consideration due or paid
  - on or before October 14, 2009
  - after October 14, 2009 and before May 1, 2010
  - on or after May 1, 2010 and before July 1, 2010
  - outstanding ORST payable on October 31, 2010

Consideration due or paid on or before October 14, 2009
- In addition to the general wind-down rules, the ORST would still apply to goods, services or admissions the consideration for which becomes due or is paid on or before October 14, 2009, even in situations where the supply is delivered after July 1, 2010.

Consideration due or paid after October 14, 2009 and before May 2010
- Organizations (e.g., businesses and public services bodies) may be required to self-assess the provincial component of the HST on consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010, where it relates to the sale of supplies that are delivered on or after July 1, 2010.

Consideration due or paid on or after May 1, 2010 and before July 2010
- ORST will not apply to sales where the consideration becomes due or is paid on or after May 1, 2010 and before July 1, 2010 for supplies delivered after July 1, 2010.

ORST payable on or before October 31, 2010
- Any ORST that is outstanding on October 31, 2010 will be deemed payable on that date, and must be remitted by November 23, 2010.
ORST Refunds and Rebates
• The existing time limits for claiming ORST refunds and rebates will continue to apply until the earlier of the expiration date under the current limit (i.e., 4 years) and June 30, 2014.

Returns and Exchanges
• For ORST purposes, the purchase of goods before July 1, 2010 and returned or exchanged after July 1, 2010 will be treated as follows:
  – ORST sales tax is to be refunded when the property is returned and a full refund is granted;
  – no ORST refund is to be granted when the exchange results in no refund or an additional payment;
  – a partial ORST refund is to be granted when the exchange results in a partial refund; and
  – no ORST applies when an exchange results in an additional payment; however, the HST may apply to the transaction.
Final ORST Returns

- Ontario final retail sales tax returns must be filed on July 23, 2010. Supplemental returns will be due on the 23rd day of the month following the month in which ORST have been paid or collected. In addition, Ontario requires all supplemental ORST returns to be filed by November 23, 2010. As previously noted, all outstanding ORST will be considered payable on October 31, 2010.

Disclosure of tax

- Where ORST-included pricing is used, and the consideration for a supply becomes due or is paid after October 14, 2009 and before May 2010, and the seller does not disclose in writing the amount of ORST included in the price, the stated price will be deemed to include ORST, assuming ORST would have applied to the sale, notwithstanding any other transitional rule that may apply.

ORST Assessments, Objections, Appeals and Enforcements

- Ontario has clearly indicated that the assessment, objections, appeals and enforcement process will continue until the transition period expires.
PLANNING AND PREPARING FOR HST
Impact on registrants

- systems
  - comprehensive review
  - identify resource requirements
  - test system changes
  - transitional issues
  - post-implementation review

- Organizations can prepare for the HST transition by being proactive. A comprehensive review of the impact of the HST implementation on all systems and procedures is strongly recommended. Custom software may require the assistance of a programmer to effect the changes. Businesses using “off-the-shelf” systems may find themselves relying on software developers to provide a “patch” to handle the changes.

- In either situation, once tax codes and tax tables have been updated, thorough testing of the system changes with sample transactions, in advance of the effective date, is necessary to ensure that billing and purchasing systems are working effectively to minimize potential exposures or customer issues.

- From a systems perspective, a major challenge facing organizations is the impact of the transitional rules on their systems. The retail sales tax rates may still be required for certain transactions. For example, a refund or adjustment made after July 1, 2010 could be subject to HST or retail sales tax depending on the date of the original purchase. However, many systems can only accommodate one tax rate, the current rate, for coding purposes. Consequently, these organizations must design and implement temporary manual procedures to identify situations when retail sales tax applies. This may be of particular concern to registrants who must remit the tax for HST purposes or credit an expense for retail sales tax.

- Following any major system modification or implementation, there should always be a post-implementation review to ensure that executed changes are working effectively. Organizations with software programs that produce exception or query reports can mitigate the risk associated with the understatement of recoveries by designing macros or queries to flag possible input tax credit errors or inconsistencies on purchases made after July 1, 2010. Simple reasonableness tests can also be performed on the purchase and sales journals as a means of identifying variances.
There are several key systems areas which require the attention of all registrants:

**Billing systems**
- Clearly, a top priority for all organizations is to adjust billing or invoicing systems, including point-of-sale terminals or cash register software, to ensure that the correct rates of GST and HST are charged and collected as of July 1, 2010.
- Items to consider, when required, include the different GST/HST rates, 5% and 13%.
- The tax status applied to products, services and intangibles may also change. Many supplies that were exempt under the retail sales tax rules are likely to be taxable for HST purposes.
- In some cases, a point-of-sale rebate will be available for certain items identified as not previously taxable under the retail sales tax system, such as children’s clothing, books and feminine hygiene products.

**A/R and A/P systems**
- Tax tables and vendor tax codes used in accounts receivable and accounts payable systems must be adjusted to reflect the new tax rates. Keep in mind that GST/HST is a destination based tax, so the rate is determined by the “ship to” address and not the “billed to” address.
- Input tax credit restrictions, as well as qualifying rebates, may require systems to track the provincial and federal component of the HST.
- Self-assessment processes must also be considered depending on the organization’s activities. Ontario Retail sales tax required purchasers of taxable supplies to self-assess on the purchase price where tax was not charged by the vendor. This self-assessment will no longer be required by organizations in commercial activities. However, organizations in exempt activities, such as municipalities, universities, school boards, hospitals and financial institutions, will still be required to self-assess on taxable supplies where HST was not charged in certain situations.
Impact on registrants

- updating systems (continued)
  - credit and debit notes
  - purchase orders
  - journal entries and programmed payments

Credit and debit note systems
- These systems may not be integrated with the A/R and A/P systems and require separate attention.
- Where refunds, rebates and adjustments are made on sales, the supplier decides if GST/HST is applied on a credit to a registered customer under certain conditions. Such transactions will require additional consideration to account for remittances that may be required on GST/HST credited back to registrants.
- Credit and debit notes issued to unregistered customers must contain an adjustment of all taxes charged on the original invoice. This may require an adjustment of retail sales tax after the July 1, 2010 transition.

Purchase orders
- In many systems, the tax codes used to create purchase orders drive the tax status of transactions throughout the system, requiring these codes to be adjusted for the new rates.
- The place of supply rules for the various HST rates must also be considered when generating purchase orders, especially in situations where services or intangibles are involved.
- In many cases, purchase order systems also drive the journal entries for input tax credit claims for acquisitions. The programmer will need to consider the input tax credit restrictions in place for purchases by large businesses to ensure that the organization does not recover excessive HST on these purchases.

Journal entries and programmed payments
- It is common for many organizations to use standard or recurring journal entries on automatic payments (e.g., monthly intercompany charges for rent, management fees, etc.) and equal billings. Where these items include a GST component, an adjustment may be required to account for the new HST that might apply to these transactions.
- The purchase or sale of an intercompany supply, where retail sales tax did not apply before, may now be subject to HST, such as in the case for legal fees in Ontario.
Impact on registrants

- updating systems (continued)
  - reimbursements and allowances
  - payroll
  - public service bodies

Employee expense reports and allowance reporting

- Quite often, employee expense reports and allowances are handled in a completely separate accounting system, which increases the possibility that required changes to factors and rates used in these systems could be overlooked. Due diligence is required in this area, not only during the transition, but also later on when expense reports are submitted, to ensure that the new factors are being used. This is by far the biggest exposure area we have seen related to the tax transitions surrounding previous GST rate changes.

- Large businesses must be aware that the input tax credit restrictions will apply to employee expense reimbursements as well as to invoices billed directly to the employer.

- The special rules currently applied to ITCs including meals and entertainment and club membership fees, will also apply for HST purposes.

Payroll and taxable benefit calculations

- The previous GST rate change created changes to rates and factors used to calculate GST/HST remittances on certain taxable benefits. The movement to HST in Ontario will also cause changes to the rates and factors that must be used to remit GST/HST on taxable benefits for employees located in these provinces, and these changes must be incorporated into payroll and taxable benefit systems.

Public service bodies

- Public service bodies may be able to claim rebates not only on the federal component of the HST, but also on the provincial component. The proposed rebate rates for the provincial component often vary from the current rebate rates used for the federal component (i.e., GST). This added complexity will require public service bodies to address the accuracy of the rebate calculations used in accounts payable, purchasing and employee expense reimbursements prior to claiming any rebates. These organizations may have to find ways to track the GST and HST paid to ensure that the correct amounts of GST and HST are recovered on rebate claims.
On the purchasing side of the equation, significant sales tax liability exposure can accumulate if an organization claims ITCs using the new HST rates, while paying only 5% GST on the purchase. This is especially true if an accounting system has not been changed to effectively handle invoices issued before and after the implementation of HST (i.e., the system calculates and attempts to recover HST when the supplier collected only GST).

Taxpayers need to remember that only the actual amount of GST/HST charged may be recovered, regardless of what internally generated tax amounts indicate. Specifically, taxpayers must ensure that any programs designed to recover GST/HST are revised to recover only the actual amount of tax charged by the supplier. Accounting systems will likely have to be flexible, with the ability to have the amount of tax calculated as an ITC overridden to match the tax actually charged on an invoice. This form of flexibility can have significant internal control ramifications.

Many organizations have very sophisticated purchasing systems that require, as a control procedure, the purchase order to match exactly with the vendor invoice in order to authorize payment. If purchase orders are generated prior to July 1, 2010 with the 5% GST rate, there will be complications in matching these to invoices issued on or after July 1, 2010, with the 13% HST rate. The result is that either purchase orders may need to be cancelled and reissued, or authorization will be needed for accounts payable to manually override existing purchase orders.

As is customary with most sales tax changes today, anti-avoidance provisions will be implemented to prevent any inappropriate tax savings. These provisions are targeted at persons, particularly non-arm’s length parties, who will try to vary, alter, or terminate their existing agreements or transactions in order to take advantage of the introduction of the HST.
A registrant customer who is incorrectly charged HST, may be inclined, rightly or wrongly, to claim an input tax credit for the amount paid. In fact, the ETA requires that any amount collected as or on account of tax be remitted to the Receiver General, even where the amount is collected in error. HST collected must be remitted just the same.

However, retailers and other organizations collecting tax from consumers, non-registrants, or other persons who cannot fully recover the tax, will undoubtedly suffer the wrath of an irate customer if the HST is charged at the wrong rate or when only GST at 5% applied to the transaction.

As noted previously, organizations will encounter challenges when systems cannot accommodate maintaining multiple rates of tax (i.e., 13% and 5%) for the purpose of issuing refunds or price adjustments. If, for example, a registrant purchaser returns product after July 1, 2010, which was originally purchased on June 15, 2010, a refund of the provincial tax and GST charged is warranted. However, if the vendor only refunds 5% GST due to a system limitation, there may be an issue for the vendor or purchaser.
Where a registrant is entitled to claim full ITCs on its purchases, and a particular acquisition would be subject to ORST if made prior to July 1, 2010, a deferral of the purchase until after June 30, 2010 may result in a cost savings due to the claiming of an ITC on the HST charged rather than having to expense any ORST that may have applied to the purchase. The purchase of an expensive software package may be an example of where this strategy may be beneficial, because software currently is subject to ORST and after July 1, 2010, ORST will not apply to the purchase. Instead, fully recoverable HST will apply to the purchase, provided the purchaser is involved in commercial activities.

Alternatively, if a consumer is not entitled to claim a full ITCs on the HST paid on its purchases (e.g., a financial institution or MUSH sector organization), it may be more cost effective to purchase certain items exempt of retail sales tax prior to July 1, 2010 rather than have fully or partially unrecoverable HST apply to the transaction. Examples of this situation might include the purchase of custom software.

There are many variations on this theme and careful consideration should be given to the timing of the acquisition of any major purchases during the year 2010 so that the impact of sales taxes is minimized.

Large businesses with operations across Canada currently have no need to track the GST and HST paid separately in their records, since there are currently no large business ITC restrictions in place. However, with Ontario including temporary ITC restrictions on large businesses as part of their sales tax harmonization programs, it may be necessary for these organizations to track the federal and the provincial portions of the tax paid separately in order to ensure that they have the ability to accurately claim ITCs on their purchases of supplies that will be subject to the temporary ITC restrictions starting on July 1, 2010.
All GST and HST will be reported on a single GST/HST return. After the final sales tax returns are filed, it is anticipated that many taxpayers will no longer have to file sales tax returns, resulting in an administrative savings for many registrants.

Since Ontario will continue to collect sales tax on taxable insurance premiums and some organizations will continue to self-assess tax on insurance premiums charged by unregistered insurance providers or vendors, a return for the self-assessment of tax may be required. In addition, Ontario registered insurers will be required to file a return for the sales tax collected on taxable insurance premiums.

Suppliers that sell goods or services that will be subject to the temporary ITC restrictions discussed above may wish to disclose the amount of the unrecoverable provincial component of HST included on the invoice that is issued to their customers. This will make it easier for the customer to identify the amount of HST they have paid that is unrecoverable for ITC purposes, and will eliminate any need for their customer to track the GST and HST portions of tax paid separately in their systems. These businesses, being experts in the services they provide, are also in a better position to determine the amounts of HST collected that would be subject to the ITC restrictions. This is especially true where a portion of their supplies would not be subject to the restrictions.
The Canada Revenue Agency has announced proposed changes to the electronic filing requirements for GST/HST registrants, which will be effective July 1, 2010. Currently, only certain registrants may file a GST/HST return electronically. As a result of the proposed changes, all registrants will be able to file electronically.

In addition, effective July 1, 2010, the following groups will be required to file their GST/HST returns electronically:

- GST/HST registrants with greater than $1.5 million in annual taxable supplies (except charities);
- all registrants required to recapture input tax credits for the provincial portion of the HST on certain inputs in Ontario or British Columbia; and
- builders affected by the transitional housing measures announced by Ontario or British Columbia.

It is no coincidence that these proposed changes will take effect at the same time as harmonization, since organizations that are subject to the proposed input tax credit restrictions will be required to file their GST/HST returns electronically. Therefore, organizations should include a migration to the electronic filing of their returns as part of their planning for the implementation of the HST. There will be four methods available to taxpayers to facilitate the electronic filing of GST/HST returns: GST/HST NETFILE, GST/HST TELEFILE; GST/HST Electronic Data Interchange (EDI); and the newly created GST/HST Internet File Transfer (GIFT). Charities and many organizations with annual taxable supplies that do not exceed $1.5 million will not be required to file their returns electronically.

GST/HST registrants that are required to file electronically, as of July 1, 2010, and continue to file paper returns after this date may be subject to penalties.

Reference: Canada Revenue Agency GST/HST Notice No. 249, “Questions and Answers on the New Reporting Requirements for GST/HST Registrants”.

Electronic filing requirements

- required effective July 1, 2010, if:
  - annual taxable supplies > $1.5 million
  - subject to temporary ITC restrictions
  - subject to transitional housing rules
- 4 methods available
Division XI of the ETA contains provisions that, as of yet, have not been proclaimed. These provisions are in regard to tax inclusive pricing. It is stipulated that the rules contained in these provisions cannot be enacted until provinces comprising at least 51% of the total Canadian population having a retail sales tax or participating in the HST, have enacted tax-inclusive pricing legislation. This is due to the fact that the federal government is unable to impose these requirements in the non-harmonized provinces, in accordance with the requirements of the reciprocal taxation agreements.

Based on the 2008 census figures, we now have a situation where this population threshold has been exceeded, since the Atlantic provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador, along with Ontario and British Columbia comprise a group of provinces where almost 60% of the Canadian population resides.

The tax-inclusive pricing provisions are included in the legislation as it is believed Canadians would prefer to know the full price of an item they desire to purchase. This is also the method adopted by most of the approximately 130 countries having a value-added tax.

There has been no indication from the federal government that they intend to implement these provisions at this time, but we have included this material as it is very possible that an announcement in this regard will be made before the July 1, 2010 implementation date.
IMPACT ON UNIVERSITIES
• The term public service body (“PSB”) applies to the MUSH sector (i.e., municipalities, universities, colleges, school boards and hospitals), charities and other non-profit organizations.

•Supplies by these organizations are generally exempt from GST/HST; therefore, no ITCs are available to recover the tax paid on their purchases. However, rebates at various rates, depending on the classification of the body, are in place to enable them to recover a portion of the GST/HST that they pay.

• Harmonization will allow PSBs to recover a portion of the provincial component of the HST when implemented on July 1, 2010. However, British Columbia is rumored to be considering additional provincial funding to alleviate the additional costs some of these entities (e.g., universities, colleges, school boards and hospitals) will incur, rather than providing such rebates. This may help to avoid the onerous calculations that will be required by these organizations that are based in Ontario. The rebate percentages for the provincial component of HST will differ from those available for GST purposes, as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>GST</th>
<th>Provincial Component Ontario HST</th>
<th>Provincial Component B.C. HST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities</td>
<td>100%</td>
<td>78%</td>
<td>75%</td>
</tr>
<tr>
<td>Universities/Colleges</td>
<td>67%</td>
<td>78%</td>
<td>75%</td>
</tr>
<tr>
<td>School Boards</td>
<td>68%</td>
<td>93%</td>
<td>87%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>83%</td>
<td>87%</td>
<td>58%</td>
</tr>
<tr>
<td>Charities/ NPOs</td>
<td>50%</td>
<td>82%</td>
<td>57%</td>
</tr>
</tbody>
</table>
With the different rebate percentages available, as noted in the table on the previous page, an increased effort will be required in order to calculate those rebates. For example, a school board that purchases new desks costing $10,000, with an additional $1,300 for Ontario HST, will be required to calculate a rebate of only 68% of the 5% federal component of the tax (68% of $500), and 93% of the 8% provincial component of the tax (93% of $800). This will likely give rise to some unwieldy calculations (similar to the calculations that are required by municipalities in Nova Scotia and New Brunswick) and may require changes to current systems to accommodate these special calculations.

Many organizations in the MUSH sector are required to apportion the GST paid, since they are engaged in more than one activity and may have some commercial activities. For example, many universities are also hospitals and charitable organizations. With the different rebate entitlements available for HST purposes, the apportionment will likely become far more complicated.

Most PSBs will find their costs increasing as a result of certain expenses, not currently subject to retail sales tax, now being subject to a 7% or 8% provincial component of the HST. Of note, commercial rents, utilities, professional fees, patient care items purchased by hospitals, and research equipment purchased by universities, will all be subject to HST and these entities will be able to recover only a portion of that cost, if anything at all. School boards should note that school books will not be impacted by HST as a result of the point of sale rebates to be introduced.

Since these entities are not engaged exclusively in commercial activity, they are generally required to self-assess GST when it is not charged to them on imported supplies. After implementation, they will need to self-assess the provincial component of the HST as well. This self-assessment of tax could become complicated where the goods are imported from outside of Canada, since the 5% federal component will likely be collected by the CBSA, but the provincial component will not.
Under the current retail sales tax systems, certain costs are currently subject to non-recoverable retail sales tax. Examples include computer software; computer hardware; purchases of tangible personal property for own use, such as office furniture and supplies; telecommunication services; parking; certain warranty and maintenance contracts; and taxable labour services, such as labour to install, repair, maintain, adjust or dismantle tangible personal property.

With the implementation of a harmonized sales tax, qualifying PSBs will now be able to recover a portion of the tax paid and, thereby, reduce their net cost for many of these items. It is debatable, however, whether this will adequately offset the increased costs that may be incurred as a result of the introduction of HST.

While it will require significant resources to administer the new HST, due to the different rebate factors proposed and temporary ITC restrictions, there will be only one sales tax return to file and, once the current retail sales tax systems wind down, only one audit to endure.
The temporary input tax credit restrictions that will be in place for up to eight years on the recovery of the provincial component of the HST will not affect public sector bodies engaged solely in exempt activities.

However, where you have an entity, such as a university or hospital, engaged in both commercial and exempt activities, the existing legislation contained within the ETA would restrict the recovery of the provincial component of the HST on those restricted expenses that relate to their commercial activities. Note, however, that no restriction will apply to the federal component of the tax. This could lead to another complicated calculation or the requirement to keep separate records of both the GST and HST paid.

Ontario has stated on several HST related documents that the input tax credit restrictions would not apply to any public service bodies. There is nothing in the memorandums of agreements for sales tax harmonization or the federal proposed HST legislation that supports this notion. However, in recent conversations with both the CRA and Ontario, we have determined that the federal Department of Finance and Ontario are looking into the possibility of creating rules that would prevent these input tax credit restrictions from applying to the public service bodies.

It is quite possible that the rules that may prevent these provisions from applying to these organizations will be contained in the regulations that will be developed to govern the operation of the HST. Unfortunately, these regulations have not been released to date and public service bodies would be wise to create contingency plans that would enable their organization to handle these input tax credit restrictions in the event that they do apply to purchases that are acquired in relation to their commercial activities.

IMPACT ON UNIVERSITIES

Public Service Bodies

- input tax credit restrictions
  - meals and entertainment
  - licensed road vehicles
  - fuel for licensed road vehicles (Ontario only)
  - telecommunications
  - hydro/gas not used in manufacturing or farming
- possibly will not apply
Reference Materials

“A”

Canada Revenue Agency, Technical Information Bulletin, B-067,

“Goods and Services Tax Treatment of Grants and Subsidies”
GST/HST Technical Information Bulletin B-067

August 24, 1992

GOODS AND SERVICES TAX TREATMENT OF GRANTS AND SUBSIDIES

This Technical Information Bulletin does not replace the law found in the Excise Tax Act and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate Regulation or contact any Revenue Canada Excise/GST District Office for additional information. If you are located in the Province of Quebec, please contact the Ministère du Revenu du Québec (MRQ) for additional information.

This bulletin may reflect amendments proposed to the Excise Tax Act contained in Notices of Ways and Means Motion and/or announced in press releases dated December 18, 1990, March 27, 1991, November 5, 1991, February 12, 1992, February 25, 1992, March 10, 1992 and April 27, 1992. The federal government announced its intention to introduce certain amendments to the Excise Tax Act to effect these changes which were outlined by the Minister of Finance or the Minister of National Revenue in press releases on the mentioned dates. [Where the information provided in this bulletin reflects proposed amendments, the information is enclosed in square brackets.] At the time of publication, Parliament had not enacted these proposed amendments. Any commentary in this bulletin should not be taken as a statement by the Department that such amendments will in fact be enacted into law in their current form.

INTRODUCTION

Grants, contributions, subsidies and similar payments, often called transfer payments, are made for many reasons ranging from money given out by a charity for food or clothing to major government-funded projects.

If it is established that a supply takes place in return for a transfer payment, the payment may be regarded by the Department as "consideration" for a supply. The amount of the transfer payment must then be used to calculate any Goods and Services Tax (GST) payable. The person who receives the payment, if registered for the GST, must collect the tax payable from the grantor of the transfer payment.

This bulletin explains how the GST applies to transfer payments and introduces policy guidelines to clarify when a particular transfer payment may be regarded by the Department as consideration for a supply. As a result of this clarification, the GST treatment of some transfer payments may be affected.

In this bulletin, "transfer payment" refers to grants, contributions, gifts, subsidies and similar payments made by any grantor whether a government, public service body, commercial organization or an individual.

The bulletin is divided into four parts:

II. Policy guidelines to help persons who provide or receive a transfer payment to determine whether or not the payment is directly linked to a supply of goods or services.

III. An explanation of transitional measures respecting transfer payments made before November 1, 1992.

IV. An Appendix which provides a summary of the effect of the policy guidelines on public service bodies.

PART I OVERVIEW

In general, transfer payments made in the public interest or for charitable purposes will not be regarded as consideration for a supply.

However, if there is a direct link between a transfer payment received by a person and a supply provided by that person, either to the grantor of the transfer payment or to third parties, the transfer payment will be regarded as consideration for the supply. If a transfer payment is consideration for a supply, then it must be determined whether or not the supply is taxable.

For example, if a person receives a $100,000 transfer payment from a grantor to set up a management training program and arranges to train specific senior executives of the grantor's company, the payment will be regarded as consideration for the supply of training services to the grantor. The recipient of the $100,000 transfer payment must therefore collect the tax from the grantor of the transfer payment in respect of the supply of the taxable training program. In this example, tax payable by the grantor, calculated on the value of the transfer payment will be $7,000 ($100,000 x 7%). The recipient of the transfer payment must collect and remit $7,000 GST.

Third Parties

A recipient may use a transfer payment to provide a supply of goods or services to one or more third parties rather than to the grantor of the payment. In this case, if it is established that a direct link exists between the transfer payment and the supplies provided to the third parties, the transfer payment will be regarded as consideration for those supplies. If the recipient of the transfer payment is a registrant and the supplies are taxable, the recipient of the transfer payment must charge and collect tax from the grantor of the transfer payment.

WHEN IS A TRANSFER PAYMENT CONSIDERATION FOR A SUPPLY?

Direct Link

To determine if a transfer payment is consideration for a supply, first establish whether the recipient has, or will, make a supply as a result of having received the payment. If this is the case, determine whether there is a direct link between the transfer payment and the supply.

A direct link may not always be apparent and therefore it will be necessary to consider the circumstances surrounding each case. For example, it is necessary to examine the agreement between the parties, the conduct of the parties and the objectives or policy statements of the grantor. In addition, the legislation, by-laws and any applicable regulation under which the payment is made should be examined, along with payment documents, reports and any applicable documentation. (However, the form or content of the payment document, i.e., an invoice based on a unit price, subsidy claim or contribution agreement, or the basis on which the payment is calculated, do not in themselves determine the existence of a direct link).

The following policy guidelines are intended to clarify whether a direct link exists between a
transfer payment and a supply, and whether the transfer payment is consideration.

**PART II POLICY GUIDELINES**

These guidelines, which reflect departmental administrative policy, apply to all grantors and recipients (grantees) of transfer payments, including governments, public service bodies, the commercial sector and individuals.

**Direct Link**

There is a direct link between a transfer payment and a supply if the payment is *directly related* to the provision of a supply to the grantor, or to a third party, by the recipient of the transfer payment. If a direct link exists, the payment is consideration, and if the supply is taxable, the payment must be used to calculate the tax.

To determine the existence of a direct link and if a payment is therefore consideration, the following questions should be addressed:

**1. DOES A SUPPLY TAKE PLACE IN RESPECT OF THE PAYMENT?**

Where a transfer payment takes place,

(a) is the transfer payment a charitable donation where the recipient issues a receipt which allows the grantor to claim a deduction for a charitable donation for income tax purposes?

*If yes, the payment is not consideration for a supply.*

(b) does the grantor (or a third party) receive any property or service in return for the transfer payment?

*If no, the payment is not consideration for a supply since there is no activity involved that can be considered to be a supply.*

*If yes, the transfer payment may constitute consideration for the supply of the property or service received by the grantor (or the third party) and the transaction should be examined further for evidence of a direct link.*

**2. IS THERE A DIRECT LINK BETWEEN THE PAYMENT AND THE SUPPLY?**

A distinction should be made between a supply made to the provider of the transfer payment and a supply made to a third party. It should be noted that the more specific the supply and the more identifiable the recipient of the supply, the stronger the suggestion that the transfer payment is consideration for that supply.

Is the supply provided:

(a) to the grantor? If so, under what conditions? Does the grantor receive a direct benefit as a result of the payment? For example, does title or ownership in property pass to the grantor or does the grantor receive a service?

If such a supply is provided, this will suggest that the transfer payment is consideration for the supply.

(b) to *unspecified* third parties? Does the recipient (the grantee) provide, for example, a skills
upgrading course to recipients of unemployment insurance in return for the payment? Such a general statement suggests that no direct benefit is gained by the grantor and indicates the possibility of a public purpose (explained in the following paragraphs).

**Where the grantor does not directly receive any property or services, but a supply is made to an unspecified third party, the payment may not be consideration.**

(c) to a specific third party? Does the recipient provide, for example, a computer course to a particular person, for example, to Mr. John Smith? This suggests that the payment is being made to benefit a particular individual (or group) and indicates the possibility of a purchase purpose (explained in the following paragraphs).

**If so, this suggests that the payment may be consideration.**

**What is the Purpose of the Transfer Payment?**

Whether or not a transfer payment is "consideration" may depend on the specific purpose of the payment, for example,

Is the payment for

(a) a public purpose? A public purpose is one which benefits the general public or a particular segment of the general public. Many transfer payments by governments and public service bodies fall under this category. This may apply, for example, if a municipality provides funds to a non-profit organization to aid in the development of a fragrant flower garden for the blind. While a supply does take place, it is clearly in the public interest and not for the direct benefit of the municipal government.

**If yes, the payment may not be regarded as consideration.**

(b) a purchase purpose? A purchase purpose is one which benefits the grantor or a specific third party and may be of a commercial nature. A purchase purpose may apply even if the grantor is a public sector body and some public benefit results.

For example, if, under an agreement, an organization gives a grant to an artist with the understanding that the results of the artist's work will become the property of the organization, the payment will normally be regarded as consideration for a supply. The artist, if registered for the GST, will be required to collect and account for tax, if the organization receives nothing in return, the grant is not consideration for a supply and tax will not be payable.

In addition, a purchase purpose could include transfer payments made to purchase research services, a copyright, or part ownership in real property. As well, payments used for "contracting out" (i.e., where the grantor is paying the recipient to do something the grantor would otherwise be required to do) are very likely made for a purchase purpose and therefore consideration for a supply.

**If yes, this strongly suggests that the payment is consideration.**

**Is the Transfer Payment Part of a Regular On-going Program of Financial Support?**

Financial support may be provided through a government grants and contributions program. For example, funds may be provided pursuant to an animal feed assistance program for farmers. Is the source of the transfer payment such an ongoing program of financial support?

**If yes, this suggests the payments may not be consideration.**
Is The Grantor a Funding or Granting Organization?

The type of organization that provides a transfer payment may be an indication of the purpose of the payment. For example, is the organization primarily a funding or granting organization such as a charitable foundation or an arts or sports council?

If yes, this suggests that the payment is for a public purpose and may not be consideration.

Is The Grantor a Commercial Organization?

Generally, businesses are presumed to make transfer payments for purchase purposes rather than in the public interest. Where the grantor is a commercial organization, therefore, the transfer payment will normally be regarded as consideration. Some businesses do, however, have funding programs through which they support a public purpose, for example, community symphony orchestras or art groups. If the grantor receives no direct benefit from a transfer payment, it may not be considered and the commercial grantor's entitlement to input tax credits (ITC) should not be affected by the payment.

3. IS THE PURPOSE OF THE SUPPLY TO ALLOW THE GRANTOR TO MAINTAIN ACCOUNTABILITY IN RESPECT OF THE USE OF THE PAYMENT?

While some activities that take place in order to maintain accountability in respect of the use of a transfer payment can be characterized as "supplies", they will not be regarded as the supply for which the transfer payment is made. This is because the market value of these activities is, in general, negligible compared to the amount of the transfer payment.

However, the fact that some accountability mechanism exists does not necessarily indicate that no other supply takes place, nor that the payment is not consideration. An analysis of the objectives of the agreement should be made to determine the purpose for which the payment is made.

The following are examples of accountability mechanisms. (These conditions are often found in the miscellaneous section rather than the main body of an agreement):

(a) an optional right to repayment - the recipient agrees to repay the transfer payment under certain conditions, for example, if the product is sold outside the country. However, the right to repayment is not the purpose of the agreement;

(b) the right to payment upon default - the recipient agrees to repay the transfer payment if the recipient is unable to fulfill the terms of the funding agreement;

(c) an optional right to use material - the recipient provides the grantor with the right to use material resulting from the payment, but this is not the main purpose of the payment;

(d) a covenant to provide a final report - the recipient agrees to set out the result of efforts expended in respect of the payment. This is not a detailed research report, rather, it is a statement and indication that the money was spent as agreed upon;

(e) a covenant to retain property - both the grantor and recipient may agree to keep title to property used or developed in respect of the payment, however, obtaining the property is not the purpose of the payment;

(f) financial reports - the recipient agrees to provide financial statements on the use of the transfer payment.
Examples of supplies made for consideration (which are the purpose of the transfer payment and which are usually found in the main body of an agreement) include the following:

(a) the right to use the results of a project - the recipient agrees that the grantor can put the results of the payment to the grantor's own use;

(b) the right to control the release of results - the recipient agrees that the grantor controls the results of the supply for which the payment is made, for example, to decide whether or not a research report is released;

(c) the mandatory right to income from sale of results of the project - the recipient agrees to pay the grantor a certain portion or percentage of income. Revenue generation is one of the purposes of the transfer payment;

(d) distribution rights to results - the recipient agrees that the grantor can publish, distribute and publicize the results of the payment, and these rights are a primary purpose of the payment.

The following chart provides an overview of whether or not a supply takes place and if the transfer payment is consideration for that supply. However, since the chart is a generalization, reference should also be made to the preceding policy guidelines.

**SUMMARY OF POLICY GUIDELINES**

**IS A TRANSFER PAYMENT CONSIDERATION FOR A SUPPLY?**

<table>
<thead>
<tr>
<th>Grantee gives charitable receipt?</th>
<th>Yes</th>
<th>Not consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grantor receives property/service?</td>
<td>Yes</td>
<td>Consideration</td>
</tr>
<tr>
<td>Third party receives property/service?</td>
<td>No</td>
<td>Not consideration</td>
</tr>
<tr>
<td>Public purpose?</td>
<td>Yes</td>
<td>Supplies solely for accountability?</td>
</tr>
<tr>
<td>Consideration</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**EXAMPLES OF TRANSACTIONS AFFECTED BY THE POLICY GUIDELINES**

The following examples are intended to give the reader some indication of the broad range of transactions that may be affected by these guidelines, as well as showing how these particular payments are treated under the GST.

**EXAMPLE I. A Transfer Payment Provided for A Research Project**

Under a contribution agreement and through an on-going funding program to support non-profit research, a government department gives a transfer payment to a non-profit organization (NPO) to assist in the NPO's research project. The NPO agrees to provide a final report on its findings and on the use of the funds, but maintains copyright on the research results. Because the payment is made for a public purpose and the grantor receives no direct benefit, the transfer payment is not consideration.
If, however, the NPO gives the copyright on the research report to the grantor and also provides royalties on sales to the grantor, a direct link will exist between the payment and a supply. Since there is a purchase purpose, the transfer payment will be regarded as consideration for a taxable supply.

EXAMPLE II. A Transfer Payment Provided in Return for a Direct Supply

The federal government and a provincial government have an agreement to share certain costs of building and operating a provincial correctional facility. The federal government pays a certain percentage of the costs of capital and operating expenses and in return, the provincial government allocates a matching percentage of beds in the facility for federal prisoners. The payment is consideration for a supply as the federal government will make direct use of the prison facilities for its own prisoners.

EXAMPLE III. A Transfer Payment Provided For Contracted Out Services

Under a capital expenditure program, a municipality makes a grant to a registered charity which is an animal protection organization. In addition to its other activities, the charity provides pound-keeping services such as euthanasia, adoption and stray animal services.

While the residents of the municipality benefit from the provision of service, the charity is providing services which the municipality itself would have otherwise been required to provide. In other words, the municipality used a grant to purchase services. In this example, the payment is consideration for a supply. However, because supplies made by charities are exempt unless specified as taxable, the supply is tax-exempt, and, under these policy guidelines, it will continue to be exempt.

PART III TRANSITIONAL MEASURES

To allow registrants and other parties to comply with the guidelines, the Department will provide the following alternative treatment for transfer payments paid, or that become due, before November 1, 1992. The policy guidelines in Part II of this bulletin will become effective on November 1, 1992.

Prior to November 1, 1992, registrants may or may not use Part II of this bulletin to determine whether or not a payment is consideration. Registrants who have treated a transfer payment as consideration for a taxable supply during this period may change their treatment of the transfer payment to be in accordance with Part II of this bulletin. The status of a transfer payment, however, must be treated the same way by both grantor and recipient. When there is a change in status, the effective date of the change must be the same for both grantor and recipient. The recipient may be required to repay ITCs claimed for purchases made in respect of a transfer payment where its status has been changed.

Registrants Engaged in Commercial Activities

Registrants who are engaged in commercial activities and who change the status of a transfer payment will continue to be entitled to claim ITCs in the usual way in respect of the payment. This is because their supplies, although now regarded as being made for no consideration, remain supplies made in the course of a commercial activity.

Public Service Bodies

Public service bodies that change the status of a transfer payment retroactively may be required to repay to Revenue Canada, Excise/GST, any ITCs claimed. This is because their supplies may change status from being made in the course of a commercial activity, to being a tax-exempt
supply under the exempting provisions of Part VI of Schedule V to the Act. Unless the recipient (grantee) makes other taxable supplies, the recipient may be required to cancel its GST registration.

In the case of a status change dated prior to November 1, 1992, the supplies will be considered to be taxable until the date of change. During this period, the recipient (grantee) will be required to be registered and will be entitled to claim ITCs. ITCs must be repaid only on capital property (on the lesser of the fair market value or the purchase price of the capital property), and only to the extent that the property continues to be used in a tax-exempt activity. However, if a recipient that is a public service body is entitled to the Public Service Body GST Rebate, a rebate will be allowed in respect of ITCs that are paid back to the Government.

In all cases where a change in status of a transfer payment takes place as a result of the policy guidelines, the Department will not disallow nor reduce the transitional credit and federal sales tax inventory rebate.

More Information

For more information on how to determine if a transfer payment is consideration for a supply, your ITC eligibility, and whether your registration status is affected as a result of these guidelines, contact your nearest Revenue Canada Excise/GST District office.

The Department is prepared to provide rulings on specific fact situations. More information on departmental rulings is contained in GST MEMORANDUM 100-3, GOODS AND SERVICES TAX RULINGS, available at Revenue Canada Excise/GST District offices.

DEFINITIONS

"Department" means the Department of National Revenue, Customs and Excise;

"exempt supply" means a supply included in Schedule V to the Excise Tax Act;

"input tax credit" means a credit claimable by a registrant for the Goods and Services Tax paid or payable by the registrant in respect of the acquisition or importation of any property or service for consumption, use or supply in the course of commercial activities of the registrant;

"public service body" means a non-profit organization, a charity, a municipality, a school authority, a hospital authority, a public college or a university;

"recipient", for the purposes of this Technical Information Bulletin, refers to the person to whom the original transfer payment is made;

"registrant" means a person who is registered under section 241 or who is required to apply to be registered under section 240 of the Excise Tax Act;

"supply" means, subject to sections 133 and 134 of the Excise Tax Act, the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift or disposition;

"taxable supply" means a supply that is made in the course of a commercial activity, but does not include an exempt supply.

PART IV APPENDIX
The following chart is a summary of the effect of the policy guidelines on public service bodies and the tax treatment of payments when a change in status takes place. (Chart attached)

**TAX TREATMENT OF TRANSFER PAYMENTS**

**SUMMARY OF EFFECT OF GUIDELINES ON PUBLIC SERVICE BODIES**

**DEREGISTERED**

<table>
<thead>
<tr>
<th>Change in Grant Status As Of</th>
<th>Registration Date or January 1, 1991</th>
<th>Grace Period to November 1, 1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Grants Remitted</td>
<td>Grantee refunds tax to grantor and adjusts net tax</td>
<td>No Action</td>
</tr>
<tr>
<td>Tax Remitted but not Collected</td>
<td>Grantee issues adjusted invoice to grantor and adjusts net tax</td>
<td>No Action</td>
</tr>
<tr>
<td>Tax Not Remitted but Collected</td>
<td>Grantee must refund taxes to grantor</td>
<td>Remit Tax Apply penalty &amp; interest</td>
</tr>
<tr>
<td>Tax Not Remitted or Collected</td>
<td>No Action</td>
<td>Remit Tax Apply penalty &amp; interest</td>
</tr>
<tr>
<td>ITC's Non-Capital</td>
<td>Recapture All ITC's</td>
<td>No Recapture</td>
</tr>
<tr>
<td>ITC's Capital Property</td>
<td>Recapture All ITC's</td>
<td>Recapture ITC's on the lesser of purchase price or FMV* for post 1990 acquisitions</td>
</tr>
<tr>
<td>PSB Rebate (if otherwise qualify, and subject to regulations)</td>
<td>Yes - Allowed</td>
<td>Yes - Allowed from date of change</td>
</tr>
</tbody>
</table>

**REGISTERED WITH OTHER TAXABLE SUPPLIES**

<table>
<thead>
<tr>
<th>Change in Grant Status As Of</th>
<th>Registration Date or January 1, 1991</th>
<th>Grace Period to November 1, 1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on Grants Remitted</td>
<td>Grantee refunds tax to grantor and adjusts net tax</td>
<td>No Action</td>
</tr>
<tr>
<td>Tax Remitted but not Collected</td>
<td>Grantee issues adjusted invoice to grantor and adjusts net tax</td>
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</tr>
<tr>
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<tr>
<td>ITC's Non-Capital</td>
<td>Recapture All ITCs</td>
<td>No Recapture</td>
</tr>
<tr>
<td>ITC's Capital Property</td>
<td>Recapture ITCs in relation to grant</td>
<td>Recapture ITC's in relation to</td>
</tr>
</tbody>
</table>
ITC's Capital Property: on the lesser of purchase price or FMV*, except property continuing to be used > 50% in commercial activity.

PSB Rebate (if otherwise qualify, and subject to regulations): Yes - Allowed.

Grant on the lesser of purchase price or FMV*, except property continuing to be used > 50% in commercial activity.

Yes - Allowed from date of change.

Date Modified: 2002-08-08
“B”

Common Audit Exposures, Chapter 5,

“Documentary Requirements”
Documentary Requirements

Entitlement to Input Tax Credits

The *Excise Tax Act* (ETA) places the liability for the payment of GST or HST with respect to a taxable supply made in Canada on the recipient of that supply. The recipient is defined as the person liable to pay the consideration for the supply, or if no consideration is payable for the supply, the person to whom goods are delivered or made available, or the person to whom a service is rendered. As a general rule, in the absence of an agreement that identifies the recipient, the Canada Revenue Agency (CRA) regards the recipient of the supply as the person to whom an invoice is addressed.

Once it is determined a purchaser is the recipient of the supply and that person has paid the tax to the supplier (or to the CRA on import), that recipient may be entitled to an input tax credit for the tax paid, subject to certain conditions:

- the recipient has acquired or imported the supply for consumption, use or supply in the course of a commercial activity;
- the recipient must be registered during the reporting period in which the GST/HST becomes payable or is paid;
- the input tax credit must be claimed within the appropriate time limits; and
- the recipient must meet the prescribed documentary requirements.

Refer to *GST Memorandum 8.1, "General Eligibility Rules"* (not reproduced), for a detailed discussion on the input tax credit eligibility rules. As a general rule, for most businesses, full input tax credits are available in respect of capital personal property, and improvements to that capital property, if the capital personal property was acquired or imported for use primarily in commercial activity. If the capital personal property is used less than primarily in commercial activity, tax paid in respect of the property and any subsequent improvements is not eligible for recovery. Tax paid in respect of real property is generally eligible for full input tax credits where the property is all, or substantially all, for use in commercial activities. If the use is all, or substantially all, for other purposes, no input tax credits are available. For use ranging between 10% and 90% commercial activities, input tax credits are available in proportion to the degree of commercial use. Special rules apply to financial institutions and public service bodies, and to passenger vehicles and aircraft.

After the tax is paid and commercial activities are undertaken, it is necessary to document that the tax was paid by the recipient to a registered supplier or to the CRA. There are
also some specific requirements, restrictions and limitations on claiming GST/HST input tax credits for certain categories of expenses, including: meals and entertainment expenses; supplies for exclusive personal use and club memberships; company credit and procurement cards; and employee reimbursements and allowances—all of which are discussed in detail in separate chapters of this book. In addition, no input tax credits are available on unreasonable amounts paid for supplies, having regard to the nature of the commercial activities of the registrant.

**Purchases from Registered Suppliers—the Documentary Requirements**

The ETA and Input Tax Credit Information Regulations stipulate that a registrant may not claim an input tax credit unless it has first obtained certain supporting documentation. For purchases over $30, registrants are generally required to obtain, among other things, the GST registration number of the supplier, and either the amount of tax paid on the invoice or a statement to the effect that the price is tax-included at either the 7% or 15% rate, as appropriate.

Amendments to the Input Tax Credit Information Regulations, effective April 24, 1996, permit the recipient of a taxable supply to accept the name and registration number of an intermediary (defined as a registrant who causes or facilitates the making of the supply by the supplier) of a supplier, in place of the supplier's name and registration number, where the documentary requirements are otherwise satisfied.

**Audit Issues**

Clearly, there are a number of grounds on which a claim for an input tax credit can fail. First, the invoice may not have been addressed to the party that paid the consideration for the supply. Second, the recipient of the supply may be in the position of not actually having paid the tax. For example, the recipient may have been reimbursed for the tax-included cost of the supply by another party, without having collected and remitted tax on the reimbursement charge. (For a further illustration of this problem, see Chapter 7, "Expense Reimbursements to Non-Employees"). Next, the recipient may have failed to substantiate the required degree of commercial activity. Finally, the recipient may have failed to meet the documentary requirements. It is common for auditors to deny input tax credit claims where the documentation requirements have not been met. Examples include failing to obtain the GST registration number of a supplier, and claiming an input tax credit on the basis of an assumed GST factor of 7/107, or some other derived factor, where no GST is in fact indicated on the invoice.

This documentation must be in place at the time the input tax credit is claimed, and if not, the input tax credit will be denied on audit. It is possible to obtain supporting documentation after the fact, but this may not do anything more than permit the registrant to claim the input tax credit in the period that the supporting documentation is obtained. The audit adjustment disallowing the input tax credit may not be reversed, and the net effect could be that the registrant will be assessed penalty and interest on the disallowed credit from the time of its premature claim.
As noted above, there are also certain categories of expenses where input tax credits are either partially or fully restricted, even if the documentary requirements have been met.

The following excerpt from the *GST/HST News, No. 39* (Winter 2000-2001) is instructive:

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39—GST/HST News

*Date: Winter 2000-2001*

**Recipient of a Supply and Entitlement to Input Tax Credits**

Who is entitled to claim an input tax credit (ITC) when an invoice is issued in the name of one person, but another person actually pays the invoice amount?

One of the conditions that must be met in order for a registrant to claim an ITC in respect of the tax paid or payable on supplies is that the claimant must be the "recipient" of the supply in question. Generally, the "recipient" of a supply is the person liable to pay the consideration for the supply under the agreement for the supply.

For example: Registrant A, which is engaged exclusively in commercial activities, places an order for equipment with a supplier and is liable to pay the consideration for the equipment under the agreement for the supply. Registrant B takes delivery of the goods and actually uses them exclusively in its commercial activity.

The invoice issued by the supplier identifies A as the customer and lists the shipping address of B for delivery purposes. When B receives the goods, B pays the supplier and subsequently claims the ITC. As supporting documentation, B uses the invoice made out in the name of A. However, as B is not the "recipient" of the supply, it is not eligible to claim an ITC, since it is not the person liable to pay the consideration for the equipment.

In this scenario, the "recipient" of the initial supply of the equipment is registrant A, and as such, A is entitled to claim the ITC. If the parties would like registrant B to be able to claim an ITC in respect of equipment, A should then "re-supply" the equipment to B and issue an invoice to B identifying that registrant as the recipient of the supply. B would then be in a position to claim an ITC for the tax paid or payable on that supply, provided B has appropriate documentation and has satisfied the other conditions for claiming an ITC.

**Exception**—Where a duly authorized agent or representative acquires goods or services on behalf of a principal in an agent-principal relationship between registrants, the principal would be entitled to claim the ITC, rather than the duly authorized agent or representative.

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Levels 1, 2 and 3 Documentary Requirements

The following excerpts from GST Memorandum 400-1-2, "Documentary Requirements", provide details regarding the CRA's position on this issue.

GST Memorandum 400-1-2—Input Tax Credits—Documentary Requirements

Date: November 8, 1990

Documentary Requirements

This memorandum in the INPUT TAX CREDITS (ITC) series describes the general documentary evidence registrants must obtain prior to claiming an ITC in respect of a supply of property or a service for a reporting period, for purposes of the proposed Goods and Services Tax (GST).

General

1. Documentary and information requirements necessary to claim ITCs are linked to the general obligation to disclose tax placed on every registrant making a taxable supply.

2. Subsection 223(1) of the Act imposes a statutory obligation on all registrants making a taxable supply to indicate to the recipient of the supply, either:

   a. the consideration paid or payable by the recipient for the supply and the tax payable in respect of the supply in a manner that clearly indicates the amount of the tax; or
   b. that the amount paid or payable by the recipient for the supply includes the tax payable in respect of the supply.

3. These indications must appear either:

   a. in the prescribed manner;
   b. on the invoice or receipt issued to the recipient in respect of the supply; or
   c. in an agreement in writing entered into with the recipient of the supply.

4. The obligation to disclose tax relates to the making of a taxable supply, which is defined in subsection 123(1) of the Act as meaning "… a supply that is made in the course of a commercial activity, but does not include an exempt supply". Subsection 123(1) defines supply to mean "… the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift or disposition".

5. Consequently, registrants making a combination of taxable and exempt supplies within the same transactions are obliged to disclose tax only on the taxable supply or supplies.

6. Subsection 223(2) requires a supplier to provide specific documentary and information
requirements to a recipient who wishes to claim an ITC or rebate in respect of a supply. Pursuant to this subsection, any person who makes a taxable supply to another person must, on the request of that other person, furnish, in writing, such particulars of the supply as may be required to substantiate the ITC or rebate claim.

**Documentary and Information Requirements: Overview**

7. Subsections 169(4) and 169(5) are the legislative provisions that impose a legal responsibility on registrants wishing to claim ITCs in relation to documentary evidence.

8. Paragraph 169(4)(a) sets out the general statutory and regulatory documentary and information requirements governing the claiming of ITCs. Paragraph 169(4)(b) provides that when real property is sold to a registrant in cases where subsection 221(2) applies, the registrant may claim an ITC only if the return required to be filed pursuant to subsection 228(4), with respect to the supply, has been filed.

9. Subsection 169(5) provides for the creation of discretionary ministerial exemptions from the statutory and regulatory documentary and information requirements established by subsection 169(4).

...  

**Limitations**

19. Pursuant to subsection 170(1) and other legislative provisions of the Act generally, registrants are **not eligible** to claim ITCs for the GST paid or payable on:

   a. membership fees or dues to any club the main purpose of which is to provide dining, recreational or sporting facilities;

   b. any property or service purchased by a registrant for the exclusive personal consumption, use or enjoyment of the registrant, his/her employee or an individual who was, is, or agrees to become, an officer or employee of the registrant;

   c. any property supplied by lease, licence or similar arrangement primarily for the personal consumption, use or enjoyment of the registrant, an officer, shareholder, beneficiary of a trust or any other related individual;

   d. the acquisition, importation or improvement of capital personal property, unless the property is used primarily (more than 50 per cent) in the registrant's commercial activities; and

   e. any payments, including wages and other remuneration (for example, contributions to pension plans, group life insurance premiums, retirement allowances, deferred profit-sharing plans), interest or dividends, tax-exempt or zero-rated supplies, and federal, provincial, and municipal taxes (including licence fees, fines, penalties and other statutory levies).
General Documentary and Information Requirements

20. Subsection 169(4) sets out the minimum documentary and information requirements that a registrant must obtain prior to filing a return for the reporting period in which the ITC is claimed.

21. Pursuant to paragraph 169(4)(a), a registrant may not claim an ITC in respect of a supply of property or a service for a reporting period unless, before filing the return in which the ITC is claimed, the registrant has obtained sufficient evidence in such form, containing such information, as will enable the amount of the ITC to be determined, including any such information as may be prescribed by regulation.

22. Generally, documentary and information requirements obtained in support of ITC claims will be the same receipts, invoices and agreements in writing currently retained by businesses to support expense deductions under the *Income Tax Act*.

23. For purposes of the regulations to be prescribed pursuant to paragraph 169(4)(a) [the Input Tax Credit Information Regulations—ed. RBA] "supporting documentation" will include:

   a. an invoice;
   b. a receipt;
   c. a cash register receipt;
   d. a bill of sale;
   e. a credit card receipt;
   f. a debit note;
   g. a statement of account;
   h. a book or ledger of account;
   i. a written contract or agreement;
   j. any record contained in a computerized or electronic retrieval or data storage system; and
   k. any other document validly issued or signed by a registrant in respect of a purchase on which the GST is paid or payable.

24. The information requirements for ITC claims will depend on the total amount shown on the supporting documentation for the supply or supplies reflected in the supporting documentation.

**Total Amount Under $30**

25. Where the total amount shown on the supporting documentation, for the supply or supplies reflected in the supporting documentation, is under $30, the minimum prescribed information which must be obtained through the supporting documentation includes:

   a. the supplier's name or trading name;
   b. the date or dates when the GST in respect of the supply or supplies was paid or
became payable; and  
c. the total amount paid or payable for the supply or supplies.

**Total Amount of $30 or More, But Less Than $150**

26. When the total amount shown on the supporting documentation, for the supply or supplies reflected in the supporting documentation, is $30 or more, but less than $150, the minimum prescribed information that must be obtained through the supporting documentation includes items (a) to (c) of paragraph 25 of this memorandum, as well as:

a. the registration number of the supplier; and  
b.  
   i. when the supply or all supplies are not made on a tax-included basis, the amount of GST charged on each supply or all supplies; or  
   ii. when the supply is on a tax-included basis or all supplies are on a tax-included basis at the same rate of tax (0% or seven per cent), a statement to that effect and an indication of the rate of tax; or  
   iii. when the supply is an exempt supply or all supplies are exempt, a statement to that effect; or  
   iv. when the tax status of two or more supplies is different, the tax status of each supply and the rate of tax with respect to each taxable supply.

**Total Amount of $150 or More**

27. When the total amount shown on the supporting documentation, for the supply or supplies reflected in the supporting documentation, is $150 or more, the minimum prescribed information that must be obtained through the supporting documentation includes items listed in paragraphs 25 and 26 of this memorandum, as well as:

a. the recipient's name, trading name, or the name of his or her duly authorized agent or representative; and  
b. a description sufficient to identify each supply.

**Retention of Evidence**

28. Registrants claiming ITCs will not be required to submit supporting documentation with their returns. However, documentation and information required pursuant to subsections 169(4) or 169(5) must be retained until the expiration of six years after the end of the year to which they relate or for such other period as may be prescribed under subsection 286(3) of the Act.

**Credit Card Receipts**

29. As a general rule, when a credit card receipt is issued in conjunction with another component of supporting documentation, both components must be obtained and retained
together by the registrant before the return in which the ITC is claimed is filed.

30. For supplies made in the hospitality industry and by gasoline service stations and dealers, a credit card receipt will constitute sufficient supporting documentation to claim an ITC, provided the credit card receipt meets all of the information requirements prescribed by regulations made pursuant to paragraph 169(4)(a) of the Act.

31. Where no other supporting documentation is issued in conjunction with a credit card receipt, the credit card receipt will constitute sufficient supporting documentation to claim an ITC provided that it meets all of the documentary and information requirements prescribed by regulations made pursuant to paragraph 169(4)(a) of the Act.

**Exemptions**

**Inability to Meet Subsection 169(4) Requirements**

32. If registrants are unable to fulfil the documentary and information requirements pursuant to subsection 169(4), or they are unable to obtain the information required prior to filing a return in the period in which the ITC is claimed, registrants will be required to determine whether these taxable supplies fall under the ministerial discretionary exemptions established pursuant to subsection 169(5).

33. Pursuant to subsection 169(5), the Minister is given discretionary power in certain circumstances to exempt a specified registrant, a specified class of registrants or registrants in general from the statutory and regulatory documentary and information requirements of subsection 169(4), or any provision thereof, in respect of a taxable supply or a class of taxable supplies.

34. This provision also permits the Minister to specify the terms and conditions of the exemption.

35. At this time, ministerial discretionary exemptions for all registrants, generally, from the application of paragraph 169(4)(a), ITC documentary and information requirements, include:

   a. unvouchedered cash payments made to coin- and/or dollar-bill-operated machines;
   b. computerized records;
   c. contractual agreements;
   d. meal and entertainment expenses (only where prescribed factor is used to calculate eligible ITC);
   e. reimbursements (only where prescribed factor is used to calculate ITC eligibility); and
   f. allowances.

…
**Contractual Agreements**

45. Given the extensive use of contractual agreements covering supplies of goods and/or services over a fixed period of time between registrants, the particulars of these taxable supplies and the tax paid or payable on them may not necessarily be available in such a manner as to permit registrants to comply with the ITC documentary and information requirements established pursuant to paragraph 169(4)(a).

46. In cases where the contractual agreement by itself, or combined with related supporting documentation issued pursuant to the governing contract, can and does meet the statutory and regulatory requirements under paragraph 169(4)(a), such supporting documentation must be obtained by the registrant prior to the filing of a return.

47. However, if the registrant is unable to meet these requirements prior to the filing of a return in which such an ITC is claimed, or if the said documentation fails to satisfy the requirements under subsection 169(4), the Minister will exempt registrants, generally, from the requirements of subsection 169(4).

48. This exemption will apply when a registrant maintains proper books and records, including the contractual agreement and all related documentation issued pursuant to the governing contract, and these books and records capture the following:

   a. sufficient information to identify the supplier's name or trading name;
   b. the supplier's registration number;
   c. sufficient information to identify the reporting period when the GST in respect of the supply was paid or became payable and the amount of GST paid or payable;
   d. sufficient information to identify the name or trading name of the recipient of the supply (or that of the recipient's duly authorized agent or representative); and
   e. sufficient information to identify the nature of the supply.

…

**Validating Registration Numbers**

Under the CRA’s current policy, which has been confirmed by the courts, it is the purchaser's responsibility to validate the GST registration number of a supplier for purposes of establishing an entitlement to an input tax credit. Numbers may be validated by contacting the local CRA Tax Services Office (see the excerpt from *Excise/GST News, No. 17* (Summer 1995), set out below). As announced in the 2005 federal budget, the CRA is expected to provide a web-based registry, similar to the one currently available in Quebec, to allow GST/HST registration numbers to be validated on-line.
Confirming Registration Status

There may be situations where you would like to confirm whether the person you are dealing with is registered for the GST. For example, you may want to confirm that a supplier is registered so that you can claim notional or actual input tax credits.

If you claim input tax credits based on the fact that the person you are dealing with is registered for the GST, and it is later determined that this person has quoted you a false registration number, Revenue Canada reserves the right to deny the claim.

If you suspect that you may have been given a fraudulent GST registration number, you can contact any Revenue Canada Tax Services office to confirm whether the number is valid. Although we cannot provide you with another person's registration number, filing frequency, compliance status, or other personal information unless the registrant has authored us to do so, we can confirm registration status. To facilitate this process, please supply us with the registrant's full legal name and address.

For more information, please contact your local Revenue Canada Tax Services office.

Revenue Quebec, operates a system where it is possible to confirm a QST registration number and the named holder on-line through the Ministry of Revenue web site at www.revenu.gouv.qc.ca. In order to use this system, an enquirer must have on hand the 16-character QST registration number (comprising a series of 10 digits followed by the letters TQ and four more digits), and indicate whether it wishes to know the holder's name.

Imports—the Documentary Requirements

All taxable goods crossing the border into Canada are subject to GST under Division III of the ETA. The tax is paid to the Canada Service Border Agency by the importer of record. The crucial piece of documentation for imported goods is the B3 document showing the importer of record and the GST paid at the border.

A flow-through provision in section 180 of the ETA permits a Canadian importer to claim an input tax credit for tax paid by an unregistered non-resident and passed on to the Canadian recipient. In this case, the Canadian importer should obtain a copy of the non-resident's B3 import entry to support the claim for an input tax credit.

No input tax credit is available in situations where a non-resident registrant pays the GST at the border on a supply made FOB outside Canada unless the non-resident registrant is acting as agent for the resident recipient of the supply. The CRA has made it clear that a registrant may not claim an input tax credit for tax paid at the border if the supply takes
place outside Canada. It is the CRA's position that only the de facto importer is permitted to claim an input tax credit for the GST paid at the border. The de facto importer is considered to be the person who causes the goods to be imported into Canada. Where the supply is FOB outside Canada, only the recipient of the supply can be the de facto importer, not a non-resident registrant. The logic behind this is that the supplier is neither the consumer or user of the goods in Canada, nor someone who imports the goods for the purpose of supplying them.

New draft legislation, which will be effective for supplies made after October 3, 2003, provides that where a supply of goods is made outside Canada and the goods are for use in Canada, the GST paid at the border is deemed to have been paid by or on behalf of the constructive importer, no matter who acts as importer of record. The constructive importer is the resident, registered recipient and will be the only person eligible to claim an input tax credit for the GST paid at the border. If the supplier pays the tax, the supplier will be required to provide supporting documentation, such as the B3, to the constructive importer. Alternatively, the supplier and recipient can elect that the supplier collect tax on the supply under Division II, as if the supply was made in Canada. As of the publication date, these constructive importer rules have not been passed into legislation and the de facto rules, as noted above, must be applied to sales made FOB outside Canada by an unregistered non-resident supplier.

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“C”

Canada Revenue Agency, GST Memorandum Series 13.4,

This memorandum examines the conditions that a person must satisfy to claim a rebate under section 259.1 of the Excise Tax Act (the Act). The rebate provided under this section of the Act is commonly known as the federal book rebate. The memorandum presents interpretations of particular terms used in relation to the goods qualifying for the federal book rebate. These same goods are also qualifying goods for a second rebate, the point-of-sale rebate, which is available in the participating provinces: Nova Scotia, New Brunswick and Newfoundland and Labrador. The point-of-sale rebate is also covered in this memorandum.

The information in this memorandum does not replace the law found in the Excise Tax Act and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate Regulation, or contact a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, Canada Revenue Agency GST/HST Rulings Centres. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287.

If you are located in the Province of Quebec, please contact Revenu Québec by calling the toll-free number 1-800-567-4692 for additional information.


This memorandum also incorporates Policy Statement P-234, Meaning of “Brochure or Pamphlet” for the Purpose of Paragraph (d) of the Definition of “Printed Book” in Subsection 259.1(1) of the Excise Tax Act as well as Policy Statement P-227, Meaning of Terms “Warranty Booklet” and “Owner’s Manual” Pursuant to Paragraph 259.1(1)(f) of the Excise Tax Act (“ETA”).

La version française de ce mémorandum est intitulée, Remboursements pour les livres imprimés, les enregistrements sonores de livres imprimés et les versions imprimées des Écritures d’une religion.
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Rebates for books and other printed material, related audio recordings and scriptures

Two rebates

1. There are two rebates that can be obtained under certain conditions for:

   para 259.1(2)(a)
   - a printed book or an update of such a book,

   para 259.1(2)(b)
   - an audio recording all or substantially all of which is a spoken reading of a printed book, and

   para 259.1(2)(c)
   - a bound or unbound printed version of scripture of any religion.

2. One of the rebates is for the GST or the federal component of the HST paid or payable on these goods. This rebate is known as the federal book rebate and is available under certain conditions across Canada. The other is a rebate of the provincial
component of the HST paid or payable for these same goods. It is available to all persons in the participating provinces (Nova Scotia, New Brunswick and Newfoundland and Labrador) at the time of purchase. This rebate is known as the point-of-sale rebate. Both rebates are discussed below.

Nature of the federal book rebate

Four conditions

3. The rebate of 100% of the GST or the federal component of the HST will be paid
   • to a specified person (see paragraph 4),
   • for GST or the federal component of the HST paid or payable on the acquisition or importation of the goods listed in paragraph 1,
   • if these goods are acquired for purposes other than resale¹, and
   • if the specified person applies for the rebate within four years after the end of the claim period in which the tax became payable.

Persons eligible to claim the federal book rebate

Specified persons

4. For the purposes of the federal book rebate provisions, specified person means:

   (a) a municipality;

   (b) a school authority;

   (c) a university;

   (d) an organization that operates a post-secondary college or post-secondary technical institute

      i) that receives from a government or municipality funds that are paid for the purpose of assisting the organization in the ongoing provision of educational services to the general public, and

      ii) the primary purpose of which is to provide programs of instruction in one or more fields of vocational, technical or general education;

   (e) a charity, public institution or qualifying non-profit organization (NPO) that operates a public lending library; or

   (f) a prescribed charity, or a prescribed qualifying non-profit organization, the primary purpose of which is the promotion of literacy. (See paragraphs 6 to 9.)

Footnote ¹ Note that a gift of property constitutes a sale. See paragraph 11.
Public lending library

5. For the purposes of the federal book rebate, a public lending library is interpreted to mean a place where a collection of documents and other items such as films and recordings are kept and maintained and that is open to the public for its use. It includes libraries from which these documents and other items can be borrowed, as well as libraries accessible to the public for research purposes only.

Criteria for prescribed organizations

Promotion of literacy

6. A charity or a qualifying NPO whose primary purpose is the promotion of literacy is eligible to claim this rebate if it is prescribed under the Federal Book Rebate (GST/HST) Regulations.

7. To be prescribed, the organization must request to be prescribed and meet the following criteria:

• the organization must be a charity or a qualifying NPO as defined by subsections 123(1) and 259(2) respectively; and

• the primary purpose of the organization must be the promotion of literacy, which is interpreted as meaning the promotion of basic reading and writing skills.

8. Requests must be submitted to:

Director
Public Service Bodies and Governments Division
Excise and GST/HST Rulings Directorate
Canada Customs and Revenue Agency
Ottawa, Ontario
K1A 0L5

who will forward recommendations to the Department of Finance for final determination and inclusion in the Regulations.

9. Requests must include the following information:

Organization name

• the official name of the organization (and charitable registration number in the case of a charity);

Governing documents

• copies of the organization's governing documents—If the organization is incorporated, copies of certificates, memoranda or articles of incorporation, letters patent, etc. must be provided, as well as copies of any amendments made to the original incorporating documents. If the organization is not incorporated, a copy of the constitution or trust document, by-laws etc., signed by at least three of the organization's directing officers must be submitted.

Statement of activities

• statement of activities—This statement should fully describe the activities and programs carried on by the organization to further the objectives or purposes set out in its governing documents. The statement should explain in full how the applicant tries to accomplish these purposes. Copies of brochures, advertising and promotional literature should be provided if available.
Financial statements

- financial statements for the last completed year or fiscal year of operation, unless the organization is a non-profit organization;
- if the organization is a non-profit organization, instead of financial statements, it must submit completed Form GST523, *Non-Profit Organizations—Government Funding*.

For purposes other than resale

**ss 259.1(2)**

10. This rebate is available to specified persons only if the qualifying goods are acquired or imported for purposes other than resale. If a specified person acquires such goods to resell them, there is no federal book rebate for tax paid or payable on the acquisition of the goods. For example, if a school authority were to purchase textbooks to sell to its students, no rebate would be available for tax paid or payable on the acquisition of the books.

Gifts or transfers under barter excluded from book rebate

11. A sale, as defined in subsection 123(1) of the Act, includes any transfer of ownership of property. Therefore, a gift of property or a transfer under a barter transaction constitutes a sale. Consequently, if a specified person acquires or imports goods (printed books, etc.) that generally would be eligible for the federal book rebate, but acquires them to give away, there is no federal book rebate of GST or the federal component of the HST paid or payable on the acquisition or importation of the goods.

Supplies for nil consideration

12. Note that even though a federal book rebate is not available in these circumstances, selected public service bodies making supplies for nil consideration may still be entitled to claim a public service body rebate to recover a portion of the GST or the federal component of the HST. For more information about public service body rebates, see the guide, *GST/HST Public Service Bodies’ Rebate*.

Shipping and handling charges

13. Where a specified person has received a shipment of goods that qualify for the federal book rebate, the person is entitled to a rebate of the full amount of the GST or the federal component of the HST that is paid or payable on shipping and handling charges related to the qualifying goods if the supplier is required to transport the goods to the recipient (e.g. to the recipient’s premises) as part of the agreement terms for the supply of the goods and remains responsible for the goods until they are delivered to the recipient. The shipment in these circumstances is considered to be a single supply of qualifying goods, with the shipping and handling included in the supply. The GST or the federal component of the HST that is paid or payable on the shipping and handling charges can be included in the rebate amount even if the charges are shown separately on the supplier’s invoice.

14. On the other hand, the shipping and handling is considered to be a separate supply if the supplier of the goods is not responsible for the transportation of the goods to the recipient as part of the agreement terms for the supply of the goods. If a specified person were to purchase qualifying goods in these circumstances, the federal book rebate would not apply to the shipping and handling charges.
Example 1

A library in Saskatchewan receives a shipment of books from a supplier. The supplier invoices the library for the books and for the shipping and handling fees. Under the terms of the agreement for the supply of the goods, the supplier is required to transport the goods to the library (e.g., to the library’s premises) and is responsible for the goods until they are delivered to the library. In these circumstances, the library is allowed to include the full amount of the GST paid or payable on the shipping and handling fees when calculating the rebate amount under the federal book rebate.

Example 2

A literacy promotion agency in Quebec that is a prescribed person under the *Federal Book Rebate (GST/HST) Regulations* orders a shipment of qualifying goods. The supplier is not responsible for the transportation of the goods to the agency under the terms of the agreement for the supply of the goods. The agency arranges to have a delivery service pick-up the goods and bring them to the agency’s premises. In these circumstances, GST paid or payable on the delivery charges cannot be included in the amount claimed under the federal book rebate.

### How to claim the federal book rebate

**Form**

15. Eligible persons can claim the rebate of the GST or the federal component of the HST paid for acquisition or importation of printed books, audio recordings of printed books and printed versions of religious scriptures by completing Form GST 66, *Application for GST/HST Public Service Bodies’ Rebate and GST Self-Government Refund*.

16. The rebate should be claimed on line 307.

17. Public service bodies who are eligible to claim rebates on other acquisitions or importations can do so on the same form. Note, however, that no amount paid or payable as tax may be claimed twice as a rebate. The GST or the federal component of the HST paid or payable on acquisitions or importations that qualify for the rebate on printed books, audio recordings of printed books and printed versions of religious scriptures cannot also be claimed under another rebate category. For example, lending libraries that are charities would separate acquisitions that qualify for the “book” rebate from other acquisitions that may be claimed under the 50% charities rebate such as office supplies or publications that are excluded from the federal book rebate.

**Documentary requirements**

18. While claimants need not send substantiating documents with rebate claims, sufficient documentary evidence must be retained to substantiate the claim.

**Timing**

19. Rebate claims must be submitted within four years after the end of the claim period of the person in which the GST or the federal component of the HST became payable. The definition of “claim period” currently used for the purpose of claiming rebates under section 259 also applies for the purposes of section 259.1. Thus, if the applicant is a registrant for GST/HST purposes, the claim period is the registrant’s reporting period. An applicant that is not a registrant has two claim periods in a fiscal year: if the tax was payable in either of the first two quarters of the applicant’s fiscal year, the claim period is the first two fiscal quarters; if the tax was payable in the last two fiscal quarters, the claim period is the last two fiscal quarters.
20. Only one application for this rebate may be made for a particular claim period, unless the applicant is required under section 259 to file separate applications for rebates in respect of a branch or division. In such a case, the applicant may file only one application in respect of each branch or division for the rebate per claim period.

Nature of the point-of-sale rebate in the participating provinces

Qualifying goods

21. The governments of Nova Scotia, New Brunswick, and Newfoundland and Labrador (the participating provinces) provide to all persons a point-of-sale rebate of 100% of the provincial component of the HST on all supplies of the items listed in paragraph 1.

22. These are the same goods that qualify for the federal book rebate under section 259.1 of the Act. The Canada Customs and Revenue Agency (CCRA) administers this rebate of the 8% provincial component of the HST on behalf of the participating provinces.¹

Everyone eligible, not just specified persons

23. The rebate of the 8% provincial component of the HST is available to all persons who purchase qualifying goods if HST applies to the sale. For example, if an individual buys a book and HST applies to the purchase, the individual is eligible to receive a full rebate of the provincial component of the HST.

Supplier may pay or credit the rebate

24. Normally, the supplier pays or credits the rebate to the purchaser when the qualifying goods are bought. Consequently, the rebate of the provincial component of the HST is known as the point-of-sale rebate.

25. Note that the point-of-sale rebate is available at any point in the distribution chain. It is not limited to sales made to consumers through retail establishments located in the participating provinces. It applies to sales by publishers, wholesalers and distributors throughout the country. For example, if a publisher in Vancouver supplies books to a store in a participating province, the publisher does not need to collect 15% tax on that supply; the publisher needs to collect only the 7% federal component of the HST.

If the supplier does not pay or credit the rebate

26. If the supplier does not pay or credit the rebate at the time of the sale and if the recipient is a registrant acquiring the goods for use or supply in the course of a commercial activity, the recipient is entitled to claim an input tax credit (ITC) for the 8% provincial component of the HST as well as the 7% federal component.

27. If the supplier does not pay or credit the rebate at the time of the sale and if the recipient cannot claim an ITC, the recipient has up to four years from the time tax became payable to claim the rebate of the 8% provincial component from the CCRA, provided that the recipient has paid the tax at 15%. The rebate is claimed using reason code 16 on form GST 189, General Application for Rebate of GST/HST.

Footnote² For the provincial legislation that provides for the point-of-sale rebate, see:

- in Nova Scotia: Sales Tax Act Regulations, section 8;
- in New Brunswick: General Regulation – Harmonized Sales Tax Act, section 12;

¹ For the provincial legislation that provides for the point-of-sale rebate, see:
- in Nova Scotia: Sales Tax Act Regulations, section 8;
- in New Brunswick: General Regulation – Harmonized Sales Tax Act, section 12;
13.4 Rebates for Printed Books, Audio Recordings of Printed Books, and Religious Scriptures

**Imports**

28. The CCRA (Customs Branch) will collect only the 7% federal component of the HST when residents of the participating provinces import goods into Canada that are eligible for the point-of-sale rebate. For example, if an individual purchases books in the United States and returns with them to Canada and if the value of the books exceeds the individual’s exemption limit, Customs will collect only the 7% federal component of the HST. Similarly, where a non-resident supplier who is not registered for the GST/HST supplies goods by mail or courier that are eligible for the point-of-sale rebate, Customs will collect only the 7% GST or federal component of the HST.

**Difference between rebates**

29. The rebate of the 8% provincial component of the HST is different from the rebate of the 7% GST or federal component of the HST provided on the same goods to specified persons under section 259.1 of the Act, with the difference being that the provincial rebate is available to all recipients at the time of acquisition, while the federal rebate is available only to specified persons who apply for it. Thus while all recipients are eligible for a rebate at source of the 8% provincial component of the HST, only specified persons may claim the rebate of the 7% GST or federal component of the HST.

**Disclosure requirements**

30. When disclosing the HST in an invoice or receipt issued in respect of a supply of a good to which the point-of-sale rebate applies, the registrant supplier may show:

- the total amount of the HST payable (or the total HST rate of 15%) with the amount of the rebate shown separately,
- the total HST payable as an amount net of the provincial component of the HST, or
- the total price of the qualifying goods that includes HST at a net rate of 7%.
Example

A bookstore in Moncton, New Brunswick, selling a book priced at $30 has the following three options when disclosing the total HST payable:

<table>
<thead>
<tr>
<th>Book price:</th>
<th>$ 30.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>HST @ 15%</td>
<td>$ 4.50</td>
</tr>
<tr>
<td>subtotal</td>
<td>$34.50</td>
</tr>
<tr>
<td>Rebate @ 8%</td>
<td>$ 2.40</td>
</tr>
<tr>
<td>Amount due</td>
<td>$32.10</td>
</tr>
</tbody>
</table>

or

<table>
<thead>
<tr>
<th>Book price:</th>
<th>$ 30.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>HST*</td>
<td>$ 2.10</td>
</tr>
<tr>
<td>Amount due</td>
<td>$32.10</td>
</tr>
</tbody>
</table>

*This amount equals:

\[(\text{HST @ 15\%}) - (\text{Rebate @ 8\%}) = \]$4.50 — 2.40 = $2.10.

This calculation does not need to appear on the invoice.

or

<table>
<thead>
<tr>
<th>Book price:</th>
<th>$ 32.10</th>
</tr>
</thead>
<tbody>
<tr>
<td>7% HST included</td>
<td></td>
</tr>
</tbody>
</table>

Note: If the purchaser in this example were eligible to claim an ITC for tax paid or payable on the acquisition of this book, the maximum ITC would be $2.10 — an amount that appears only on the second invoice method. In the other two cases, the purchaser would have to calculate 7\% of $30.00 or 7/107 of $32.10 in order to determine the amount that may be claimed as an ITC.

31. A non-resident supplier who is registered for the GST/HST and who sends goods eligible for the point-of-sale rebate to Canada by mail or courier must follow the same disclosure and reporting requirements as a registrant who is a resident of Canada.

Net tax and tax adjustments

Deducting prescribed amount when computing net tax

ss 234(3)

Deduction for Provincial Rebate (GST/HST) Regulations

32. Under the provisions of subsection 234(3), a supplier who is a registrant and who has paid or credited a point-of-sale rebate of the provincial component of the HST to a recipient may deduct an amount equal to the rebate in determining the net tax for the reporting period in which the rebate was paid or credited. In the regular GST/HST return for this reporting period, the registrant supplier may account for the point-of-sale rebate by showing the total HST collected or collectible (i.e., 15\%) on the supply on line 103 and claiming an adjustment for the total amount of the 8\% rebate paid or credited on line 107. Alternatively, the supplier may show the net amount as the HST collected or collectible (i.e., 7\%) on line 103, and not claim an adjustment on line 107.

Cannot claim as ITC, rebate or remission

ss 234(4)

33. Since by crediting the amount of the point-of-sale rebate to the recipient of the qualifying goods, the supplier has reduced the amount of tax actually paid by the recipient, the recipient is not entitled to claim the amount credited as an ITC, rebate or remission.
34. In the event that the consideration for the supply is subsequently written off as a bad debt or adjusted by the supplier, the supplier may not claim an additional deduction from net tax and no addition to net tax is required in respect of an amount that was credited as a point-of-sale rebate in the adjustments to tax under section 231 (bad debt relief) or section 232 (refunds or adjustments of tax).

35. Although the provisions for self-assessment of the provincial component of the HST that apply to tangible personal property brought into a participating province also apply to goods that are eligible for the point-of-sale rebate, since the amount to be self-assessed in the case of goods to which the point-of-sale rebate applies would be cancelled out by the amount of the point-of-sale rebate, no tax would be payable and thus, no return needs to be filed.

36. As noted in paragraphs 13 and 14 in relation to the federal book rebate, shipping and handling charges are dealt with in one of two ways. In the first case, the supplier is required to transport the goods to the recipient under the terms of the agreement for the supply of the goods and continues to be responsible for the goods until they are delivered to the recipient. In this case, the point-of-sale rebate would apply to the amount payable for the qualifying goods, including the shipping and handling charges for the goods. In the other case, the supplier is not responsible for the transportation of the goods to the recipient (e.g., to the recipient’s premises) under the terms of the agreement for the supply of the goods. Rather, the recipient is responsible for the transportation of the goods to its premises. In this case, the point-of-sale rebate would not apply to the shipping and handling charges.

Example 1

An individual in Grand Falls, Newfoundland, orders books from a book club. Under the terms of the order, the club is responsible for shipping the books to the customer. In this case, the point-of-sale rebate applies to the total HST payable on the books and the shipping and handling charges. Accordingly, the book club charges HST net of rebate, i.e., tax to be collected = 7%, on the total payable for the books and the shipping and handling charges.

Example 2

A publisher in Toronto sells books to a bookstore in Bathurst, New Brunswick. Under the terms of the agreement for the supply of the books, the bookstore is responsible for transportation of the goods. The bookstore requests that the publisher arrange for the delivery of the goods and agrees to reimburse the publisher for the transportation costs. The provider of the freight transportation service, i.e., the carrier, bills the publisher for the delivery. The publisher invoices the bookstore for the books and applies HST net of rebate, i.e., tax to be collected = 7%, to the charge for the books. In this case, the rebate does not apply to the amount of HST on the shipping charge. Accordingly, the publisher's invoice shows HST = 15% for the shipping charge.
37. If an item falls within the definition of printed book, it is eligible for the federal book rebate if a specified person purchases it for purposes other than resale. It is also eligible for the point-of-sale rebate in the participating provinces. If an item is excluded from the definition of printed book and if it is not considered to be a printed version of a religious scripture or an audio recording of a printed book, it is not eligible for either rebate. For purposes of the federal book rebate and for the point-of-sale rebate, the expression “printed book” has its ordinary meaning subject to specific exclusions.

38. A printed book does not include anything that is, or the main component of which is,

(a) a newspaper;
(b) a magazine or periodical acquired otherwise than by way of subscription;
(c) a magazine or periodical in which the printed space devoted to advertising is more than 5% of the total printed space;
(d) a brochure or pamphlet;
(e) a sales catalogue, a price list or advertising material;
(f) a warranty booklet or an owner's manual;
(g) a book designed primarily for writing on;
(h) a colouring book or a book designed primarily for drawing on or affixing thereto, or inserting therein, items such as clippings, pictures, coins, stamps or stickers;
(i) a cut-out book or a press-out book;
(j) a program relating to an event or performance;
(k) an agenda, calendar, syllabus or timetable;
(l) a directory, an assemblage of charts or an assemblage of street or road maps, but not including
   (i) a guidebook, or
   (ii) an atlas that consists in whole or in part of maps other than street or road maps;
(m) a rate book;
(n) an assemblage of blueprints, patterns or stencils;
(o) prescribed property; or
(p) an assemblage or collection of, or any item similar to, items included in any of paragraphs (a) to (o).

These exclusions are discussed in greater detail below.

Newspapers

para 259.1(1)(a) 39. Newspapers are excluded from the definition of printed books.

Magazines and other periodicals

para 259.1(1)(b) and (c) 40. Magazines, comic books and other periodicals that are obtained by subscription and in which 5% or less of the total printed space is advertising are considered to be printed books. If more than 5% of the total printed space is devoted to advertising or if the magazines, comic books and other periodicals are purchased on a per copy basis and not by subscription, they are excluded from the definition of printed book.

41. Books published as loose-leaf series that are supplied on a subscription basis where the subscription charges include replacement pages and instruction sheets to keep the books up to date and to expand the text are not magazines or periodicals, but are considered to be printed books or updates to printed books and as such are eligible for both rebates.

Advertising

42. The term “advertising” as it is used in subsection 259.1(1) is interpreted to include the following:

- all space devoted to advertising whether sold or donated by the publisher;

- all headings, instructions and promotional material related to classified advertising, e.g., if “Classified Ads Section” appears as a heading, it is regarded as part of the advertising;

- all other space, excluding the masthead, devoted to the business of the publisher, such as subscription advertisements, coupons and other advertisements on behalf of the publishers;

- sponsored material, such as written articles and illustrations relating to the opening of a shopping centre, business or commercial enterprise, published at the request and expense of an advertiser;

- articles written to promote the use of particular products where the space for the articles is purchased by the advertiser or provided without charge by the publisher to the advertiser.
often it is readily apparent if the space devoted to advertising in a magazine or periodical exceeds 5% of the total printed space. In such cases, it is not necessary to make a determination of this particular percentage. In other cases, any reasonable method of measuring the advertising space and total printed space of a publication will be accepted as long as it is used consistently. For example, it would be acceptable to divide pages containing advertising into fractional proportions, to total such proportions to reflect their equivalent as complete pages, and then to compare this total to the total number of pages in the publication.

Since non-subscription magazines or periodicals are already excluded from the definition of “printed book”, determining the percentage of space devoted to advertising applies only to magazines or periodicals purchased by subscription. Determining in advance the percentage of space devoted to advertising in subscription publications would involve publications not yet issued. Accordingly, it is acceptable to use samples of recent issues of the publication, so long as it is reasonable to assume that the samples are representative of the publication to which the subscription relates. It would also be acceptable to use information provided by the publisher or distributor of the magazine or periodical about the percentage of space devoted to advertising.

Brochures and pamphlets

45. Brochures and pamphlets are excluded from the definition of printed books and thus are not eligible for rebate purposes. Generally, the words “brochure” and “pamphlet” are to be construed according to their ordinary meaning (i.e., would “a person in the street” regard a publication as a brochure or pamphlet).

46. Ordinarily, brochures and pamphlets are short publications containing descriptive information, which are unbound or loosely bound (e.g., bound with staples, coiled wire, or in a loose leaf binder), encased in soft covers or no covers at all, and intended for free distribution. In most cases, it is apparent if a publication is a brochure or pamphlet.

47. If it is not apparent that a particular publication is a brochure or pamphlet, apply the following factors to make a determination. There are six factors altogether, but the first three are determinative. This means that if one of the first three factors reveals that the publication is something other than brochure or pamphlet, there is no need to apply the remaining factors.

<table>
<thead>
<tr>
<th>Determinative factors</th>
<th>Criteria</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Does the publication fall under any of the other exclusions to the definition of “printed book”?</td>
<td>Where a publication falls under one of the other exclusions, it is not a brochure or pamphlet.</td>
</tr>
<tr>
<td>2.</td>
<td>Is the publication tightly bound (e.g., with stitching or glue), loosely bound (e.g., with staples), or unbound altogether (e.g., a folded leaflet)?</td>
<td>A publication bound tightly with stitching or glue is not a brochure or pamphlet.</td>
</tr>
</tbody>
</table>
3. Is the publication encased in a hard cover, a soft cover, or no cover at all?  
A publication encased in a hard cover is not a brochure or pamphlet.

Remaining factors

48. If the first three factors do not clearly establish that a publication is not a brochure or pamphlet, then it may be a brochure or pamphlet, and three additional factors must be considered before a proper determination can be made.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Is this publication short in relation to other publications?</td>
<td>A lengthy publication is unlikely to be a brochure or pamphlet.</td>
</tr>
<tr>
<td>5. Is the publication principally intended to convey general information or does it have another function? For example, is it intended to entertain, such as a children's story?</td>
<td>A publication intended to perform some function other than conveying general information is unlikely to be a brochure or pamphlet.</td>
</tr>
<tr>
<td>6. Is the publication available to the end-user for a nominal charge or no charge at all?</td>
<td>A publication that is made available to the end-user for more than a nominal amount is unlikely to be a brochure or pamphlet.</td>
</tr>
</tbody>
</table>

49. Unlike the first three factors, none of the remaining factors can be the sole basis for determining if a publication is a brochure or pamphlet within the ordinary meaning of the words. Nevertheless, these factors when taken together can offer a basis for a decision. However, these factors are not exhaustive and on occasion it may be necessary to consider other factors that apply to a particular case.

Example 1

A public library orders publications describing how to use its reference services. These publications will be available to the public free of charge. Each publication consists of eight sheets of 8 ½ by 17-inch paper folded in half, encased in a soft cover, and stapled along the fold. On the cover is the title and a picture. The publication has a short table of contents but no index or bibliography. It is not printed periodically, although it may be reprinted when its contents are out of date or existing stocks are depleted.

In this case, the publication is a “brochure or pamphlet” for the purpose of the exclusion in paragraph (d) of the definition of “printed book” in subsection 259.1(1) since:

- it does not fit any of the other exclusions to the definition of a printed book;
- it is not tightly bound nor encased in a hard cover;
- it is relatively short;
- it is intended to convey general information to the public; and
- it is supplied free of charge.
Example 2

INFO Co. provides a publication that sets out general information about the most recent lending rates, mutual fund returns, and similar information for use by its clients. The publication is updated monthly. The information is printed on both sides of an 8½ by 11-inch sheet of paper that is folded in two so that information is provided on four separate pages. The pages are numbered one through four. The publication is available free of charge.

In this case, although the publication is published monthly, it is not a “periodical” (i.e., in the sense of a newspaper, magazine or other publication offered regularly to subscribers) and it does not fit any of the other exclusions to the definition of a printed book. Further, it is not tightly bound nor encased in a cover, comprises only four pages, is quite short relative to the average publication, and is intended to provide information free of charge to its clients. Accordingly, the publication is a “brochure or pamphlet” for the purpose of paragraph (d) of the definition of “printed book” in subsection 259.1(1).

Example 3

The Queen’s Printer for a provincial government publishes all of the legislation for that province. The Sale of Goods Act for that province is a 28-page document with a paper cover made of the same quality paper as the pages it contains. The Act is constructed of 32 pages of 8½ by 11-inch paper, folded in half, and stapled along the fold. The Act has a two-page table of contents and a six-page index. The Act is sold by the Queen’s Printer for $3 a copy. The Act is reprinted when it requires updating or when stocks are depleted.

This publication satisfies some of the criteria for being classified as a brochure or pamphlet: it is encased in a paper cover, loosely bound with staples; it does not fit any of the other exclusions to the definition of a printed book; it is short relative to other publications; and it is intended to convey information.

Nevertheless, the publication has a table of contents and an index, which are not typical of brochures and pamphlets. Further, the publication is sold for $3. Although this is not a large amount, it is not nominal relative to material costs and the quality of construction. Finally, the content of the publication is provincial legislation. Legislation is technical and complex in nature. Consequently, the publication is intended to perform a function other than the mere conveyance of general information to members of the public.

Accordingly, the publication is not a “brochure or pamphlet” for the purpose of the exclusion in paragraph (d) of the definition of “printed book” in subsection 259.1(1). It is a book.

Sales catalogues, price lists or advertising material

Para 259.1(1)(e) 50. A sales catalogue is considered to be a publication that lists, enumerates, describes or depicts names, titles, persons, things, properties or services, with or without explanatory or descriptive remarks, designed primarily to promote the sale of the properties or services. It is excluded from the definition of printed books. Also excluded are price lists and advertising material.
51. On the other hand, art exhibition catalogues containing reproductions of works in an exhibit, descriptive text accompanying the reproductions and, usually, biographical information on the artists contributing to the exhibits are not excluded from the definition of printed books. Such exhibition catalogues are intended to act as a guide to and commentary on an exhibit, and normally contain little or no advertising or prices. If values are given, they are not given for sales purposes. Although referred to as “catalogues”, such art exhibit books are not considered to be “sales catalogues” for purposes of the Act, but are considered to be printed books. Other examples of publications that are considered to be printed books are coin, stamp, and antique catalogues with a similar reference function.

52. Books published by manufacturers that promote the use of the manufacturers’ products are not considered to be printed books but, instead, are regarded as advertising material. An example of this type of book is a cookbook with recipes that promote a manufacturer’s food products.

53. On the other hand, a book that is a reprint of a historical catalogue that cannot be used to purchase goods and that is published purely for historical purposes is not considered to be advertising material and is considered to be a printed book for rebate purposes.

Warranty booklets and owner's manuals

para 259.1(1)(f)  
Policy statement P-227

54. Warranty booklets and owner’s manuals are excluded from the definition of printed books. The CCRA will consider publications that relate to and are provided as an accompaniment to a product for no extra consideration to be owner's manuals. Further, the publications that replace those that are provided as an accompaniment to a product will also be considered to be owner's manuals. The CCRA will consider publications that document a warranty or describe such a warranty to be warranty booklets.

55. Where a person acquires, for additional consideration, a publication that complements or provides more detail than the owner's manual that was originally provided with a product, this publication will not be considered to be an owner's manual. For example, where a person acquires a vehicle that comes with an owner's manual and also purchases a separate mechanic's guide for repairing the vehicle, this guide will not be considered to be an owner's manual. Similarly, books that are available off-the-shelf in bookstores to assist users of computer software are not considered to be owner’s manuals.

Example 1
A university purchases copies of user manuals for computer software from a bookstore for use by students in its computer labs. These manuals are sold separately by a publisher and are not provided as an accompaniment to the software.

In this case, the user manuals for computer software are considered to be printed books. These publications are not owner’s manuals for purposes of the exclusion from “printed book” in paragraph 259.(1)(f) of the definition and are therefore eligible for both rebates.

Example 2
A qualifying non-profit organization operates a lending library. It purchases copies of car repair and tune-up guides for different makes of cars. These guides are sold separately by a publisher and are not provided as an accompaniment to the cars.
13.4 Rebates for Printed Books, Audio Recordings of Printed Books, and Religious Scriptures

In this case, the car repair and tune-up guides are printed books for purposes of section 259.1. These publications are not owner’s manuals for purposes of the exclusion from “printed book” in paragraph 259.(1)(f) of the definition and are therefore eligible for both rebates.

Example 3

A municipality requires extra copies of the manuals that had accompanied, for no charge, washers and dryers that the municipality purchased for its rent-geared-to-income apartment buildings. The additional manuals are available for $5 each. In this case, the manuals are owner’s manuals and, therefore, are excluded from the definition of printed book. They are ineligible for either rebate.

Books for writing on

para 259.1(1)(g)

56. Books for writing on are excluded from the definition of printed books. Examples of these include address books, diaries, journals and notebooks.

57. Crossword puzzle magazines, “find-a-word” magazines and similar publications issued on a periodic basis are considered periodicals and not books for writing on. These are considered to be printed books if 5% or less of their total space is devoted to advertising and they are acquired by subscription.

58. Books that consist primarily of practice tests with explanatory answers such as exercise books and books that are designed primarily to prepare students for certain examinations are not considered to be “books designed primarily for writing on”. These books are therefore considered to be printed books for rebate purposes.

Colouring books, books for drawing on, scrapbooks and albums

para 259.1(1)(h)

59. Colouring books, books for drawing on, scrapbooks and albums are also excluded from the definition of printed books and therefore are not eligible for rebate purposes. Examples are scrapbooks for clippings, sticker books, sketchbooks, and albums for photographs, stamps or coins.

Cut-out and press-out books

para 259.1(1)(l)

60. Cut-out and press-out books are not considered to be printed books and therefore are not eligible for either rebate.

Programs

para 259.1(1)(j)

61. Programs for events or performances such as sports events, concerts, plays or assemblies, are not considered to be printed books and are not eligible for either rebate.

Agendas, calendars, syllabuses or timetables

para 259.1(1)(k)

62. All types of agendas, calendars, syllabuses and timetables are excluded from the definition of printed books. University or college calendars fall within this exclusion. Yearbooks such as school yearbooks are, however, considered to be printed books.
13.4 Rebates for Printed Books, Audio Recordings of Printed Books, and Religious Scriptures

Directories

para 259.1(1)(l) 63. Directories including telephone books, postal-code books, and fax directories are excluded from the definition of printed books and therefore are not eligible for either rebate. Also excluded are directories that list services available to the reader (such as municipal service directories) and books that are primarily listings of national or local goods and service providers, and manufacturing, industrial or trade directories.

Road and street maps, charts, patterns and blueprints

paras 259.1(1)(l) and (n) 64. Road and street maps, charts, patterns and blueprints are excluded from the definition of printed books. Navigational charts are also excluded. However, printed books consisting principally of maps other than street or road maps, e.g., contemporary and historical atlases are considered to be printed books.

Guidebooks

subpara 259.1(1)(l)(i) 65. Guidebooks are considered to be printed books for rebate purposes. Generally, guidebooks are designed to assist persons in discovering elements of interest at a geographic location and may include some maps. The maps are generally secondary to descriptive passages about the location.

Rate books

para 259.1(1)(m) 66. The definition of printed books does not include rate books such as insurance rate books. These books are ineligible for either rebate.

Prescribed property

para 259.1(1)(o) 67. Prescribed property is not eligible for the rebates. To date, no property has been prescribed by regulation for purposes of the rebates.

Assemblages, collections or similar goods

para 259.1(1)(p) 68. Assemblages or collections of items included in paragraphs (a) to (o) of subsection 259.1(1) or items similar to those items are excluded from the definition of printed books. If a person is uncertain about whether or not a product is considered to be a printed book for purposes of the rebates, the local CCRA tax services office may be contacted for assistance.

Products packaged together

Combined supplies 69. As noted in paragraph 37, the expression “printed book” is interpreted according to its ordinary meaning. Common dictionary definitions of the term “book” indicate that a book is essentially a number of sheets fastened together in some way. Printed books may contain printed words, printed pictures, diagrams, symbols, or other visual aids, including music and Braille. Therefore a book containing printed words and images or even one containing only printed images is a printed book.
70. In some cases, an item that consists of a book and another product packaged together and sold for a single price will be considered to be a single supply of a new product that does not fall within the definition of a printed book.

71. In other cases, a printed book and another item packaged together and sold for a single price will be considered to be two separate items. In these cases, it is necessary to determine if the supply of one item is incidental to the supply of the other. If the supply of the other item is incidental to the supply of the printed book, then the entire product will be considered to be one supply of a printed book. Conversely, if the printed book supply is incidental to the supply of the other item, then no part of the supply will be considered to be that of a printed book. For example, when software is sold with a manual, the principal item sold is the software and the manual is incidental to the software. However, if neither supply is considered to be incidental to the other, then it will be necessary to allocate the consideration between the part attributable to the book and the part attributable to the other item. Only the part attributable to the printed book would be eligible for the rebates applicable to printed books.

72. Where items are packaged together but sold for separate prices, they are treated as separate supplies.

73. For additional information, see policy statements P-077R, Single and Multiple Supplies and P-159R1, Meaning of the Phrase “Reasonably Regarded as Incidental”.

**Goods eligible for rebate: Audio recordings of printed books**

74. An audio recording all or substantially all (90% or more) of which is a spoken reading of a printed book is eligible for the rebates. In the CCRA’s view, “audio recording” should be construed according to its ordinary meaning. For rebate purposes, eligible audio recordings include recordings that are the reproduction of the text of a book in audio form, e.g., a cassette, compact disc (CD), and reel-to-reel tape. A recording that represents a summarized or abridged version of a book is also eligible if the recording reflects, even though in summary or abridged form, the contents of the book.

75. An audio version of a book that includes minimal commentary, analysis, or interpretation in addition to the text of the book, or additions that are not incorporated into the narrative (e.g., brief opening or closing comments or music) is also eligible.

76. A recording of excerpts from a published book qualifies for the rebates; a recording based on an unpublished manuscript does not.

77. Recordings of performances of published plays qualify, but recordings of performances of musical scores are not eligible.
CD-ROMs

78. CD-ROMs sometimes contain a combination of textual, auditory and visual information. While it is evident that they do not qualify as a printed book, the question may arise if they are sufficiently similar to an audio recording of a printed book to be eligible for the rebate. However, unlike CDs that are audio recordings of printed books, CD-ROMs do not generally contain only auditory information, they also have textual and visual information in addition to an audio component. Thus, CD-ROMs are not an “audio recording” for rebate purposes.

Goods eligible for rebate: Printed versions of religious scriptures

Religious scriptures para 259.1(2)(c)

79. Purchases of bound or unbound printed versions of scripture of any religion are eligible for the rebates. Eligible religious scriptures are writings such as the Koran, the Bible, prayer books, missals, hymn books, and Torah scrolls, whether bound or unbound. Illustrated versions of religious scriptures, e.g., comic book versions, are also included for rebate purposes.
## Appendix — Examples Used in GST/HST Memorandum 13.4

### Printed books

<table>
<thead>
<tr>
<th>Item</th>
<th>Excluded from the federal book rebate and the point-of-sale rebate</th>
<th>Eligible for the rebates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newspapers</td>
<td>• all newspapers</td>
<td></td>
</tr>
<tr>
<td>Magazines and other periodicals</td>
<td>• if purchased on a per copy basis, or</td>
<td>• if purchased by subscription and if 5% or less of the total printed space is devoted to advertising</td>
</tr>
<tr>
<td></td>
<td>• if more than 5% of total printed space is devoted to advertising</td>
<td>• a loose-leaf series</td>
</tr>
<tr>
<td>Brochures and pamphlets</td>
<td>• a library’s pamphlet describing how to use its reference service</td>
<td>• legislation (because not a brochure or pamphlet and not otherwise excluded)</td>
</tr>
<tr>
<td></td>
<td>• a free brochure giving monthly updates of financial information</td>
<td></td>
</tr>
<tr>
<td>Sales catalogues, price lists and advertising materials</td>
<td>• books published by manufacturers to promote their own products</td>
<td>• catalogues with a reference function such as art exhibition catalogues, coin catalogues, stamp catalogues and antique catalogues</td>
</tr>
<tr>
<td></td>
<td>• mail-order catalogues</td>
<td>• reprints of historical catalogues</td>
</tr>
<tr>
<td>Warranty booklets and owner’s manuals</td>
<td>• additional copies of a manual that accompanied an appliance</td>
<td>• a mechanic’s guide for car repairs sold separately by a publisher</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• books on computer software purchased off-the-shelf in bookstores</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• manuals sold separately from software</td>
</tr>
<tr>
<td>Books for writing on and drawing on</td>
<td>• address books</td>
<td>• periodicals such as crossword puzzle magazines and find-a-word magazines (if obtained through subscription and if 5% or less of the total space is devoted to advertising)</td>
</tr>
<tr>
<td></td>
<td>• diaries</td>
<td>• exercise books consisting of practice tests</td>
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<tr>
<td></td>
<td>• journals</td>
<td>• exam preparatory books</td>
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<tr>
<td></td>
<td>• notebooks</td>
<td></td>
</tr>
<tr>
<td>Item</td>
<td>Excluded from the federal book rebate and the point-of-sale rebate</td>
<td>Eligible for the rebates</td>
</tr>
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<td>------------------------------------------</td>
<td>-------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>Colouring books, scrapbooks and albums</td>
<td>• scrapbooks for clippings • sticker books • sketchbooks • albums for photographs, stamps or coins</td>
<td></td>
</tr>
<tr>
<td>Programs</td>
<td>• sports events • concerts • plays • assemblies</td>
<td></td>
</tr>
<tr>
<td>Agendas, calendars, syllabuses or timetables</td>
<td>• all types including university or college calendars</td>
<td>• school yearbooks</td>
</tr>
<tr>
<td>Directories</td>
<td>• telephone books • postal-code books • fax directories • service directories such as municipal service directories • books that are primarily listings of national or local goods and services providers • manufacturing, industrial or trade directories</td>
<td></td>
</tr>
<tr>
<td>Road and street maps, charts, patterns and blueprints</td>
<td>• navigational charts</td>
<td>• books of maps other than street or road maps such as contemporary and historical atlases</td>
</tr>
<tr>
<td>Rate books</td>
<td>• insurance rate books</td>
<td></td>
</tr>
<tr>
<td>Prescribed property</td>
<td>• no prescribed property to date</td>
<td></td>
</tr>
</tbody>
</table>
### Audio recordings of printed books

<table>
<thead>
<tr>
<th>Item</th>
<th>Excluded from the federal book rebate and the point-of-sale rebate</th>
<th>Eligible for the rebates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audio recordings of printed books</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• recordings based on unpublished manuscripts</td>
<td></td>
<td>• recordings that reproduce the text of a book in audio form, including summary or abridged form</td>
</tr>
<tr>
<td>• recordings of performances of musical scores</td>
<td></td>
<td>• recordings that also include minimal commentary, analysis or interpretation</td>
</tr>
<tr>
<td>• CD-ROMs</td>
<td></td>
<td>• recordings of excerpts from a published book</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• recordings of performances of published plays</td>
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</tbody>
</table>

### Religious scriptures

<table>
<thead>
<tr>
<th>Item</th>
<th>Excluded from the federal book rebate and the point-of-sale rebate</th>
<th>Eligible for the rebates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Printed version of scripture of any religion</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• bound or unbound versions of scripture</td>
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<tr>
<td></td>
<td></td>
<td>• the Koran</td>
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<td>• the Bible</td>
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<td>• prayer books</td>
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<td></td>
<td></td>
<td>• missals</td>
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<td>• hymn books</td>
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<td></td>
<td></td>
<td>• Torah scrolls</td>
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<tr>
<td></td>
<td></td>
<td>• illustrated versions of scripture, e.g., comic book versions</td>
</tr>
</tbody>
</table>
### Enquiries

If you wish to make a **technical enquiry** on the GST/HST by telephone, please call one of the following toll-free numbers:

- 1-800-959-8287 (English service)
- 1-800-959-8296 (French service)

**General enquires** about the GST/HST should be directed to Business Enquiries at one of the following toll-free numbers:

- 1-800-959-5525 (English service)
- 1-800-959-7775 (French service)

If you are in the Province of Québec, please call the following toll-free number:

- 1-800-567-4692 (Ministère du Revenu du Québec)

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All GST/HST memoranda and other Canada Customs and Revenue Agency publications are available on Internet at the CCRA site [http://www.ccra-adrc.gc.ca/](http://www.ccra-adrc.gc.ca/) under the heading “Technical Information” in “Tax”. 
“D”

GST/HST Info Sheet GI-039,

“Applying the 2008 GST/HST Rate Reduction to Allowances and Reimbursements”
Applying the 2008 GST/HST Rate Reduction to Allowances and Reimbursements

On October 30, 2007, the Government of Canada announced in its Economic Statement that it proposes to reduce the GST rate by one percentage point from 6% to 5%, effective January 1, 2008. To facilitate the transition to the lower rate, the Economic Statement also proposes transitional rules for determining the GST/HST rates applicable to transactions that straddle the January 1, 2008 implementation date.

This info sheet reflects the proposed amendments to the *Excise Tax Act*. Any commentary in this publication should not be taken as a statement by the Canada Revenue Agency (CRA) that these amendments will be enacted in their current form.

This info sheet explains how the proposed reduction in the rate of the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to allowances or reimbursements for transactions that straddle the date the reduced rates come into effect, which is January 1, 2008.

In this info sheet, “taxable” means subject to the GST/HST at the rates of 6% and 14%, or at the reduced rates of 5% and 13%. “Participating province” refers to the provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador.

The HST applies only to supplies made in or imported into a participating province. The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to GST/HST Technical Information Bulletin B-078, *Place of Supply Rules under the HST*.

**Background**

Effective January 1, 2008, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 6% to 5%. The rate of the HST will be reduced from 14% to 13%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-28, *Budget and Economic Statement Implementation Act, 2007*).

**General transitional rule**

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- if the GST/HST becomes payable on or after January 1, 2008, without having been paid before that day, the rate of 5% GST or 13% HST will apply;
- if the GST/HST is paid on or after January 1, 2008, without having become payable before that day, the rate of 5% GST or 13% HST will apply.

If the GST/HST becomes payable, or is paid without having become payable, in 2007, the rate of 6% GST or 14% HST will continue to apply.

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Note: The CRA has introduced **new factors** of 4/104 and 12/112, which may be used by registrants to calculate deemed tax paid in respect of reimbursements paid on or after January 1, 2008. See page 3 of this info sheet.
Transitional provisions for deemed supplies

In certain circumstances the GST/HST is deemed to have been paid or collected on a particular day. Under the proposed legislative amendments, the rate of 5% GST or 13% HST will apply where the GST/HST is deemed to have been paid or collected on or after January 1, 2008.

The current legislation concerning allowances and reimbursements paid by employers to employees, by partnerships to partners, or by public institutions and charities to their volunteers deems the GST/HST to be paid by these persons at specific times. As long as all the criteria outlined below are met, and as long as these allowances or reimbursements do not result in taxable benefits to the individuals receiving them, the person who pays these allowances or reimbursements is deemed to have paid the GST/HST, and may be entitled to claim an input tax credit (ITC) or rebate for the deemed tax paid.

Whether the reduced rates of tax apply to these allowances and reimbursements depends on the date the allowance or reimbursement is paid.

Allowances

A person is deemed to have paid the GST/HST on an allowance paid to:

- an employee of the person,
- where the person is a partnership, a member of the partnership, or
- where the person is a charity or public institution, a volunteer who gives services to the charity or public institution,

as long as the conditions listed below are met.

1. The allowance is used to pay for supplies of property or services all or substantially all (90% or more) of which are taxable supplies, and are acquired in Canada by the employee, partner, or volunteer in relation to the activities engaged in by the person.

2. The allowance is deductible in computing the income of the person paying the allowance for purposes of the Income Tax Act, or would be deductible if the person were a taxpayer under that Act and the activity was a business (note that the full amount of the allowance does not have to be deductible for income tax purposes, but some of the amount must be deductible).

3. If the allowance is for the use in Canada of a motor vehicle in relation to the activities of the person, it must be considered to be a reasonable allowance for income tax purposes.

When these conditions are met, the person paying the allowance is considered to have received the property or services, and any consumption or use of the property or services by the employee, partner or volunteer is considered to be consumption or use only by the person. In addition, the person is considered to have paid, at the time the allowance is paid to the employee, partner, or volunteer, the GST/HST in respect of the property or services.

The GST/HST deemed to have been paid on the allowance is calculated by the formula

\[ A \times B \]

where

A is the amount of the allowance and
B is

- for an allowance paid before January 1, 2008:
  (i) 14/114, where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in participating provinces, and
  (ii) in any other case, 6/106.
- for an allowance paid on or after January 1, 2008:
  (i) 13/113, where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in the participating provinces, and
  (ii) in any other case, 5/105.
Example 1
On December 28, 2007, an employer pays an allowance to an employee to attend a business meeting that is to be held in Vancouver, British Columbia, from January 14 to January 17, 2008. The allowance is intended to cover supplies of property or services of which 90% or more are taxable, and that are acquired in Canada.

Since the employer pays the allowance to the employee before January 1, 2008, to cover the taxable supplies of property or services made in a non-participating province, the employer is deemed to have paid tax equal to 6/106 of the amount of the allowance.

Example 2
On March 6, 2008, a partnership pays a partner a reasonable allowance to cover motor vehicle travel within Nova Scotia. As the partnership pays this allowance after January 1, 2008, for travel within a participating province, the partnership is deemed to have paid tax equal to 13/113 of the amount of the allowance.

Reimbursements
A person is deemed to have paid the GST/HST on a reimbursement paid to:

- an employee of the person,
- where the person is a partnership, a member of the partnership, or
- where the person is a charity or public institution, a volunteer who gives services to the charity or public institution,

as long as the conditions listed below are met.

1. The employee, partner or volunteer must have paid the GST/HST on the taxable property or services acquired, imported, or brought into a participating province.
2. The employee, partner or volunteer must have consumed or used the property or services in relation to the activities of the person.

When these criteria are met, the person is deemed to receive a supply of the property or service, and to have consumed or used the property or service. The person is also deemed, on the day the reimbursement is paid, to have paid tax in respect of the supply of the property or service.

The deemed tax paid on the reimbursement is equal to the amount determined by the formula

$$A \times B$$

where

- $A$ is the tax paid by the employee, partner or volunteer in respect of that person’s acquisition, importation or bringing into a participating province of the property or service; and
- $B$ is the lesser of
  - (i) the percentage of the cost to the employee, partner or volunteer of the property or service that is reimbursed, and
  - (ii) the extent (expressed as a percentage) to which the property or service was acquired, imported or brought into the province, as the case may be, by the employee, partner or volunteer for consumption or use in relation to the activities of the employer, partnership, charity or public institution.

Registrants may choose one of the following two methods to calculate the deemed tax paid in relation to reimbursements for expenses incurred in Canada:

- use the exact calculation method as shown above, or
- recognizing that certain expenses may include tips, gratuities, or provincial sales taxes, use a factor of 5/105 or 13/113 for reimbursements paid in 2007.

Documentary requirements
Registrants who use the factor of 5/105 or 13/113 for reimbursements are exempt from the general documentary and information requirements for claiming ITCs if they maintain books and records (including all documentation currently required to substantiate such deductions under the Income Tax Act) that contain the following information:

- the name and GST/HST registration number of the registrant who paid the reimbursement;
- the name of the employee, partner or volunteer who received a reimbursement;
- the total amount of the reimbursement paid to each employee, partner or volunteer;
- the total GST or HST deemed to have been paid for the reimbursement (5/105 or 13/113 of the total amount);
• the reporting period in which the reimbursement was made; and
• the nature of the supply or expense.

Effective for reimbursements paid on or after January 1, 2008, a registrant will be allowed the option of multiplying the total amount reimbursed for expenses by the factor of 4/104, if 90% or more of these expenses are taxable at 5% GST, or by the factor of 12/112, if 90% or more of these expenses are taxable at 13% HST.

The calculation method chosen must be used consistently within each category of reimbursed amounts (e.g., airfare, hotel accommodation, food, beverages, and entertainment) throughout the fiscal year.

Example 1
On March 6, 2008, an employer reimburses a sales employee $73.80 for the cost of meals (including taxes and tips) incurred during a one-day trip exclusively in relation to the employer's activities. The employee paid $3 GST on the cost of the meals. The employer is deemed to have paid $3 GST ($3 x 100%) on the reimbursed amount, since the employer is using the exact calculation method.

Example 2
On March 6, 2008, an employer reimburses a sales employee $73.80 for the cost of meals (including taxes and tips) incurred during a one-day trip exclusively in relation to the employer's activities. The employer consistently used the factor of 5/105 to determine the deemed tax paid on meal reimbursements paid to its employees before January 1, 2008. Since the employer reimburses the employee after January 1, 2008, it may use the factor 4/104 to determine the deemed tax paid. Consequently, the employer is deemed to have paid $2.84 GST (4/104 x $73.80) on the reimbursed amount.

This info sheet does not replace the law found in the Excise Tax Act (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, Canada Revenue Agency GST/HST Rulings Centres. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the CRA Web site at www.cra-arc.gc.ca/gsthsttech.
“E”

Canada Revenue Agency GST/HST Notice No. 247, October 2009,

“Harmonized Sales Tax for Ontario and British Columbia – Questions and Answers on General Transitional Rules for Personal Property and Services”
Harmonized Sales Tax for Ontario and British Columbia –
Questions and Answers on General Transitional Rules for
Personal Property and Services

The 2009 Ontario Budget proposed a harmonized sales tax (HST), which would come into effect on July 1, 2010. In addition, on July 23, 2009, the British Columbia (B.C.) Ministry of Finance issued a News Release proposing an HST which would also come into effect on July 1, 2010. The HST in Ontario and B.C. will be administered by the Canada Revenue Agency (CRA).

This publication provides questions and answers that reflect the proposed tax changes as announced in:
• the 2009 Ontario Budget and the HST Information Notice No. 3, General Transitional Rules for Ontario HST released by the Government of Ontario on October 14, 2009; and

Any commentary in this publication should not be taken as a statement by the CRA that these proposed amendments will be enacted in their current form. Further information will be published in the coming months.

The following information and questions and answers are provided to assist businesses and consumers in understanding how the transitional rules for the proposed HST would apply to transactions made by GST/HST registrants that straddle the July 1, 2010 implementation date. Unless otherwise noted, these transitional rules would apply to taxable supplies of personal property and services made in Ontario or B.C., whichever is applicable, and to importations of personal property into Ontario or B.C. definitions and concepts in the Excise Tax Act (the ETA) apply to the transitional rules outlined in this document.

These transitional rules generally operate on the basis of the earlier of when consideration for a supply becomes due and when consideration is paid without having become due. Under the ETA, consideration for a supply becomes due on the earliest of:
• the day the supplier first issues an invoice in respect of the supply;
• the date of the invoice;
• the day the supplier would have, but for an undue delay, issued an invoice in respect of the supply; and
• the day the recipient of the supply is required to pay the consideration pursuant to a written agreement.

In Ontario and B.C., the 5% goods and services tax (GST) will continue to apply according to the usual rules, either as GST or, where the HST would apply, as the federal part of the HST.

The HST in Ontario would be 13%, consisting of the 5% federal part and an 8% Ontario part. In B.C., the HST would be 12%, consisting of the 5% federal part and a 7% B.C. part.

This document uses the term “provincial part” to describe the 8% Ontario part or the 7% B.C. part of the HST, whichever is applicable.
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General Transitional Rules

Tangible personal property (goods)

SALES

The HST would generally apply to any consideration that becomes due, or is paid without having become due, on or after May 1, 2010 for a supply by way of sale of tangible personal property (i.e., goods) to the extent that the consideration is for tangible personal property that is delivered, and for which ownership is transferred, to the recipient of the supply on or after July 1, 2010.

The HST would not apply to a supply by way of sale of tangible personal property if the tangible personal property is delivered, or ownership of the tangible personal property is transferred, to the recipient of the supply before July 2010, regardless of when the consideration for the supply becomes due or is paid without having become due.

EXCHANGES

Exchanges on or after July 1, 2010, and before November 2010, of goods that were originally purchased before July 2010, and that were subject to the provincial sales tax for Ontario or B.C., would generally be treated as follows:

- if the consideration for the exchanged good exceeds that paid for the original good, then the HST would apply to the difference; and
- if the consideration for the exchanged good is less than or equal to that paid for the original good, then the HST would not apply.

The above rules would apply even if the exchange occurs because the original good was defective.

If provincial sales tax did not apply to the good purchased before July 2010, and the good is exchanged on or after July 1, 2010, then the provincial part of the HST would apply to the full consideration for the replacement good.

The HST would apply to the full consideration for a new item for any exchange on or after November 1, 2010.

SUBSCRIPTIONS

The HST would generally not apply to any consideration that is paid before July 2010 for a subscription to a newspaper, magazine or other periodical publication. The rules for budget payment arrangements set out later in this document would not apply to sales of newspapers, magazines or other periodicals by way of subscription.
LEASES AND LICENCES OF PERSONAL PROPERTY

The following transitional rules are for tangible personal property and intangible personal property supplied by way of lease, licence, or similar arrangement for which the consideration is rent, royalties, or similar payments. For supplies of intangible personal property where the payments do not vary with the amount of use or profits from the property, such as lump sums paid for copyrights, please refer to the rules in the Intangible Personal Property section of this document.

The HST would generally apply to any consideration that becomes due, or is paid without having become due, on or after May 1, 2010 for a supply of property by way of lease, licence, or similar arrangement to the extent that the consideration is attributable to that part of a lease or licence period (a lease interval) that begins on or after July 1, 2010.

However, the HST would not apply to any consideration for a supply of property by way of lease, licence, or similar arrangement if the consideration is attributable to a lease interval that begins before July 2010 and ends before July 31, 2010.

The above rules also apply to real property. For information on these rules as they apply Ontario and British Columbia, please see, respectively, GST/HST Notice 244, Harmonized Sales Tax – Questions and Answers on Housing Rebates and Transitional Rules for Housing and Other Real Property Situated in Ontario and GST/HST Notice 246, Harmonized Sales Tax for British Columbia – Questions and Answers on Transitional Rules for Non-Residential Real Property Situated in British Columbia.

SERVICES

The HST would generally apply to any consideration that becomes due, or is paid without having become due, on or after May 1, 2010, for a supply of a service, to the extent that the consideration relates to the portion of the service performed on or after July 1, 2010. However, if 90% or more of the service is performed before July 2010, no HST would be payable on the consideration for the service.

There are special transitional rules for passenger transportation services, freight transportation services, and prepaid funeral and cemetery services.

PASSENGER TRANSPORTATION SERVICES

The HST would not apply to any consideration for the part of a passenger transportation service that is performed on or after July 1, 2010, if the service is part of a continuous journey that begins before July 2010. Transportation passes, which are intangible personal property (rights to transportation), have special rules that are found later in the Intangible Personal Property section of this document.

FREIGHT TRANSPORTATION SERVICES

The HST would not apply to any consideration for the part of a freight transportation service that is performed on or after July 1, 2010, if the service is part of a continuous freight movement that begins before July 2010.

PREPAID FUNERAL AND CEMETERY ARRANGEMENTS

The HST would not apply to any consideration for the portion of a funeral or cemetery service that is performed on or after July 1, 2010, if the service is supplied according to an arrangement in writing that was entered into before July 2010.
This rule would only apply if it was reasonable, at the time that the arrangement was entered into, to expect that all or a part of the consideration for the service would be paid (or put into a trust) before the service is performed.

This rule would also apply to property relating to the funeral, burial, or cremation of an individual if the property is provided under an arrangement for the provision of funeral or cemetery services that is relieved under this rule.

**Intangible personal property**

A supply by way of sale of intangible personal property (e.g., contractual rights, patents) would generally be subject to the HST if the consideration for the supply becomes due, or is paid without having become due, on or after July 1, 2010. Passenger transportation passes, memberships, and admissions have special transitional rules.

**Passenger transportation passes**

The HST would generally apply to any consideration that becomes due, or is paid without having become due, on or after May 1, 2010, for a transportation pass that entitles an individual to passenger transportation services during a certain period (hereafter the “pass period”) to the extent that either the pass period begins on or after July 1, 2010 or:

- the pass period begins before July 2010 and ends after July 2010, and
- the consideration is attributable to any part of the pass period on or after July 1, 2010.

The HST would not apply if the pass period begins before July 2010 and ends before August 2010.

**Memberships**

The HST would generally apply to any consideration that becomes due, or is paid without having become due, on or after May 1, 2010, for a supply of a membership in a club, organization or association to the extent that the consideration relates to any part of a membership period on or after July 1, 2010. However, the HST would not apply if 90% or more of the membership period is before July 2010.

If any consideration for a lifetime membership in a club, organization or association becomes due, or is paid without having become due, during the period after October 14, 2009 and before July 2010, and that consideration exceeds 25 per cent of the total consideration for the lifetime membership, the amount in excess of that 25 per cent portion would be treated as having become due on July 1, 2010 and would be subject to the HST.

If the supply is a right to acquire a membership in a club, organization or association, then the general transitional rules for intangible personal property would apply to the supply of that right.

**Admissions**

The HST would generally apply to any consideration for a supply of an admission to a place of amusement, a seminar, an event or an activity (hereafter referred to as an event or activity) that becomes due, or is paid without having become due, on or after May 1, 2010 to the extent that the consideration relates to the part of the event or activity that occurs on or after July 1, 2010. However, the HST would not apply to the consideration for a supply of an admission if 90% or more of the event or activity to which the admission relates occurs before July 2010.
Property and services brought into Ontario or British Columbia (B.C.), imported goods and imported taxable supplies

Personal property and services brought into Ontario or B.C.

The provincial part of the HST would generally apply to tangible personal property, mobile homes that are not affixed to land, and floating homes, that are brought into Ontario or B.C. on or after July 1, 2010, and to such property that is brought into Ontario or B.C. before July 2010 by a carrier where the property is delivered in Ontario or B.C. to a consignee on or after July 1, 2010.

The provincial part of the HST will also generally apply to consideration that becomes due, or is paid without having become due, after October 14, 2009 for the part of a service performed on or after July 1, 2010 (unless 90% or more of the service is performed before July 2010), if the service is supplied in a non-participating province to a resident of Ontario or B.C. who acquires the service for consumption, use or supply primarily in the participating provinces. Consideration that becomes due, or is paid without having become due, after October 14, 2009 and before July 2010 for a supply of such a service would be deemed to become due on, and not to have been paid before, July 1, 2010.

The provincial part of the HST will also generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 for intangible personal property that is supplied by way of sale in a non-participating province to a resident of Ontario or B.C. who acquires the property for consumption, use or supply primarily in the participating provinces.

The provincial part of the HST will generally apply to consideration that becomes due, or is paid without having become due, after October 14, 2009 for the part of a lease interval that occurs on or after July 1, 2010 (unless the lease interval begins before July 2010 and ends before July 31, 2010), if the lease interval is in respect of intangible personal property supplied by way of lease, license or similar arrangement in a non-participating province to a resident of Ontario or B.C. who acquires the property for consumption, use of supply primarily in the participating provinces. Consideration that becomes due, or is paid without having become due, after October 14, 2009 and before July 2010 for a supply of such a property will be deemed to become due on, and not to have been paid before, July 1, 2010.

The provincial part of the HST will generally not apply to property and services that are brought into Ontario or B.C. from a non-participating (non-HST) province if they are acquired by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant.

Persons liable to pay the provincial part of the HST in these circumstances would be required to self-assess the tax.

Imported goods

The provincial part of the HST would generally apply to non-commercial goods that are imported by a resident of Ontario or B.C. on or after July 1, 2010, and to such goods imported by a resident of Ontario or B.C. before that date that are accounted for under the relevant provisions of the federal Customs Act on or after July 1, 2010.

The provincial part of the HST would also generally apply to a specified motor vehicle or commercial goods brought into Ontario or B.C. from a place outside Canada on or after July 1, 2010. This rule would generally not apply, however, to commercial goods that are brought into Ontario or B.C. by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant. Persons liable to pay the provincial part of the HST in these circumstances would generally be required to self-assess the tax.
IMPORTED TAXABLE SUPPLIES

The provincial part of the HST would generally apply to consideration that becomes due, or is paid without having become due, on or May 1, 2010, for:

- an imported taxable supply of goods made to a resident of Ontario or B.C., or to a GST/HST registrant to whom the goods are delivered or made available, or physical possession of the goods is transferred in Ontario or B.C., to the extent that consideration is for goods that are delivered or made available, or transferred on or after July 1, 2010;
- an imported taxable supply of a service made to a resident of Ontario or B.C. who acquires the service for consumption, use, or supply primarily in the participating provinces to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010; and
- an imported taxable supply of intangible personal property that is made by way of lease, licence, or similar arrangement to a resident of Ontario or B.C. who acquires the property for consumption, use, or supply primarily in the participating provinces, to the extent that the consideration is for the portion of the lease interval that occurs on or after July 1, 2010.

Consideration for imported taxable supplies would, with appropriate modifications, generally be subject to the transitional rules described in the Tangible Personal Property, Leases and Licences of Personal Property and Services sections (as the case may be) of this Notice.

Persons liable to pay the provincial part of the HST in these circumstances would generally be required to self-assess the tax.

Consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010

If, under the transitional rules outlined in this notice, the HST would apply to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 in respect of a supply of a property or service, then the following rules would apply.

- The consideration will be deemed, for purposes of the provincial part of the HST, to become due on, and not to have been paid before, July 1, 2010. The supplier would be required to collect the provincial part of the HST from the purchaser at that time and account for that tax in the GST/HST reporting period of the supplier that includes July 1, 2010. The supplier would be required to account for the GST, the 5% federal part of the HST, in the reporting period in which the consideration for the supply actually became due, or was paid without having become due.
- The purchaser would be able to claim any available input tax credit for the provincial part of the HST in respect of the supply in the GST/HST reporting period of the purchaser that includes July 1, 2010. The purchaser would be able to claim any available input tax credits for the GST, the 5% federal part of the HST, in the reporting period in which the GST is paid or payable.

If the provincial part of the HST applies to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 in respect of an imported taxable supply, the recipient of that imported taxable supply would be required to self-assess the provincial part of the HST as if it became payable on July 1, 2010.

If the provincial part of the HST applies to tangible personal property brought into Ontario or B.C. on or after July 1, 2010, the recipient may be required to self-assess for the provincial part of the HST as if it became payable on July 1, 2010.
Consideration that becomes due, or is paid without having become due, after
October 14, 2009 and before May 2010 by non-consumers

Certain persons who are not consumers (non-consumers) would be required to self-assess the provincial part of the HST on any consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 for:

- a supply of goods made by way of sale to the extent that the goods are delivered, and ownership is transferred, to the recipient of the supply on or after July 1, 2010;
- a supply of property by way of lease, licence or similar arrangement to the extent that the consideration is attributable to that part of a lease or licence interval that occurs on or after July 1, 2010 (unless the lease interval begins before July 2010 and ends before July 31, 2010);
- a supply of a service, to the extent that the consideration relates to the part of the service that is performed on or after July 1, 2010 (unless 90% or more of the service is performed before July 2010);
- a supply of membership in a club, organization, or association to the extent that the consideration is attributable to the part of the membership period that occurs on or after July 1, 2010 (unless 90% of the membership period occurs before July 2010);
- a supply of an admission to an event or activity to the extent that the consideration is for the part of the event or activity that occurs on or after July 1, 2010 (unless 90% or more of the event or activity occurs before July 2010);
- a supply of a passenger transportation pass to the extent that the consideration is for part of the pass period that occurs on or after July 1, 2010, and ends on or after August 1, 2010; or
- an imported taxable supply to the extent that the consideration is for goods supplied by way of sale that are delivered, made available or transferred on or after July 1, 2010, for services performed on or after July 1, 2010, or for the part of the lease interval of intangible personal property that occurs on or after July 1, 2010.

The requirement to self-assess the provincial part of the HST in these situations would only apply to persons who are not consumers:

- who acquire these supplies for consumption, use or supply otherwise than exclusively in the course of their commercial activities (for example, a business making GST/HST-exempt supplies);
- who use simplified procedures available under the ETA for calculating their net tax (such as certain charities, public service bodies, and small businesses);
- the extent that they acquire property or services that are subject to input tax credit restrictions as proposed in the 2009 Ontario Budget and in the July 23, 2009 B.C. News Release;
- to the extent that they acquire property or services that are subject to net tax adjustments under the ETA; or
- who are selected listed financial institutions that use a special attribution method to determine their net tax.

Persons required to self-assess the provincial part of the HST would account for that tax by the due date of their GST/HST return for the reporting period that includes July 1, 2010, if that return is due before November 2010. In all other cases, the provincial part of the HST would be required to be self-assessed in prescribed form before November 2010. More information on the prescribed form will be available in the coming months.

Other transitional rules

Continuous supplies

The HST would generally apply to any consideration that becomes due, or is paid without having become due, for a supply of property or services delivered, performed or made available (as the case may be) on a continuous basis by means of a wire, pipeline, or similar conduit, or by satellite or other telecommunications facility (e.g. natural
gas, electricity, cable television or cellular telephone services) to the extent that the consideration is for property or services that are delivered, performed or made available to the recipient of the supply on or after July 1, 2010.

If the supplier cannot reasonably determine when the property or services are delivered, performed or made available, the consideration for the supply would be prorated in equal parts according to the number of days in the period to which the consideration is attributable.

**Budget Payment Arrangements**

If property or services are supplied under a budget payment arrangement (e.g., natural gas supplied to a consumer under an equal payments billing plan) during a period that includes the July 1, 2010 implementation date, and the reconciliation of payments for that period of the budget payment arrangement occurs prior to July 2011, the supplier would be required to make an adjustment at the time of the reconciliation to account for any difference between:

(a) the amount of the provincial part of the HST that would have been payable for the property or services delivered, performed or made available on or after July 1, 2010, if the consideration for the property or services had become payable on July 1, 2010, without having been paid before that date; and

(b) the amount of the provincial part of the HST that was payable by the recipient of the supply for the property or services during the period.

If the amount described in (b) is greater than the amount described in (a), the supplier would be required to refund or credit the difference to the recipient. If the amount described in (a) is greater than the amount described in (b), the supplier would be required to collect the difference from the recipient.

However, these rules would not apply to newspapers, magazines or other periodicals when sold by subscription. Instead, see the Subscriptions section of this document.

Special prorating rules may apply to supplies of property or services delivered, performed or made available (as the case may be) on a continuous basis by means of a wire, pipeline, or similar conduit, or by satellite or other telecommunications facility made under a budget arrangement plan. If the time at which the property or service is delivered, performed, or made available, cannot reasonably be determined because of the method of recording the supply, then, for the purposes of calculating the amount of the provincial part that would be payable, the supply would be prorated according to the number of days in the supply period.

**Combined Supplies**

A special rule applies where any combination of property or services is supplied together as a single supply. If one of the items supplied is property, of which ownership or possession has been transferred to the recipient of the supply before July 2010, and that property would not be subject to the HST under these general transitional rules if it were supplied separately, then the supply of that property would be deemed to be a separate supply from the other items.

**Direct Sellers**

If a direct seller (or an approved distributor) is using the Alternate Collection Method on July 1, 2010 and independent sales contractors (ISCs) of the direct seller hold exclusive products in their inventory at the beginning of the day that were purchased from the direct seller (or approved distributor) and that are intended for sale in Ontario or B.C., the direct seller (or approved distributor) would be deemed to have made a supply of those products to the ISCs on July 1, 2010. The direct seller (or approved distributor) would be required to account for any applicable HST on the suggested retail price of each of those products in its GST/HST return for the reporting period that includes July 1, 2010.
A direct seller would also be required to account for the provincial part of the HST on the suggested retail price of exclusive products supplied to ISCs for which consideration becomes due, or is paid without having become due, after October 14, 2009 and before July 2010, to the extent that the products have not been delivered to the ISCs as of July 1, 2010.

ANTI-AVOIDANCE

Existing anti-avoidance rules in the ETA would apply to transactions to which the above-mentioned rules apply. Further anti-avoidance rules may be implemented to maintain the integrity of the GST/HST and the Ontario and B.C. sales tax systems throughout the transition period.

Information for Businesses

General

1.1 What is the HST for Ontario?
The HST for Ontario is the harmonized sales tax of 13%, which is composed of a federal part of 5% (the GST) and an Ontario part of 8%.

1.2 What does the HST for Ontario apply to?
Generally, the HST applies to supplies made in Ontario that are currently subject to the GST (i.e., taxable supplies). This includes supplies of goods, real property, intangible property such as contractual rights and patents, and services.

1.3 What does the HST for Ontario not apply to?
Generally, the HST for Ontario does not apply to supplies that are exempt or not subject to tax for GST/HST purposes, or to supplies made outside Ontario.

1.4 What is the HST for B.C.?
The HST for B.C. is the harmonized sales tax of 12%, which is composed of a federal part of 5% (the GST) and a B.C. part of 7%.

1.5 What does the HST for B.C. apply to?
Generally, the HST applies to supplies made in B.C. that are currently subject to the GST (i.e., taxable supplies). This includes supplies of goods, real property, intangible property such as contractual rights and patents, and services.

1.6 What does the HST for B.C. not apply to?
Generally, the HST for B.C. does not apply to supplies that are exempt or not subject to tax for GST/HST purposes, or to supplies made outside B.C.

1.7 When do suppliers begin charging the HST on supplies made in Ontario or B.C.?
Generally, suppliers begin charging the HST on supplies made in Ontario or B.C. on or after July 1, 2010.

However, there may be situations where suppliers have to charge the HST on supplies made in Ontario or B.C. where the consideration for the supplies becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 and some or all of the property or services are provided on or after July 1, 2010.
Please refer to the questions and answers under the various headings in this notice for information on how the HST applies to transactions that straddle the July 1, 2010 implementation date.

1.8 When does consideration for a taxable supply become due?
Consideration for a taxable supply becomes due on the earliest of the following:
- the earlier of the day the supplier first issues an invoice for the consideration, and the date of the invoice;
- if there is an undue delay in issuing an invoice, the day when the supplier would have (but for the undue delay) issued the invoice for the consideration; and
- the day the recipient of the supply is required to pay the consideration under a written agreement.

1.9 When does consideration for a supply of property by way of lease, licence or similar arrangement become due when there is a written agreement for the supply?
For a supply of property by way of lease, licence or similar arrangement under a written agreement, the consideration becomes due on the day the recipient of the supply is required to pay the consideration under the agreement.

1.10 When is consideration paid without having become due?
Consideration is paid without having become due when a recipient pays all or part of the consideration for a supply before the amount becomes due in accordance with the rules of when consideration for a supply becomes due, as explained in questions 1.8 and 1.9.

1.11 I paid the consideration for a supply on July 2, 2010. The invoice was issued June 30, 2010, but I had until July 29 to pay without any interest. Was the consideration that I paid early an amount that was paid without having become due?
No. The amount became due on June 30, 2010, the day the invoice was issued. Once that invoice is issued, any amount paid with respect to that invoice is not an amount that was paid without having become due.

1.12 I paid the consideration for a supply on July 2, 2010. Under the written agreement for the supply, I did not have to pay the amount until July 15, 2010. No invoice had been issued. Is this an amount that was paid without having become due?
Yes, since no invoice had been issued and you made the payment before the consideration became due under the written agreement for the supply.

1.13 The consideration for a taxable supply that will be made in July 2010 is due May 15, 2010. If the consideration for the supply is paid, without having become due, on April 15, 2010 it appears that both the transitional rule for Consideration that becomes due or is paid without having become due after October 14, 2009 and before May 2010 and the transitional rule for Consideration that becomes due or is paid without having become due on or after May 1, 2010 and before July 2010, apply. Which rule applies to this situation?
The transitional rules generally operate on the basis of the earlier of when consideration for a supply becomes due and when consideration is paid without having become due. In this situation, the earlier of these dates is the day the consideration is paid, April 15, 2010. Consequently, the transitional rule for Consideration that becomes due or is paid without having become due after October 14, 2009 and before May 2010 applies in this situation.
Tangible personal property (goods)

Sales

Does the HST apply to the following sales and purchases made by businesses?

2.1 When does the HST apply to a supply by way of sale of tangible personal property?

Generally, the HST applies to a supply by way of sale of tangible personal property when the property is delivered, and ownership of the property is transferred, to the recipient of the supply on or after July 1, 2010.


As the refrigerator is delivered to the customer before July 2010, the HST does not apply to this sale.

2.3 In May 2010, I sell a washer and dryer. Under the written agreement for the sale, the customer has to make six equal monthly payments that become due in each of the months from May 2010 to October 2010. Ownership of the washer and dryer will be transferred to the customer after the final payment is made in October 2010, and the washer and dryer will be delivered to the customer at that same time.

The washer and dryer are delivered, and ownership of the washer and dryer is transferred, to the customer on or after July 1, 2010. Therefore, HST applies to the total consideration for the washer and dryer including the two payments in May 2010 and June 2010.

2.4 I sell equipment under a written agreement where the equipment is delivered to the customer on June 1, 2010. Ownership of the equipment transfers to the customer after the full consideration is paid. The customer has agreed to make 12 monthly payments for the equipment starting on June 1, 2010.

As the equipment is delivered to the customer before July 2010, the HST does not apply to any of the payments.

2.5 I accept a deposit of $100 in May 2010 for a sale of goods that I make on July 5, 2010. The goods are delivered and ownership is transferred to the customer on July 5, 2010. I invoice the customer for the sale and credit the deposit against the consideration for the sale on July 5, 2010.

A deposit is not a payment for a supply until the supplier applies it against the consideration for the supply. In this example, the deposit made in May 2010 only becomes a partial payment for the supply of the goods on July 5, 2010. Since the goods are delivered and ownership is transferred on July 5, 2010, the HST applies to the total consideration for the supply. The $100 deposit is included in this total consideration when it is applied as a payment against the total consideration.

2.6 I sell a magazine subscription covering the period from July 2010 to July 2011. The subscriber pays the subscription in full on June 30, 2010. The magazines are made available to the subscriber on or after July 1, 2010.

The HST does not apply to this subscription as it is paid in full before July 2010.

2.7 I sell a subscription to a monthly newsletter. The consideration for this subscription is due on June 30, 2010 but the subscriber does not pay until July 6, 2010.

The HST applies to the full amount of the subscription because payment was made on or after July 1, 2010.

2.8 I sell goods through a vending machine. I charge tax on these goods. I restock the machine and collect the accumulated money from the machine on the 10th day of each month.

You are considered to have made the supply, received the consideration for the supply, and collected any tax payable in respect of the supply at the time you remove the consideration from a vending machine. Consequently,
when you remove the consideration from the vending machine on July 10, 2010 you are deemed to have made the supply and collected the HST on July 10, 2010.

2.9 On February 15, 2010, my business prepays an amount for the purchase of computer equipment. I receive ownership, and take delivery of the equipment in August 2010. The business will not be using this computer equipment exclusively in commercial activities.

Since both transfer of ownership and delivery of the computer equipment occur in August 2010, the sale of the computer is subject to HST. As the prepayment is made before May 2010, the supplier will not charge the provincial part of the HST on the prepaid amount. However, persons other than consumers who, after October 14, 2009 and before May 2010, prepay the consideration for goods that are delivered, and ownership transferred, on or after July 1, 2010, may be required to self-assess the provincial part of the HST. Since you are a non-consumer, and the computer equipment will not be used exclusively in commercial activities, your business is required to self-assess the provincial part of the HST on the prepayment amount.

Your business is required to account for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010 if that return is due before November 2010. Otherwise, your business must account for the provincial part of the HST in prescribed form before November 2010.

2.10 On April 28, 2010, my business prepays for a motor vehicle. The business will receive ownership and delivery of the vehicle on July 7, 2010. My business will be subject to the restriction of input tax credits for the provincial part of the HST paid on this type of motor vehicle. My business is engaged exclusively in commercial activities.

The sale of the motor vehicle will be subject to HST since ownership and delivery of the vehicle occurs in July 2010. However, the supplier is not required to collect the provincial part of the HST on any prepayments made before May, 2010. Persons, other than consumers, who, after October 14, 2009 and before May 2010, prepay the consideration for a taxable supply made on or after July 1, 2010, may be required to self-assess the provincial part of the HST. Persons acquiring the property in situations where the property would be subject to a restriction on input tax credits are required to self-assess the provincial part of the HST on the prepayment amount (i.e. even if they acquire the property for consumption, use or supply exclusively in the course of their commercial activities). Accordingly, you are required to self-assess the provincial part of the HST on your purchase of the motor vehicle.

Your business will be required to account for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010 if that return is due before November 2010. Otherwise, your business must account for the provincial part of the HST in prescribed form before November 2010.

2.11 My business purchases, and is invoiced for, a transport truck before October 14, 2009. It receives ownership, and takes delivery, of the truck in August 2010.

The HST will not apply on the amount invoiced for the truck, because the consideration for the sale of the transport truck becomes due before October 14, 2009.

2.12 On March 3, 2010, I sell a sailboat. The sailboat will not be delivered, and ownership will not be transferred, to my customer until August 2010. The consideration becomes due and is paid by my customer on June 18, 2010.

The HST applies to the sale of the boat since ownership and delivery of the boat occurs on or after July 1, 2010, and the consideration became due on or after May 1, 2010 (and was not paid before that date). The HST applies to the consideration that becomes due and is paid on June 18, 2010. The provincial part of the HST is deemed to become due on July 1, 2010.
You are required to account for the provincial part of the HST in the GST/HST return for the reporting period that includes July 1, 2010, if that return is due before November 1, 2010. In any other case, the business must account for the provincial part of the HST in prescribed form before November 2010.

**Leases and Licences**

Does the HST apply to the following lease and licence payments made to businesses?

3.1 I have existing recreational vehicle and boat leases with customers that were in effect before October 14, 2009. Payment is due on the first of the month for that month’s lease (i.e., the lease interval is monthly). These leases are still in effect on July 1, 2010, and as a result, lease payments are made on or after July 1, 2010 for the month of July.

The HST applies to lease intervals beginning on or after July 1, 2010, including lease intervals for leases that were in effect before October 14, 2009. Therefore, you charge the HST on payments for lease intervals that begin on or after July 1, 2010.

3.2 I lease passenger vehicles to customers. One lease payment, due June 1, 2010, is for a lease interval from June 1, 2010 to June 30, 2010. The customer pays for it on July 7, 2010.

Since the lease interval is before July 2010, the HST does not apply to the lease payment.

3.3 I lease office equipment to other businesses. One of the lease payments becomes due on June 25, 2010. The lease interval begins June 25, 2010 and ends July 24, 2010.

Since the lease interval begins before July 2010, and ends before July 31, 2010, the HST does not apply to the lease payment.

3.4 On June 1, 2010, I prepay the lease of my office equipment for the interval from July 1, 2010 to July 31, 2010.

Since the lease interval begins on July 1, 2010, the HST applies to the June 1, 2010 prepayment. The consideration is deemed to become due on July 1, 2010, and therefore, the provincial part of the HST becomes payable on that day.

3.5 I license someone to manufacture widgets and receive royalty payments in respect of the licence that vary depending on the sale of widgets. A royalty payment becomes due to me on June 1, 2010, based on sales of widgets in the previous three months sales, but it is not paid to me until on or after July 1, 2010.

Since the royalty payment relates to a licence interval before July 2010, the HST does not apply to the payment, even though the payment is made on or after July 1, 2010.

3.6 A business makes a prepayment on February 1, 2010 for a lease of computer equipment for the interval from July 1, 2010 to September 30, 2010. The business will not be using the computer equipment exclusively in commercial activities.

Since the prepayment is made after October 14, 2009 and before May 2010, and the computer equipment is not used exclusively in commercial activities, the business is required to self-assess the provincial part of the HST on the amount of the prepayment for the lease interval from July 1, 2010 to September 30, 2010.

The business is required to account for the provincial part of the HST in the GST/HST return for the reporting period that includes July 1, 2010, if that return is due before November 1, 2010. In any other case, the business must account for the provincial part of the HST in prescribed form before November 2010.
Returns and exchanges

Does the HST apply to the following returns and exchanges?

4.1 I sell a stereo in June 2010. The sale of the stereo was subject to the provincial sales tax but not subject to HST. In July 2010, the customer returns the stereo and I give the customer a refund for the stereo.

As the HST did not apply to the sale of the stereo, the HST is not refunded to the customer. The customer would be eligible for a refund of the GST paid on the original purchase.

4.2 I sell a men’s shirt in June 2010. The provincial sales tax applied to the sale of the shirt but the HST did not apply. In July 2010, the customer returns the shirt and exchanges it for a men’s shirt of equal value.

As the original shirt is returned before November 2010, and the consideration for the new shirt is equal to the original consideration, the customer pays for the original shirt, the HST does not apply.

4.3 I sell a microwave on May 31, 2010 for $100. The provincial sales tax applied to the sale of the microwave but the HST did not apply. In July 2010, the customer returns the microwave and exchanges it for a microwave costing $140.

As the consideration for the new microwave exceeds that paid for the original microwave, the HST applies to the $40 price difference.

4.4 I sell a ladies’ coat in June 2010 for $300. The provincial sales tax applied to the sale of the coat but the HST did not apply. In December 2010, the customer returns the coat because it is defective and exchanges it for another one of equal value.

Since the coat is not exchanged before November 2010, the HST applies to the full consideration (i.e., $300) for the new coat even though the original coat is returned because it is defective. The customer would be eligible for a refund of the GST paid on the original purchase.

4.5 I sell a bicycle on May 31, 2010 that is not subject to provincial sales tax. Payment is made in May 2010. In July 2010, the customer returns the bicycle and exchanges it for a bicycle costing $1,200.

As the original bicycle was not subject to the provincial sales tax, the HST applies to the full price of the new bicycle. The customer would be eligible for a refund of the GST paid on the original purchase.

Direct sellers

Does the HST apply to the following sales made by direct sellers?

5.1 I am a direct seller who uses the alternate collection method to account for tax on sales of exclusive products to independent sales contractors (ISCs). An ISC prepays me before July 2010, for the sale of an exclusive product, but the consideration for the sale becomes due on July 8, 2010 when the product is delivered to the ISC. The products are not zero-rated products.

You have to account for the provincial part of the HST on the suggested retail price of the exclusive product since the consideration for the product was paid without having become due after October 14, 2009 and before July 2010 and the product was not delivered before July 2010.

5.2 I am a direct seller who uses the alternate collection method to account for tax on sales of exclusive products to independent sales contractors (ISCs). Before July 2010, I sell exclusive products to ISCs who hold these products in inventory as of July 1, 2010. Some, but not all, of the products are zero-rated products.

You have to account for the provincial part of the HST on the suggested retail price of the exclusive products (other than the zero-rated exclusive products) that your ISCs hold as inventory as of July 1, 2010. The amount has to be included in your net tax for your reporting period that includes July 1, 2010.
5.3 I am a distributor of a direct seller. The direct seller and I have made a joint application to use the alternate collection method to account for tax on sales of exclusive products to independent sales contractors (ISCs). Before July 2010, I sell exclusive products to ISCs who hold these products as inventory as of July 1, 2010.

You have to account for the provincial part of the HST on the suggested retail price of the exclusive products (other than any zero-rated exclusive products) that the ISCs hold as inventory as of July 1, 2010. The amount has to be included in your net tax for your reporting period that includes July 1, 2010.

**Services**

Does the HST apply to the following services performed by businesses?

6.1 I provide an accounting service from January 2010 to June 2010, and issue an invoice for my service in September 2010. The client pays me after receiving the invoice.

Since all of the service is performed before July 2010, the HST does not apply to the consideration for this service.

6.2 I provide a decorating service in June and July 2010. Sixty per cent of the service is performed in June 2010. I issue an invoice for my service in August 2010. The client pays me after receiving the invoice.

The HST applies to the portion of the consideration that relates to the 40% of the service that is performed on or after July 1, 2010.

The HST does not apply to the portion of the consideration that relates to the 60% of the service that is performed before July 2010.

6.3 I accept a partial payment of $100 in May 2010 for a service that I perform in August 2010. The total consideration for the service is $500. I issue the invoice for this service in September 2010. The client pays me the remaining $400 after receiving the invoice.

The HST applies to both the partial payment of $100 made in May 2010 and the remaining $400 of consideration for the service as the service is performed on or after July 1, 2010.

6.4 In January 2007, I entered into a long-term fixed-price contract to provide a photocopier maintenance service. The consideration under this contract consists of a fixed monthly payment. The payments are due in advance on the last business day of the previous month for the month of service. The monthly payment for the service performed in July 2010 becomes due, and is paid, at the end of June 2010.

The payment due on June 30, 2010, is consideration for a service performed on or after July 1, 2010. This payment, and all payments that are made under this contract on or after July 1, 2010, for services performed on or after July 1, 2010, will be subject to the HST.

6.5 I provide a service from May 1, 2010 to July 10, 2010, and issue an invoice to my client on July 10, 2010. Seven per cent of the service is performed from July 1, 2010 to July 10, 2010. The client pays me after receiving the invoice.

The HST does not apply to any of the consideration for this service, since 90% or more of the service was performed before July 2010.

6.6 I provide a service from June 15 to August 31, 2010, and invoice for that service on September 1, 2010. Six per cent of the service is performed from June 15, 2010 to June 30, 2010. The client pays me after receiving the invoice.

Ninety-four per cent of the service is performed on or after July 1, 2010. Therefore, the HST applies to 94% of the consideration.
### Passenger transportation services

Does the HST apply to the following passenger transportation services performed by businesses?

7.1 I sell an airline ticket in May 2010 for one-way travel between two cities in the province on August 1, 2010. The client is invoiced, and pays for the ticket, at the time of sale.

The HST applies to the consideration for the passenger transportation service, since the service is performed after July 1, 2010.

7.2 I provide a city bus tour that takes place on June 30, 2010, but as per the written agreement with the group organizer, I issue the invoice for the tour on July 2, 2010. The group organizer pays for the tour on July 6, 2010.

The HST does not apply to the consideration for the passenger transportation services, since the tour is provided before July 2010.

7.3 I sell train tickets to passengers for travel from Vancouver to Toronto in June 2010. The clients are invoiced and pay for their tickets at the time of sale. The train leaves Vancouver on June 29, 2010, and arrives in Toronto on July 4, 2010.

The HST does not apply to the consideration for the passenger transportation services, since the train travel starts before July 2010.

7.4 I sell a continuous journey in May 2010 that consists of a flight from Toronto to Halifax, a cruise around the Maritimes and up the St. Lawrence River to Montreal, and a flight from Montreal to Toronto. The flight from Toronto leaves on June 26, 2010 and the return flight leaves Montreal on July 3, 2010.

The HST does not apply to the consideration for any of the passenger transportation services in the continuous journey, since the continuous journey starts before July 2010.

7.5 I sell a one-way airline ticket for travel between two cities in the province on June 18, 2010. The same customer later purchases a second airline ticket from me for a flight back to the customer’s city of origin on July 10, 2010.

The two flights in this scenario are not a continuous journey. The HST does not apply to the consideration for the first passenger transportation service, since the service is performed before July 2010. However, the HST applies to the consideration for the second passenger transportation service, since the service is performed on or after July 1, 2010.

### Freight transportation services

Does the HST apply to the following freight transportation services provided by businesses?

8.1 I provide a freight transportation service in July 2010. I am the only carrier of the property. I receive a prepayment for the service in May 2010.

The HST applies to the prepayment, even if the amount has not become due, since the freight transportation service is performed on or after July 1, 2010.

8.2 I provide a freight transportation service that starts on June 29, 2010, and ends on July 3, 2010. I am the only carrier of the property and I invoice my client for the service on July 15, 2010.

The HST does not apply to the consideration for the freight transportation service, since it is a continuous freight movement that begins before July 2010.
8.3 A shipper transfers possession of property to the first carrier of a continuous freight movement of the property in June 2010. That carrier provides a freight transportation service that ends after July 1, 2010 when the property is transferred to a second carrier that also provides a freight transportation service. The first carrier charges the consideration for the freight movement to the shipper and the consideration becomes due and is paid after July 1, 2010.

Since the continuous freight movement begins before July 2010, the consideration for the freight movement is not subject to the HST. The first carrier does not charge HST to the shipper on the consideration for the freight movement. The supply between the carriers remains zero-rated under the interlining provisions.

Prepaid funeral and cemetery arrangements

Does the HST apply to the following prepaid funeral and cemetery arrangements?

9.1 I operate a funeral home and enter into a prepaid funeral arrangement with an individual on April 12, 2010, to provide funeral products and services upon the individual’s death. Under the arrangement, the individual makes monthly contributions from July 2010 to June 2011. I withhold an administration fee of $10 from each payment. I hold the balance of the contributions in trust, and the funeral services are provided in 2012.

Since the arrangement is entered into before July 2010, and the contributions are held in trust, the HST does not apply to amounts withdrawn from the trust in 2012 to pay for the funeral products and services provided under the arrangement.

The administration fees are consideration for a service and are not part of the amounts held in trust. They may be subject to HST when the fees become due or are paid without having become due. See the section on services for more information.

9.2 I am a cemetery operator. On April 5, 2010, I enter into a prepaid cemetery arrangement with an individual to provide cemetery products and services in Ontario upon the individual’s death. Under the arrangement, the individual makes quarterly contributions from April 2010 to April 2012. I withhold an administration fee of $10 from each payment. I hold the balance of the contributions in trust, and the cemetery products and services are provided in September 2015.

Since the arrangement is entered into before July 2010, and the contributions are held in trust, the HST does not apply to amounts withdrawn from the trust in September 2015, to pay for the cemetery products and services provided under the arrangement.

The administration fees are consideration for a service and are not part of the amounts held in trust. They may be subject to HST when the fees become due or are paid without having become due. See the section on services for more information.

Continuous supplies of property and/or services

Does the HST apply to the following property sold, and/or services performed, by businesses?

10.1 In January 2010, I enter into a long-term fixed-price contract to provide a land-line telephone service on a continuous basis. The monthly fee is due in advance on the last business day of the previous month. I also separately charge a system access fee and a fee for 911 services. Any long distance calls during the month are not part of the monthly fee for the telephone service. They are separately charged on a per call basis. Any such long distance calls are billed at the end of the month in which they occur. I invoice for the monthly fees for July 2010 at the end of June 2010. On the same invoice, I also invoice for three long distance calls that occurred in June 2010.

The payment due on June 30, 2010, for the land-line telephone service (which includes the system access fee and the 911 fee) is consideration for a service performed on or after July 1, 2010. This payment, and all payments that are made under this contract on or after July 1, 2010, for a service performed on or after July 1, 2010, are subject to the HST.
The long distance charges on the June 30, 2010, invoice are consideration for calls made in the month of June 2010. These calls are not part of a continuous supply; they are separate supplies. The HST does not apply to the consideration for these calls since the services were provided before July 2010.

10.2 I supply gas delivery to a customer. Another supplier entered into a long-term fixed-price contract in 2007 to provide gas on a continuous basis to that customer. A third supplier rents a water heater to the customer. On a monthly basis I invoice for all three supplies, i.e., the supply of a gas delivery service, the supply of the gas, and the rental of the water heater. The monthly amounts are invoiced on the 15th day of the month following the month in which the gas, the delivery service, and the water heater rental are provided. These supplies are not sold under an equal billing plan.

Payments made for the gas and the delivery service provided before July 2010, and for the rental of the water heater for the period prior to July 1, 2010, (i.e., the consideration on the July 15, 2010, invoice) are not subject to the HST. The HST applies to all subsequent consideration for such supplies.

10.3 I provide local telephone services. I issue an invoice dated July 22, 2010, for the period from June 16, 2010 to July 15, 2010. The invoice to my customer only indicates a monthly charge for the telephone service.

Since the service is provided on a continuous basis during the billing period, the service is prorated according to the number of days in the billing period.

The HST does not apply to the consideration for the portion attributable to the period before July 2010. The HST applies to the consideration for the portion attributable to the period on or after July 1, 2010, (i.e., 50%).

10.4 I provide electricity during the period from June 21, 2010 to July 20, 2010, and issue an invoice dated July 27, 2010. The invoice does not indicate when the electricity is delivered. The electricity is not sold under an equal billing plan. The invoice identifies a regulatory charge, a debt retirement charge, a delivery charge and varying rates for electricity depending on the amount of electricity used during the month.

As it cannot be determined when the electricity is delivered during the billing period, the electricity is prorated based on the number of days in the billing period.

The HST does not apply to the consideration for the portion attributable to the period before July 2010 (i.e., 10 days).

The HST applies to the consideration for the portion attributable to the period on or after July 1, 2010, (i.e., 20 days). In this case, the regulatory charge, the debt retirement charge and the delivery charge are parts of the consideration for the electricity and therefore the portion of the overall consideration charged for those elements is also prorated.

**Budget payment arrangements**

Does the HST apply to the following budget payment arrangements offered by businesses?

11.1 A person has an equal billing plan set up for electricity that covers the period September 2009 to August 2010.

The supplier collects the HST on payments that become due on or after July 1, 2010 under the equal billing plan.
11.2 A person has an equal billing plan (budget plan) for electricity that covers the period September 9, 2009 to September 8, 2010. During that time the person pays the budget plan amount on the 9th of each month for the first 11 months as required by the agreement. Every second month, the utility provides an account summary of the electricity consumed by the person during the past two months, the charges (plus tax) for that consumption and the person’s balance under the budget plan. This balance indicates whether the person is in a credit position (i.e., year-to-date payments under the budget plan exceed the year-to-date total charges for electricity and tax) or whether the person is in a debit position (i.e., year-to-date budget plan payments are less than the year-to-date total charges for electricity and tax). Beginning with the May 9, 2010 to July 8, 2010 period, the person is in a debit position.

For the final 2 months (i.e., July 9, 2010 to September 8, 2010), the utility issues an invoice dated September 15, 2010. That invoice sets out the electricity the person consumed during that time and the charges for that electricity. The total amount due on the invoice is for the debit amount from May 9, 2010 to July 8, 2010 and the charges for July 9, 2010 to September 8, 2010.

When the supplier issues the invoice on September 15, 2010 for the remaining consideration payable on the electricity supplied under the budget plan, the consideration for electricity supplied in May and June is not subject to the HST.

The consideration for electricity supplied on or after July 1, 2010, is subject to the HST. Since electricity is supplied on a continuous basis, for purposes of charging the HST, electricity consumption during a period is prorated based on the number of days in that period. Therefore in this case, 87% (i.e., 53/61 days) of the charge for the period May 9, 2010 to July 8, 2010 is not subject to the HST, and 13% (i.e., 8/61 days) of the total for that billing period is subject to the HST. The consideration for electricity consumed for the remainder of the equal billing plan (i.e., the period July 9, 2010 through to September 8, 2010) is subject to the HST.

11.3 A person has an equal billing plan (budget plan) for electricity that covers the period September 9, 2009 to September 8, 2010. During that time, the person pays the budget plan amount on the 9th of each month for the first eleven months as required by the agreement. Every second month the utility provides an account summary of the electricity the person consumed, the charges (plus tax) for that consumption, and the person’s balance under the budget plan. This balance indicates whether the person is in a credit position (i.e., year-to-date payments under the budget plan exceed the year-to-date total charges for electricity and tax) or whether the person is in a debit position (i.e., year-to-date budget plan payments are less than the year-to-date total charges for electricity and tax). Beginning with the May 9, 2010 to July 8, 2010 period, the person is in a credit position.

The supplier issues an account summary dated September 15, 2010, showing the charges for the electricity the person consumed during July 9, 2010 to September 8, 2010. The account summary deducts those charges from the accumulated credit amount. The accumulated credit amount for the person includes the credit from the May 9, 2010 to July 8, 2010 period and the required budget plan payment on August 9, 2010. The credit that remains after the charges are deducted is then applied against amounts payable by the person (including tax payable) for future periods as these amounts become due, beginning with the September 9, 2010 to November 8, 2010 period.

Since electricity is supplied on a continuous basis, for purposes of charging the HST, electricity consumption during a period is prorated based on the number of days in that period. Therefore, in this case, for the period May 9, 2010 to July 8, 2010, 87% (i.e., 53/61 days) of the bimonthly charge is not subject to the HST and 13% (i.e., 8/61 days) of the total for the billing period is subject to the HST.

The supplier is required to make an adjustment at the time of the reconciliation of the person’s account for any difference between the amount of the provincial part of the HST that would have been payable for the electricity if the consideration became due on July 1, 2010, without having been paid before that date, and the amount of the provincial part of the HST that was payable by the person during the period. If the difference is a credit, the supplier will be required to credit or refund the difference.

If the supplier’s account summary meets the conditions for a credit note under the ETA, the amount the supplier credits the person generally includes the tax paid on the overpayment. Therefore, in this case, if the conditions are
met, the supplier would generally include the HST that would have been paid on 13% of the overpayment for the May 9 to July 8, 2010, period and the HST that would have been paid on the overpayment for the billing period July 9 to September 8, 2010.

**Intangible personal property**

Does the HST apply to the following supplies of intangible personal property provided by businesses?

12.1 I sold a patent to manufacture widgets and receive fixed annual royalty payments in respect of the sale. A royalty payment becomes due to me on June 20, 2010, but it is not paid to me until on or after July 1, 2010.

Since the royalty payment becomes due before July 2010, the HST does not apply to the royalty payment, even though the payment is made on or after July 1, 2010.

12.2 I operate a Web site that makes supplies of the right to use digital intangible personal property. I make a supply to a customer on June 29, 2010, but I do not issue an invoice for the supply until July 2, 2010.

The HST applies to the sale of the right to use the digital intangible personal property, since the consideration becomes due on or after July 1, 2010, and it is not paid without having become due before July 2010.

12.3 I operate a Web site that sells the right to use digital picture files. Before a customer can download a file the customer must pay for the right. On June 25, 2010, a customer pays for that right, and then downloads a digital picture file on July 2, 2010.

The HST does not apply to the sale of the right to use the digital picture file, since the consideration for the sale is paid before July 2010.

12.4 I sell annual subscriptions to a Web site. Subscribers pay for the subscription by making three payments. A customer purchases a subscription on June 1, 2010. The subscription payments become due on June 1, 2010, July 1, 2010, and August 1, 2010, and are not paid without having become due.

The HST does not apply to the first payment, since it becomes due before July 2010. The HST applies to the second and third payments, since those payments become due on or after July 1, 2010, and are not paid without having become due before July 2010.

**Transportation passes**

Does the HST apply to the following transportation passes provided by businesses?

13.1 I sell municipal transit tickets, and municipal transit passes.

Municipal transit tickets and municipal transit passes are exempt supplies and will not be subject to HST.

13.2 I operate a commercial inter-city bus service. I sell bus passes that provide my customers with unlimited inter-city travel for 30 days. I sell a pass on June 10, 2010, for use from June 15, 2010 to July 14, 2010.

The HST does not apply, since the pass covers a period that starts before July 2010, and ends before August 2010.

13.3 I operate a commercial inter-city bus service. I sell bus passes that provide my customers with unlimited inter-city travel for four months. I sell a pass on May 20, 2010, for use from June 1, 2010 to September 30, 2010.

Since the pass covers a period that starts before July 2010, and that ends after July 31, 2010, the HST applies to the portion of the consideration for the pass that covers the period on or after July 1, 2010 (i.e., for three of the four months, or 75%).
13.4 I operate a commercial inter-city bus service. I sell bus passes that provide my customers with unlimited inter-city travel from July 1, 2010 to July 31, 2010. I sell a pass on June 28, 2010.

The HST applies to the consideration for the pass, since the pass covers a period that starts on or after July 1, 2010.

13.5 I operate a commercial inter-city bus service. I sell bus passes that provide my customers with 20 one-way trips between two cities in either direction. The pass is valid for six months from the date of sale. I sell a bus pass on May 1, 2010, which will be valid from May 1, 2010 to November 1, 2010.

Since the pass is valid for a period that starts before July 2010, and ends after July 31, 2010, the HST applies to the portion of the consideration for the pass that covers the period on or after July 1, 2010 (i.e., for four of the six months, or 67%).

Memberships

Does the HST apply to the following memberships provided by businesses?


The HST does not apply to the sale of the membership, since the membership fee becomes due before May 2010. Self-assessment of the provincial part of the HST may be required by persons who are not consumers since the amount became due after October 14, 2009 and before May 2010.

14.2 I operate a club and sell year-long memberships. The full membership fee becomes due at the time of sale. On May 2, 2010, I sell a membership which expires on April 30, 2011.

Since less than 90% of the membership period is before July 2010, the membership fee is prorated for purposes of charging the HST. The HST does not apply to the portion of the membership fee relating to the period before July 2010. However, the HST applies to the portion of the membership fee relating to the period on or after July 1, 2010 (i.e., 10 of the 12 months).

14.3 I operate a club and sell year-long memberships to individuals. I sell a membership on January 4, 2010. Under the terms of the membership agreement, the member makes a monthly membership payment on the first day of each month. On June 15, 2010, a member pre-pays his monthly membership fees for the portion of the membership period covering July 1, 2010 to December 31, 2010.

The HST does not apply to the membership fees relating to the portion of the membership period before July 2010. However, the HST applies to the membership fees relating to the portion of the membership period on or after July 1, 2010, including any prepayments made on or after May 1, 2010, and before July 2010, that relate to the portion of the membership period on or after July 1, 2010.

14.4 A professional association issues invoices on May 8, 2010 for the renewal of annual memberships in the association. The membership fees are payable in full upon receipt of the invoice. The annual membership period is June 1, 2010 to May 31, 2011.

Since the consideration for the membership becomes due on or after May 1, 2010, the HST applies to the 11-month portion of the membership period from July 1, 2010 to May 31, 2011, even though the membership fees become due before July 2010.
14.5 A professional association issues electronic invoices on May 10, 2010, for the renewal of annual memberships in the association. The membership amount is due in full 15 days after the invoice date. The membership period is July 1, 2010 to June 30, 2011.

Since the consideration for the membership becomes due on or after May 1, 2010, the HST applies to the membership fee for the entire membership period from July 1, 2010 to June 30, 2011.

14.6 An association sells lifetime memberships. The membership fees are payable in three instalments of $1,000 each. A person buys a lifetime membership on December 1, 2009, and pays the first instalment at that time. The other payments are due December 1, 2010 and December 1, 2011.

Where the total of all consideration that becomes due, or is paid without having become due, after October 14, 2009 and before July 2010, for a lifetime membership exceeds 25% of the total consideration for the membership, the HST applies to the portion of the amount that exceeds 25% of the total consideration for the membership. Since the amount that becomes due on December 1, 2009 (i.e., $1,000) exceeds 25% of the total consideration for the membership (i.e., 25% × $3,000 = $750), the HST applies to $250 ($1,000 – $750 = $250) of the amount due on December 1, 2009. The supplier must account for this tax in the reporting period of the supplier that includes July 1, 2010. The HST will also apply to the two remaining payments (i.e., $2,000).

14.7 An association sells lifetime memberships. The membership fees are payable in five monthly instalments of $1,000 each. A person buys a lifetime membership on June 1, 2010, and pays the first monthly instalment at that time.

Since the payment made on June 1, 2010, (i.e., $1,000) does not exceed 25% of the total consideration for the lifetime membership (i.e., 25% × $5,000 = $1,250), the HST does not apply to any portion of that amount. The HST applies to the portion that is paid or becomes due on or after July 1, 2010 (i.e., $4,000).

Admissions

Does the HST apply to the following admissions provided by businesses?

15.1 I sell admissions in May 2010 to a 10-day event that begins on June 22, 2010, and ends on July 1, 2010.

The HST does not apply to the consideration for the admissions, since 90% or more of the event occurs before July 2010.

15.2 I sell admissions in May and June 2010 to a five-day event that begins on June 28, 2010, and ends on July 2, 2010.

Since less than 90% of the event occurs before July 2010, some of the consideration for the admission is subject to the HST. The HST does not apply to the portion of the consideration for the portion of the event that occurs before July 2010 (i.e., three of the five days, or 60%). However, the HST applies to the portion of the consideration relating to the portion of the event that occurs on or after July 1, 2010 (i.e., two of the five days, or 40%).

15.3 On April 15, 2010, my business prepays an amount for admissions to an event that will take place in August 2010. My business will use this event to entertain clients. The business is engaged exclusively in commercial activities and is not subject to the proposed input tax credit restrictions for large business.

Since the event occurs in August 2010, the admissions to the event are subject to HST. However, because the amount is prepaid before May 2010, the supplier is not required to collect the provincial part of the HST on this amount.

Persons other than consumers who, after October 14, 2009 and before May 2010, prepay the consideration for a taxable supply made on or after July 1, 2010, may be required to self-assess the provincial part of the HST (e.g., persons acquiring the property or service where the property or service would be subject to a recapture of input tax credit restrictions for large business).
tax credits under the ETA are required to self-assess the provincial part of the HST, even if they acquire it for consumption, use or supply exclusively in the course of their commercial activities).

If the tax paid on the entertainment expense is subject to the 50% recapture for meals and entertainment under section 236 of the ETA, then your business will be required to account for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010 if that return is due before November 2010. Otherwise, your business must account for the provincial part of the HST in prescribed form before November 2010.

**Combined supplies**

Does the HST apply to the following combined supplies provided by businesses?

**16.1** I sell home theatre equipment to a customer on June 26, 2010. Installation of the equipment in the customer’s home is part of the supply. The equipment is delivered to the customer on June 30, 2010 and installed on July 2, 2010.

The HST does not apply to the portion of the consideration attributable to the home theatre equipment, since the equipment is delivered to the customer before July 2010. The HST does apply to the portion of the consideration attributable to the installation service, since the service is performed on or after July 1, 2010.

**16.2** I sell (i.e., ownership transfers) an off-the-shelf computer software package to a customer on June 15, 2010. Also, as an element of that supply, I agree to provide training to the customer’s employees in July 2010.

The HST does not apply to the supply of the computer software package, since ownership of the software is transferred to the customer before July 2010. The HST applies to the consideration for the training service, since the service is performed on or after July 1, 2010.

**How to account for, and claim input tax credits for, the provincial part of the HST?**

**17.1** I am required to charge the HST on my taxable supplies. How do I account for the HST on my GST/HST return?

The HST that you charge is reported on the same line of your GST/HST return as you report the 5% GST.

**17.2** I have to charge the HST on some prepayments made on or after May 1, 2010, but before July 2010. When is the HST collectible on these prepayments?

For the purposes of the provincial part of the HST, these prepayments are deemed to have become due on July 1, 2010. They are also deemed not to have been paid before that date. The provincial part of the HST becomes collectible on July 1, 2010 and is included in the supplier’s net tax for its reporting period that includes July 1, 2010.

The GST, the 5% federal part of the HST, is accounted for in the reporting period in which the prepayments were actually made.

**17.3** I have to pay the HST on some prepayments made on or after May 1, 2010, but before July 2010. When can I claim input tax credits for the provincial part of the HST on these prepayments?

For the purposes of the provincial part of the HST, these prepayments are deemed to have become due on July 1, 2010. They are also deemed not to have been paid before that date. You would be entitled to claim any available input tax credits in respect of the provincial part of the HST in your return for the GST/HST reporting period that includes July 1, 2010.
17.4 How do I report the provincial part of the HST that I am required to self-assess on a prepayment made before May 2010?

If you are a registrant, you report the provincial part of the HST on line 405 of your GST/HST return for the reporting period that includes July 1, 2010, provided the return is due before November 1, 2010. In any other case, you would report that amount in prescribed form before November 2010 and pay that amount to the Receiver General.

17.5 How do I claim input tax credits for the provincial part of the HST that I pay?

You claim input tax credits for the provincial part of the HST you pay on the same line of the GST/HST return that you claim input tax credits for the 5% GST.

Imports

18.1 Does the HST apply when my business imports goods for use in its commercial activities?

The provincial part of the HST does not apply to imports of commercial goods.

Property and services brought into Ontario or B.C. from a non-participating province

19.1 Does the provincial part of the HST apply when I bring property into Ontario or B.C. from a non-participating province?

The provincial part of the HST applies to property that is brought into Ontario or B.C. from a non-participating province on or after July 1, 2010. The provincial part of the HST will generally not apply to property that is brought into Ontario or B.C. if the property is acquired by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant.

Persons liable to pay the provincial part of the HST in these circumstances will be required to self-assess the tax.

19.2 Does the provincial part of the HST apply to intangible personal property acquired in a non-participating province for consumption or use in Ontario or B.C.?

The provincial part of the HST applies to any consideration that becomes due or is paid without having become due, on or after July 1, 2010, for intangible personal property that is supplied by way of sale in a non-participating province to a resident of Ontario or B.C. for consumption, use or supply primarily in the participating provinces.

The provincial part of the HST will generally not apply to intangible property that is brought into Ontario or B.C. if the property is acquired by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant.

Persons liable to pay the provincial part of the HST in these circumstances will be required to self-assess the tax.

19.3 Does the provincial part of the HST apply when property is brought into Ontario or B.C. by a carrier?

The provincial part of the HST applies to property brought into Ontario or B.C. before July 2010 by a carrier where the property is delivered to a consignee on or after July 1, 2010.
Information for Consumers

General

20.1 What is the HST for Ontario?
The HST for Ontario is the proposed harmonized sales tax of 13%, which is composed of a federal part of 5% (the GST) and an Ontario part of 8%.

20.2 What does the HST for Ontario apply to?
Generally, the HST for Ontario applies to transactions made in Ontario that are currently subject to the 5% GST. This includes most goods, real property and services, as well as certain rights.

20.3 What does the HST for Ontario not apply to?
Generally, the HST for Ontario does not apply to transactions that consumers currently do not pay GST on.

20.4 What is the HST for B.C.?
The HST for B.C. is the harmonized sales tax of 12%, which is composed of a federal part of 5% (the GST) and a B.C. part of 7%.

20.5 What does the HST for B.C. apply to?
Generally, the HST applies to transactions made in B.C. that are currently subject to the 5% GST. This includes most goods, real property and services, as well as certain rights.

20.6 What does the HST for B.C. not apply to?
Generally, the HST for B.C. does not apply to transactions made by businesses that consumers currently do not pay GST on.

20.7 When do businesses begin charging the HST on transactions in Ontario or B.C.?
Generally, businesses begin charging the HST on transactions in Ontario or B.C. on or after July 1, 2010. However, there may be situations where businesses have to charge the HST on transactions made in Ontario or B.C. where the payment for the transaction is paid or becomes due on or after May 1, 2010 and before July 2010, but some or all of the transaction is completed on or after July 1, 2010. Please refer to the questions and answers under the various headings in this notice for information on how the provincial part of the HST applies to transactions that occur before and after July 1, 2010.

20.8 When does payment for a transaction become due for the purposes of the HST?
For the purposes of the HST, payment for a transaction becomes due on the earliest of the following:
• the earlier of the day the business first issues an invoice for the payment, and date of the invoice;
• if there is an undue delay in issuing an invoice, the day when the business would have (but for the undue delay) issued the invoice for the payment; and
• the day the consumer is required to make the payment under a written agreement.

20.9 When does payment for a lease become due for the purposes of the HST if you have a written agreement?
For leases where there is a written agreement, the payment becomes due on the day the consumer is required to make the payment under the agreement.
Goods

Purchases

Does the HST apply to the following purchases of goods by consumers?

21.1 When does the HST apply to a sale of goods?
Generally the HST applies to a sale of goods when the goods are delivered, and ownership of the goods is transferred, to the purchaser of the goods on or after July 1, 2010.

21.2 I purchase a computer on June 30, 2010, and take it home with me at that time. I receive an invoice for the sale at that time. I pay the invoice after July 1, 2010.
Since you receive delivery of the computer before July 2010, the HST does not apply to this purchase.

21.3 In May 2010, I purchase a washer and dryer. Under the written agreement for the purchase, I have to make six equal monthly payments that become due in each of the months from May 2010 to October 2010. I get ownership of the washer and dryer when they are delivered to me after the final payment is made in October 2010.
As the property is delivered to you, and ownership transfers to you, on or after July 1, 2010, the HST applies to all six monthly payments for the washer and dryer including the payments in May 2010 and June 2010.

21.4 I purchase goods under a written agreement and the supplier delivers them to me on June 1, 2010. I do not actually own the goods until the full amount is paid. I have to make 12 monthly payments for the goods starting on June 1, 2010.
As the goods are delivered to you before July 2010, the HST does not apply.

21.5 I make a deposit of $100 in May 2010 for goods that I purchase on July 5, 2010. I receive ownership and delivery of the goods on July 5, 2010. The seller invoices me for the purchase and credits the deposit against the full amount payable for the goods on July 5, 2010.
A deposit is not a payment for a transaction until the seller applies it against the full payment for the transaction. In this example, the $100 deposit made in May 2010 becomes a partial payment for the goods on July 5, 2010. Since the goods are delivered, and ownership transferred, on July 5, 2010, the HST applies to the full amount payable for the goods. This includes the $100 deposit when it is applied as part payment against the total payment for the goods.

21.6 I purchase a magazine subscription in May 2010 and the publisher invoices me on June 1, 2010. I pay the invoice on June 8, 2010. However, the magazines are not sent until on or after July 1, 2010.
Since the subscription is paid before July 2010, the HST does not apply even though the magazines are sent on or after July 1, 2010.

21.7 I purchase a subscription to a monthly newsletter. Payment for the subscription is due on June 30, 2010 but I do not pay until July 8, 2010.
The HST applies to the full amount of the subscription as it is not paid before July 2010.

Leases

Does the HST apply to the following lease payments made by consumers?

22.1 I lease goods for my personal use. I have a lease payment that becomes due on June 25, 2010 for the lease payment period beginning July 1, 2010 and ending July 31, 2010.
Since the lease payment period begins on July 1, 2010 the HST applies to the June 25 lease payment.
22.2 How does the introduction of the HST affect my existing lease for a vehicle?

Generally, the HST applies to lease periods beginning on or after July 1, 2010 including those for leases that were in effect before October 14, 2009. As you are a lessee of an automobile, RV or boat in Ontario or B.C., you pay the HST on payments for lease payment periods that begin on or after July 1, 2010. Where a lease payment period starts before July 1, 2010 and ends on or after July 31, 2010, you only have to pay HST on the portion of the payment period that is on or after July 1, 2010.

22.3 I lease a car for my personal use. I have a lease period that begins on June 15, 2010 and ends on July 15, 2010. Does the HST apply to this lease payment if I pay it on or after July 1, 2010?

No. Since the lease payment period begins before July 2010, and ends before July 31, 2010 the HST does not apply to the lease payment, even if it is paid on or after July 1, 2010.

Returns and exchanges

Does the HST apply to the following returns and exchanges by consumers?

23.1 I purchase a stereo in June 2010. The purchase of the stereo was subject to the provincial sales tax but not the HST. In July 2010 I return the stereo and receive a refund for the stereo.

As the HST is not paid on the purchase, it will not be refunded to you. However, you will be entitled to a refund of the GST that you paid on your original purchase.

23.2 I purchase a men’s shirt in June 2010. The provincial sales tax applied to the purchase of the shirt but the HST did not apply. In July 2010 I return the shirt and exchange it for a men’s shirt of equal value.

As the original shirt is returned before November 2010, and the price for the new shirt is equal to the amount you paid for the original shirt, the HST does not apply.

23.3 I purchase a microwave on May 31, 2010 for $100. The provincial sales tax applied to the purchase of the microwave but the HST did not apply. In July 2010, I return the microwave and exchange it for a more expensive microwave that costs $140.

As the microwave is exchanged before November 2010 and the price of the new microwave is more than that paid for the original microwave, the HST applies to the $40 price difference.

23.4 I purchase a ladies’ coat in June 2010 for $300. The provincial sales tax applied to the purchase of the coat but the HST did not apply. In December 2010, I return the coat because it is defective and exchange it for another one of equal value.

Since the coat is exchanged after November 1, 2010, the HST applies to the full payment (i.e., $300) for the new coat even though the original coat is returned because it is defective. You would be eligible for a refund of the GST that you paid on your original purchase.

23.5 I purchase a bicycle on May 31, 2010. I did not pay any provincial sales tax on the purchase. In July 2010, I return the bicycle and exchange it for a more expensive bicycle.

As no provincial sales tax was paid when you bought the bicycle the HST applies to the full cost of the new bicycle. You would be eligible for a refund of the GST paid on your original purchase.
## Services

Does the HST apply to the following services acquired by consumers?

### 24.1
I acquire an accounting service from January 2010 to June 2010. The accountant issues an invoice for this service in September 2010. I pay the amount due after receiving the invoice.

Since all of the service is performed before July 2010, the HST does not apply to the payment for this service.

### 24.2
I acquire a decorating service in June 2010 and July 2010. Sixty per cent of the service is performed in June 2010. The decorator issues an invoice for this service in August 2010. I pay the amount due after receiving the invoice.

The HST applies to the part of the payment that relates to the 40% of the service that is performed on or after July 1, 2010. The HST does not apply to the part of the payment that relates to the 60% of the service that is performed before July 2010.

### 24.3
I prepaid $100 in May 2010 as a partial payment for a service performed in August 2010. The total amount payable for the service is $500. The service provider issued the invoice for this service in September 2010. I pay the remaining $400 after receiving the invoice.

The HST applies to both the partial payment of $100 made in May 2010 and the remaining $400 payable for this service as the service is performed on or after July 1, 2010.

### 24.4
In 2007 I entered into a long-term fixed-price contract to acquire services. I pay monthly for these services. The monthly payment is paid on the 15th day of the month for that month of service.

The monthly payment is paid in the same month the service is performed. The HST is not payable on payments made under this contract before July 2010. However, the HST is payable on payments made on or after July 1, 2010.

### 24.5
In January 2010, I enter into a long-term fixed-price contract to acquire a service. I pay monthly for this service. The monthly payment is due in advance on the last business day of the previous month. I pay for July’s service on June 30, 2010.

The payment made on June 30, 2010, is payment for a service performed on or after July 1, 2010. The HST is payable on this payment, and on all payments that are made under this contract on or after July 1, 2010 for services performed on or after July 1, 2010.

### 24.6
I acquire a service that is performed from May 1, 2010, to July 10, 2010. The service provider issues an invoice on July 10, 2010 for the entire service. Seven per cent of the total service is performed from July 1, 2010 to July 10, 2010. I pay the amount due after receiving the invoice.

The HST does not apply to any of the payment for this service, since 90% or more of the service was performed before July 2010.

## Passenger transportation services

Does the HST apply to the following passenger transportation services acquired by consumers?

### 25.1
I purchase an airline ticket in May 2010 for one-way travel between two cities in the province on August 1, 2010.

The HST applies to the payment for the passenger transportation service, since the service is performed after July 1, 2010.
25.2 I organize a group city bus tour that takes place on June 30, 2010. As per the written agreement with the tour company, I am invoiced for the full amount of the tour for the group after the tour takes place. The tour company issues the invoice for the bus tour on July 2, 2010. I pay for the tour on July 6, 2010.

The HST does not apply to the payment for the passenger transportation service, since the tour is provided before July 2010.

25.3 I purchase a train ticket for travel from Vancouver to Toronto in June 2010. The train leaves Vancouver on June 29, 2010, and arrives in Toronto on July 4, 2010.

The HST does not apply to the payment for the passenger transportation service, since the train travel starts before July 2010.

25.4 I purchase a continuous journey in May 2010 that consists of a flight from Toronto to Halifax a cruise around the Maritimes and up the St. Lawrence River to Montreal, and a flight from Montreal to Toronto. The first flight leaves Toronto on June 26, 2010 and the return flight leaves Montreal on July 3, 2010.

The HST does not apply to the payment for any of the passenger transportation services in the continuous journey, since the continuous journey starts before July 2010.

25.5 I purchase an airline ticket for travel between two cities in the province on June 18, 2010. I had intended to return home by car, but my plans changed. Once at my destination I purchase a second airline ticket for a return flight on July 10, 2010.

The HST does not apply to the payment for the first passenger transportation service, since the service is performed before July 2010. However, the HST applies to the payment for the second passenger transportation service, since the service is performed after July 1, 2010, and the two flights are not part of a single continuous journey.

**Freight transportation services**

Does the HST apply to the following freight transportation services acquired by consumers?

26.1 I ship some household goods between two cities in the province in July 2010. I make a prepayment for the shipping service in May 2010.

As the prepayment relates to a shipping service performed on or after July 1, 2010, the HST applies to the full payment for shipping the goods, including the prepayment.

26.2 I ship a care package from our home to my daughter who is working in the north of the province. The shipment is picked up on June 29, 2010 and delivered on July 3, 2010. The carrier invoices me on July 15, 2010.

The HST does not apply to the payment for the freight transportation service, since the shipping service is a continuous freight movement that begins before July 1, 2010.
Prepaid funeral and cemetery arrangements

Does the HST apply to the following prepaid funeral and cemetery arrangements acquired by consumers?

27.1 I enter into a prepaid funeral arrangement with a funeral home on June 12, 2010 for funeral products and services to be provided when my parents die. Under the arrangement, I make monthly contributions from July 2010 to June 2011. The funeral home withholds an administration fee of $10 from each payment, and holds the balance of the contributions in trust. The funeral services are provided in 2012.

Since the arrangement is entered into before July 2010, and the contributions are held in trust, the HST does not apply to the amounts withdrawn from the trust in 2012, to pay for the funeral products and services provided under the arrangement.

The administration fees are not part of the amounts held in trust, and may be subject to HST when the fees become due or are paid without having become due.

27.2 I enter into a prepaid arrangement with a cemetery operator on April 5, 2010 to acquire cemetery products and services for my parents when they die. Under the arrangement, I make quarterly contributions from April 2010 to April 2012. The cemetery operator withholds an administration fee of $10 from each payment, and holds the balance of the contributions in trust. The cemetery products and services are provided in September 2015.

Since the arrangement is entered into before July 2010, and the contributions are held in trust, the HST does not apply to the amounts withdrawn from the trust in September 2015, to pay for the cemetery products and services provided under the arrangement.

The administration fees are not part of the amounts held in trust, and may be subject to HST when the fees become due or are paid without having become due.

Continuous supplies of property and/or services

Does the HST apply to the following property and/or services acquired by consumers?

28.1 In January 2010, I enter into a long-term fixed-price contract for a land-line telephone service on a continuous basis. The monthly amount is due in advance on the last business day of the previous month. Any long distance calls are billed at the end of the month in which they occur.

The payment due on June 30, 2010, for the land-line telephone service is payment for a service performed on or after July 1, 2010. The HST applies to this payment, and all payments that are made under this contract on or after July 1, 2010 for a service performed on or after July 1, 2010.

The long distance calls charged on the June 30, 2010 invoice relate to calls made in the month of June 2010, and are not part of the continuous supply of a land-line telephone service. The HST does not apply to the payment for these calls, since the services were provided before July 1, 2010.

28.2 I receive a satellite television service on a continuous basis. The service provider issues an invoice dated July 22, 2010, for the period from June 16, 2010 to July 15, 2010. The invoice does not indicate when the satellite television service is provided.

Since the satellite television service is provided on a continuous basis during the billing period, the service is prorated into equal parts according to the number of days in the billing period.

The HST does not apply to the amount payable for the part of the period before July 2010. However, the HST applies to the amount payable for the part of the period on or after July 1, 2010 (i.e., 50%).
28.3 I purchase electricity for the period from June 21, 2010 to July 20, 2010, and the utility issues an invoice dated July 27, 2010. The invoice does not indicate when the electricity is delivered. The electricity is not purchased under an equal billing plan.

Since the electricity is delivered on a continuous basis during the billing period, the electricity will be prorated into equal parts according to the number of days in the billing period.

The HST does not apply to the amount payable for the part for the period before July 1, 2010 (i.e., 10 days). However, the HST applies to the amount payable for the part of the period on or after July 1, 2010 (i.e., 20 days).

**Budget payment arrangements**

Does the HST apply to the following budget arrangements used by consumers?

29.1 I have an equal billing plan set up for electricity which covers the period September 2009 to August 2010.

The utility collects the HST on the payments that become due on or after July 1, 2010, under the equal billing plan.

29.2 I have an equal billing plan set up for electricity that covers the period September 9, 2009 to August 8, 2010. In September 2010, the utility issues a final invoice for my actual consumption of electricity during the year, which includes a charge for the electricity that I consumed during the period July 9, 2010 to August 8, 2010, and a charge for the electricity that I consumed during the period May 9, 2010 to July 8, 2010 that exceeded the payments I made under the equal billing plan.

When the utility issues an invoice on or after July 1, 2010, for the remaining amount payable on the electricity provided during the equal billing plan period, the utility determines in what period the electricity was supplied. Only the electricity supplied on or after July 1, 2010, is subject to the HST. The HST does not apply to any amount payable for the part of the electricity provided before July 2010 (i.e., the charge for the electricity supplied in May and June in this example).

29.3 I have an equal billing plan set up for electricity that covers the period September 9, 2009 to August 8, 2010. In September 2010 the utility issues a final invoice for my actual consumption of electricity during the year. The final balance is a credit balance since the payments I made under the equal billing plan exceeded the actual charges for electricity that I consumed up to July 8, 2010 (i.e., over the year I overpaid the utility). The utility issues a credit note to me dated September 15, 2010 for the overpayment that I made.

If the utility issues a credit note on or after July 1, 2010, for the amount that was overpaid, that amount usually includes the tax paid on the overpayment. In this example, a credit issued for an overpayment for electricity consumed on or after July 1, 2010, would include a credit of the GST or HST overpaid.

**Intangible personal property**

Does the HST apply to the following supplies of intangible personal property acquired by consumers?

30.1 I purchase the right to use digital music files from the operator of a Web site. I download a digital music file on June 29, 2010, but the operator does not issue an invoice for the download until July 2, 2010.

The HST applies to this purchase, since the payment becomes due on or after July 1, 2010.


The HST does not apply to this purchase, since the payment for the purchase is made before July 2010.
30.3 I purchase an annual subscription to a Web site on June 1, 2010. I pay for the subscription by making three monthly payments. The subscription payments become due on June 1, 2010, July 1, 2010, and August 1, 2010.

The HST does not apply to the first payment, since it becomes due before July 2010. The HST applies to the second and third payments, since those payments become due on or after July 1, 2010.

**Transportation passes**

Does the HST apply to the following transportation passes acquired by consumers?

31.1 I purchase municipal transit tickets.

The HST does not apply to municipal transit tickets, since municipal transit tickets are HST-exempt.

31.2 I purchase municipal transit passes.

The HST does not apply to municipal transit passes, since municipal transit passes are HST-exempt.

31.3 I purchase a bus pass that gives me unlimited inter-city travel for 30 days. I purchase the pass on June 10, 2010, for use from June 15, 2010 to July 14, 2010.

The HST does not apply, since the pass covers a period that starts before July 2010, and ends before August 2010.

31.4 I purchase a bus pass that gives me unlimited inter-city travel for four months. I purchase the pass on May 20, 2010, for use from June 1, 2010 to September 30, 2010.

Since the pass covers a period that starts before July 2010, and ends after July 31, 2010, the HST applies to the part of the payment for the pass that covers the period on or after July 1, 2010 (i.e., for three of the four months, or 75%).

31.5 On June 28, 2010, I purchase a bus pass that gives me unlimited inter-city travel from July 1, 2010 to July 31, 2010.

The HST applies to the payment for the pass, since the pass covers a period that starts on or after July 1, 2010.

31.6 I purchase a bus pass that provides me with 20 one-way trips between two cities in either direction. The pass is valid for six months from the date of purchase. I purchase a bus pass on May 1, 2010, which will be valid from May 1, 2010 to November 1, 2010.

Since the pass is valid for a period that starts before July 2010, and ends after July 31, 2010, the HST applies to the part of the payment for the pass that covers the period on or after July 1, 2010 (i.e., for four of the six months or 67%).

**Memberships**

Does the HST apply to the following memberships acquired by consumers?

32.1 I purchase a membership from an operator of a club on January 2, 2010. The full membership fee is due at the time of purchase and the membership expires on December 31, 2010.

The HST does not apply to the purchase of the membership since the membership fee becomes due before May 2010.

32.2 I purchase a membership from an operator of a club on May 2, 2010. The full membership fee is due at the time of purchase and the membership expires on April 30, 2011.

Since less than 90% of the membership period is before July 2010, the membership fee is prorated for HST purposes. The HST does not apply to the portion of the membership fee relating to the period before July 2010.
However, the HST does apply to the portion of the membership fee relating to the period on or after July 1, 2010 (i.e., 10 of the 12 months).

32.3 I purchase a membership from the operator of a club on January 4, 2010. Under the terms of the membership agreement, I pay monthly membership fees on the first day of each month. On June 15, 2010, I prepay my membership fees for the portion of the membership period from July 1, 2010 to December 31, 2010.

The HST does not apply to the membership fees relating to the part of the membership period before July 2010. However, the HST applies to the membership fees relating to the period on or after July 1, 2010. This includes any prepayments made on or after May 1, 2010, and before July 2010, that relate to the part of the membership period on or after July 1, 2010.

32.4 I belong to a professional association. In May 2010, I receive an invoice to renew my annual membership. GST is charged on the membership. The annual membership period is June 1, 2010 to May 31, 2011.

Since the payment for the membership becomes due on or after May 1, 2010, the HST applies to the 11-month part of the membership period from July 1, 2010, to May 31, 2011, even though the membership fee becomes due before July 2010.

32.5 I belong to a professional association. In May 2010, I receive an electronic invoice for the renewal of my annual membership in the association. GST is charged on the membership. The annual membership period is July 1, 2010, to June 30, 2011.

Since the payment for the membership becomes due on or after May 1, 2010, the HST applies to the membership fee for the entire membership period from July 1, 2010, to June 30, 2011.

32.6 I purchase a lifetime membership from an association on December 1, 2009. The membership fee is payable in three annual instalments of $1,000 each. I pay the first annual instalment on December 1, 2009.

Where the total of all amounts that become due, or are paid without having become due after October 14, 2009 and before July 2010, for a lifetime membership is more than 25% of the total amount for the membership, the HST applies to the part of the amount that is more than 25% of the total amount for the membership. Since the amount that becomes due on December 1, 2009 (i.e., $1,000) is more than 25% of the total amount for the membership (i.e., 25% × $3,000 = $750), the HST applies to $250 (i.e., $1,000 – $750 = $250) of the amount due on December 1, 2009. In addition, HST applies on the full amount of the remaining two annual instalments.

32.7 I purchase a lifetime membership from an association on June 1, 2010. The membership fees are payable in five monthly instalments of $1,000 each. I pay the first monthly instalment on June 1, 2010.

Since the payment made on June 1, 2010, (i.e., $1,000) does not exceed 25% of the total amount payable for the lifetime membership (i.e., 25% × $5,000 = $1,250), the HST does not apply to any part of that June payment. The HST applies to the other instalments that are paid or become due on or after July 1, 2010 (i.e., $4,000).

Admissions

Does the HST apply to the following admissions acquired by consumers?

33.1 I purchase an admission on May 11, 2010, to a 10-day event that begins on June 22, 2010, and ends on July 1, 2010.

The HST does not apply to the purchase of the admission, since 90% or more of the event occurs before July 2010.
33.2 I purchase an admission on June 5, 2010, to a five-day event that begins on June 28, 2010, and ends on July 2, 2010.

Since less than 90% of the event occurs before July 2010, the admission is prorated for purposes of charging the HST. The HST does not apply to the part of the admission fee for the portion of the event that occurs before July 2010 (i.e., three of the five days, or 60% in this example). However, the HST applies to the part of the admission fee relating to the portion of the event that occurs on or after July 1, 2010 (i.e., two of the five days, or 40%).

**Combined supplies**

Does the HST apply to the following combined supplies acquired by consumers?

34.1 I purchase home theatre equipment on June 26, 2010. The purchase includes the installation of the equipment in my home. The equipment is delivered to me on June 30, 2010, and installed on July 2, 2010.

The HST does not apply to the portion of the total price that is attributable to the home theatre equipment, since the equipment is delivered to you before July 2010. The HST does apply to the portion of the total price that is attributable to the installation service, since the service is performed on or after July 1, 2010.
“F”

Ontario Ministry of Revenue, Information Notice No. 3, October 14, 2009,

“General Transitional Rules for Ontario HST”
The 2009 Ontario Budget proposed a comprehensive package of tax changes. Central to this tax package is the proposed Harmonized Sales Tax for Ontario (HST), which, subject to legislative approval, would come into effect on July 1, 2010.

This Notice provides details of proposed measures that would build on Ontario’s comprehensive tax package and help consumers and businesses transition to the HST.

The Notice provides general descriptions of transitional rules for the HST that will be proposed to be enacted in the federal Excise Tax Act (ETA). It also provides general descriptions of provincial measures that will be proposed to be enacted to wind down the applicable provisions of the Ontario Retail Sales Tax Act (RSTA).

**General Transitional Rules for Ontario HST**

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OVERVIEW

It is proposed that, effective July 1, 2010, Ontario’s Retail Sales Tax (RST) be replaced with the HST. The HST would have a combined tax rate of 13 per cent — combining the existing five per cent federal Goods and Services Tax (GST) and an eight per cent Ontario component. The HST would be administered by the Canada Revenue Agency.

Transitional rules are required to determine which tax — the existing RST or the Ontario component of the HST — would apply to transactions that straddle the July 1, 2010 implementation date for the HST.

The transitional rules would operate on the basis of the following dates:

- **July 1, 2010** — Implementation date for the HST.
  - May 1, 2010 — The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after this date for property and services provided on or after July 1, 2010.
  - October 14, 2009 — The release date of this Notice. The HST would not apply to consideration that becomes due, or is paid without having become due, on or before October 14, 2009. Certain businesses and public service bodies may be required to self-assess the Ontario component of the HST on consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 for property and services provided on or after July 1, 2010.
- **October 31, 2010** — This is the date on which any outstanding RST would become payable under the transitional rules to facilitate the efficient wind-down of the RST.

The transactions described in this Notice are generally those that, for purposes of the ETA, would be considered to be taxable supplies made in Ontario.

These transitional rules generally operate on the basis of the earlier of when consideration for a supply becomes due or is paid without having become due. Under the ETA, consideration for a supply becomes due on the earliest of the day the supplier first issues an invoice with respect to the supply; the date of the invoice; the day the supplier would have, but for undue delay, issued an invoice with respect to the supply; and the day the recipient of the supply is required to pay the consideration pursuant to a written agreement.

Unless otherwise stated, or the circumstances otherwise require, the definitions and concepts in the ETA would apply to the transitional rules described in this Notice.

INTRODUCTION OF HST

This part of the Notice describes the general transitional rules for the introduction of the HST. These rules should be read in conjunction with the general transitional rules for the wind-down of the RST, as described in the RST wind-down part below. Taken together, the HST and RST transitional rules are complementary and would provide for a smooth transition to the HST.

TANGIBLE PERSONAL PROPERTY

This section describes general transitional rules for supplies of tangible personal property (i.e., goods) by way of sale, as well as specific transitional rules for subscriptions to periodical publications.

General Rules

The HST would generally apply to a supply of goods by way of sale to the extent that the goods are delivered, and ownership of the goods is transferred, to the recipient of the supply on or after July 1, 2010.

Consideration due or paid on or after July 1, 2010

The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 for a supply of goods by way of sale, to the extent that the consideration is for goods that are delivered, and for which ownership is transferred, to the recipient of the supply on or after July 1, 2010.

Example 1:

_In May 2010, a person enters into an agreement to purchase furniture. Under the agreement, the person takes delivery of the furniture in July 2010, makes 12 monthly payments between July 2010 and June 2011, and receives ownership of the furniture when all the payments have been made. The HST would apply to the sale of the furniture._

Consideration due or paid on or after May 1, 2010 and before July 2010

The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 for a supply of goods by way of sale, to the extent that the consideration is for goods that are delivered, and for which ownership is transferred, to the recipient of the supply on or after July 1, 2010.
In such circumstances, the supplier would be required to account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010. The recipient of the supply would be able to claim any available input tax credits with respect to the Ontario component of the HST in the GST/HST reporting period of the recipient that includes July 1, 2010.

Example 2:
In June 2010, a person pays for a sailboat, but the sailboat will not be delivered, and ownership will not be transferred, to the person until August 2010. The HST would apply to the sale and the supplier would account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010.

Consideration due or paid after October 14, 2009 and before May 2010.
Persons who are not consumers — such as businesses and public service bodies — may be required to self-assess the Ontario component of the HST on consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 for a supply of goods by way of sale, to the extent that the consideration is for goods that are delivered, and for which ownership is transferred, to the recipient of the supply on or after July 1, 2010.

The requirement to self-assess in these circumstances would generally apply only to:

- non-consumers acquiring the goods for consumption, use or supply otherwise than exclusively in the course of their commercial activities (e.g., a business, such as a financial institution, that is acquiring the goods to make GST/HST-exempt supplies);
- non-consumers acquiring the goods for consumption, use or supply exclusively in the course of their commercial activities but in circumstances where the goods would be subject to an input tax credit restriction or recapture (e.g., electricity subject to the proposed input tax credit restriction for large businesses that is described in the 2009 Ontario Budget);
- non-consumers that use simplified procedures available under the ETA for calculating their net tax (e.g., certain charities, public service bodies, and small businesses); and
- selected listed financial institutions, which use a special attribution method in determining their net tax. a person who is required to self-assess in these circumstances would be required to account for the tax either: (i) in the GST/HST return of the person for the reporting period that includes July 1, 2010, if the due date for that return is before November 2010, or (ii) in any other case, in prescribed form and before November 2010.

Example 3:
In February 2010, a selected listed financial institution (SLFI) that is a monthly GST/HST filer is invoiced for security equipment for which delivery occurs, and ownership is transferred, in July 2010. The SLFI must self-assess the Ontario component of the HST on the consideration for the equipment in its GST/HST return in which the self-assessed tax is required to be reported.

Subscriptions to Newspapers, Magazines or Other Periodical Publications
Notwithstanding the general transitional rules for supplies of goods by way of sale, the HST would generally not apply to consideration that is paid before July 2010 for a subscription to a newspaper, magazine or other periodical publication.

Example 4:
In June 2010, a person pays for an annual subscription to a magazine. Editions of the magazine will be delivered each month for 12 months starting in July 2010. The HST would not apply to payment for the subscription.

SERVICES
This section describes the general transitional rules for supplies of services, as well as specific transitional rules for funeral and cemetery services, passenger transportation services and freight transportation services.

General Rules
The HST would generally apply to a supply of a service to the extent that the service is performed on or after July 1, 2010. The HST would generally not apply, however, to a supply of a service if all or substantially all (90 per cent or more) of the service is performed before July 2010.
Consideration due or paid on or after July 1, 2010 the HST would generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 for a supply of a service, to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010.

Example 5:
A person hires a consulting firm to perform a service during the summer of 2010 but is not invoiced, and does not pay, for the service until August 2010. One-third of the service is performed in each of the months of June, July and August 2010. The HST would apply to the consideration that is for the part of the service performed in July and August (i.e., two-thirds of the consideration).

Consideration due or paid on or after May 1, 2010 and before July 2010. The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 for a supply of a service to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010.

In such circumstances, the supplier would be required to account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010. The recipient of the supply would be able to claim any available input tax credits with respect to the Ontario component of the HST in the GST/HST reporting period of the recipient that includes July 1, 2010.

Example 6:
In May 2010, a person pays for seasonal yard maintenance service, 50 per cent of which will be performed after June 2010. The HST would apply to 50 per cent of the consideration for that service and the supplier would account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010.

Consideration due or paid after October 14, 2009 and before May 2010
Persons who are not consumers - such as businesses and public service bodies - may be required to self-assess the Ontario component of the HST on consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 for a supply of a service, to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010.

The requirement to self-assess in these circumstances would generally apply only to:

- non-consumers acquiring the service for consumption, use or supply otherwise than exclusively in the course of their commercial activities (e.g., a business, such as a financial institution, that is acquiring the service to make GST/HST-exempt supplies);
- non-consumers acquiring the service for consumption, use or supply exclusively in the course of their commercial activities but in circumstances where the service would be subject to an input tax credit restriction or recapture (e.g., certain entertainment expenses subject to the 50 per cent input tax credit recapture rules in the ETA);
- non-consumers that use simplified procedures available under the ETA for calculating their net tax (e.g., certain charities, public service bodies and small businesses); and
- selected listed financial institutions, which use a special attribution method in determining their net tax.
- A person who is required to self-assess in these circumstances would be required to account for the tax either: (i) in the GST/HST return of the person for the reporting period that includes July 1, 2010, if the due date for that return is before November 2010, or (ii) in any other case, in prescribed form and before November 2010.

Example 7:
In December 2009, a company making both taxable and exempt supplies is invoiced for a supply of a janitorial service, part of which will be performed after June 2010. The company must self-assess the Ontario component of the HST on the consideration that is for the part of the service to be performed after June 2010. The company could claim any available input tax credits with respect to that tax in the reporting period of the company that includes July 1, 2010.

Consideration due or paid after October 14, 2009 and before May 2010
Persons who are not consumers - such as businesses and public service bodies - may be required to self-assess the Ontario component of the HST on consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 for a supply of a service, to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010.

Arrangements for Prepaid Funeral and Cemetery Services
Notwithstanding the general transitional rules for supplies of services, the HST would not apply to consideration for the part of a funeral or cemetery service that is performed on or after July 1, 2010 if the service is supplied pursuant to an arrangement in writing that was entered into before July 2010.
This rule would only apply if it was reasonable, at the time the arrangement was entered into, to expect that all or a part of the consideration for the service would be paid (or put into trust) before the service is performed.

This rule would also apply to a supply of property relating to the funeral, burial or cremation of an individual if the property is provided under an arrangement for the provision of a prepaid funeral or cemetery service that is relieved under this rule.

**Passenger Transportation Services**

Notwithstanding the general transitional rules for supplies of services, the HST would not apply to consideration for the part of a passenger transportation service that is performed on or after July 1, 2010 if the passenger transportation service is part of a continuous journey that begins before July 2010.

**Example 8:**
*In June 2010, a person pays for round-trip air travel as part of a continuous journey from Toronto to Ottawa on June 30, 2010, and from Ottawa to Toronto on July 2, 2010. The HST would not apply to the payment for the round-trip air travel.*

For information about the transitional rules for passenger transportation passes, see the Intangible Personal Property section of this Notice.

**Freight Transportation Services**

Notwithstanding the general transitional rules for supplies of services, the HST would not apply to consideration for the part of a freight transportation service that is performed on or after July 1, 2010 if the service is part of a continuous freight movement of goods that begins before July 2010.

**Example 9:**
*A person makes a car lease payment for the lease interval from June 15, 2010 to July 14, 2010. The HST would not apply to the lease payment (regardless of when the payment was made).*

**Consideration due or paid on or after July 1, 2010**

The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 for a supply of property by way of lease, licence or similar arrangement, to the extent that the consideration is for the part of a lease interval that occurs on or after July 1, 2010 (unless the lease interval begins before July 2010 and ends before July 31, 2010).

**Example 10:**
*A monthly car lease payment becomes due and is paid on July 1, 2010 for the lease interval from July 1, 2010 to July 31, 2010. The HST would apply to the lease payment.*

**Consideration due or paid on or after May 1, 2010 and before July 2010**

The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after May 1, 2010 and before July 2010 for a supply of property by way of lease, licence or similar arrangement, to the extent that the consideration is for the part of a lease interval that occurs on or after July 1, 2010 (unless the lease interval begins before July 2010 and ends before July 31, 2010).

In such circumstances, the supplier would be required to account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010. The recipient of the supply would be able to claim any available input tax credits with respect to the
Ontario component of the HST in the GST/HST reporting period of the recipient that includes July 1, 2010.

**Example 11:**
*On May 1, 2010, a lease payment becomes due and is paid for a site in a recreational campground. The lease interval is six months (May 1, 2010 through October 31, 2010). The part of the payment for the months of May and June would not be subject to the HST but the part of the payment for the months of July, August, September and October would be subject to the HST.*

Consideration due or paid after October 14, 2009 and before May 2010

Persons who are not consumers — such as businesses and public service bodies — may be required to self-assess the Ontario component of the HST on consideration for a supply of property by way of lease, licence or similar arrangement that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010, to the extent that the consideration is for the part of a lease interval that occurs on or after July 1, 2010 (unless the lease interval begins before July 2010 and ends before July 31, 2010).

The requirement to self-assess in these circumstances would generally apply only to:

- non-consumers acquiring the property for consumption, use or supply otherwise than exclusively in the course of their commercial activities (e.g., a business, such as a financial institution, that is acquiring the property to make GST/HST-exempt supplies);
- non-consumers acquiring the property for consumption, use or supply exclusively in the course of their commercial activities but in circumstances where the property would be subject to an input tax credit restriction or recapture (e.g., leased passenger vehicles where the monthly lease payment exceeds $800);
- non-consumers that use simplified procedures available under the ETA for calculating their net tax (e.g., certain charities, public service bodies, and small businesses); and
- selected listed financial institutions, which use a special attribution method in determining their net tax.

A person who is required to self-assess in these circumstances would be required to account for the tax either: (i) in the GST/HST return of the person for the reporting period that includes July 1, 2010, if the due date for that return is before November 2010, or (ii) in any other case, in prescribed form and before November 2010.

**Example 12:**
*In February 2010, a business using the Quick Method of accounting under the ETA leases equipment and makes a lease payment for a five-month lease interval that begins on May 1, 2010 and ends on September 30, 2010. The business would self-assess the Ontario component of the HST on the portion of the lease payment for the part of the lease interval that occurs on or after July 1, 2010 (i.e., three out of the five months or 60 per cent of the lease payment). Assuming the business has a calendar quarterly reporting period, it would be required to account for the Ontario component of the HST in its GST/HST return that is due on October 31, 2010.*

**Commercial Parking Passes**

A supply of a commercial parking pass would be treated as a supply of non-residential real property by way of lease, licence or similar arrangement for the purposes of the transitional rules for the HST.

The special disclosure requirements for tax-included pricing may apply as described in the RST wind-down part of this Notice.

**INTANGIBLE PERSONAL PROPERTY**

This section describes a general transitional rule for supplies of intangible personal property (e.g., intellectual property or contractual rights) by way of sale, as well as specific transitional rules for memberships, admissions, and passenger transportation passes.

**General Rule**

The HST would generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 for a supply of intangible personal property by way of sale.

**Example 13:**
*In June 2010, a person pays a lump sum for the right to reproduce certain portions of a book. The HST would not apply to the payment.*
Memberships
A supply of a membership in a club, organization or association would be deemed to be a supply of a service for purposes of the transitional rules. The general rules described in the Services section of this Notice would apply, with appropriate modifications, to a supply of such a membership (i.e., to the extent that the membership period occurs on or after July 1, 2010).

Example 14:
In June 2010, a person purchases a four-month membership in a fitness club for the months of June through September 2010. The HST would be payable with respect to three of the four months of the membership (i.e., on 75 per cent of the total consideration).

Lifetime memberships
If consideration for a lifetime membership in a club, organization or association becomes due, or is paid without having become due, after October 14, 2009 and before July 2010, and that consideration exceeds 25 per cent of the total consideration for the lifetime membership, the amount in excess of that 25 per cent portion would be treated as having become due on, and not to have been paid before, July 1, 2010 and would be subject to the HST.

In such circumstances, the supplier would be required to account for the Ontario component of the HST in the GST/HST reporting period of the supplier that includes July 1, 2010. The recipient of the supply would be able to claim any available input tax credits with respect to the Ontario component of the HST in the GST/HST reporting period of the recipient that includes July 1, 2010.

The requirement to pay the HST in these circumstances would apply both to a supply of a lifetime membership made in Ontario, and to a supply of a lifetime membership made outside the HST provinces to a person who is resident in Ontario.

Example 15:
Sixty per cent of the consideration for a lifetime membership is paid in January 2010 and 40 per cent is paid in July 2011. The July 2011 payment would be subject to the HST. In addition, the portion of the January 2010 payment that exceeds 25 per cent of the total consideration (i.e., 35 per cent of the total consideration) would also be subject to the HST.

Admissions
A supply of an admission to a place of amusement, a seminar, an event or an activity would be deemed to be a supply of a service for the purposes of the transitional rules. The general rules described in the Services section of this Notice would apply, with appropriate modifications, to a supply of such an admission (i.e., to the extent that the event or activity to which the admission relates occurs on or after July 1, 2010).

The disclosure requirements for tax-included pricing may apply as set out in the RST wind-down part of this Notice.

Example 16:
In May 2010, a vendor sells tickets to a professional hockey game that will take place in October 2010. The HST would apply to the sale.

Passenger Transportation Passes
Notwithstanding the general transitional rule for intangible personal property, the HST would generally apply to consideration that becomes due, or is paid without having become due, after October 14, 2009 for a supply of a passenger transportation pass that entitles an individual to passenger transportation services during a certain period (the pass period), to the extent that the consideration is for the part of the pass period that occurs on or after July 1, 2010. The HST would not, however, apply to a supply of a transportation pass if the pass period begins before July 2010 and ends before August 2010.

Example 17:
In May 2010, a vendor sells a bus pass that entitles the purchaser to unlimited access to commercial bus services between Toronto and Niagara Falls during a two-month pass period from June 1, 2010 to July 31, 2010. The HST would not apply to the consideration for the sale of the pass.

Subject to the specific transitional rules for passenger transportation passes described above, consideration that becomes due, or is paid without having become due, after October 14, 2009 and before July 2010 for a supply of a passenger transportation pass would be subject to transitional rules comparable to the general transitional rules described in the Services section of this Notice (i.e., to the extent that the pass period occurs on or after July 1, 2010).
For information about transitional rules for passenger transportation services, see the Services section of this Notice.

REAL PROPERTY
(OTHER THAN RESIDENTIAL HOUSING)
The HST would generally apply to a supply of real property (other than residential housing) by way of sale in Ontario if both ownership and possession of the property are transferred to the purchaser on or after July 1, 2010.

Example 18:
In January 2010, a corporation enters into an agreement to sell a small shopping mall to an individual. Ownership and possession of the mall will transfer to the individual in August 2010. The HST would apply to the sale of the mall.

For information on transitional rules for commercial leases and non-residential rental property, see the Leases and Licences section of this Notice. For information about the transitional rules for new residential housing, see Information Notice No. 2, Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, a New Rental Housing Rebate and Transitional Rules, dated June 18, 2009.

OTHER TRANSITIONAL RULES
Direct Sellers
If a direct seller (or approved distributor) is using the alternative collection method on July 1, 2010, and independent sales contractors (ISCs) of the direct seller hold exclusive products in their inventory at the beginning of that day that were sold to them by the direct seller and that are intended for sale in Ontario, the direct seller would be deemed to have made a supply of those products to the ISCs on July 1, 2010.

In such circumstances, the direct seller would be required to account for the applicable Ontario component of the HST on the suggested retail price of each of those products in the GST/HST return of the direct seller for the reporting period that includes July 1, 2010.

A direct seller would also be required to account for the Ontario component of the HST on the suggested retail price of exclusive products supplied to an ISC for which consideration becomes due, or is paid without having become due, after October 14, 2009 and before July 2010, to the extent that the products have not yet been delivered to the ISC as of July 1, 2010.

Continuous Supplies
The HST would generally apply to consideration for a supply of property or services delivered, performed or made available (as the case may be) on a continuous basis by means of a wire, pipeline or similar conduit or satellite or other telecommunications facility (e.g., natural gas, electricity, cable television, satellite television or cellular telephone services) to the extent that the consideration is for property or services that are delivered, performed or made available to the recipient of the supply on or after July 1, 2010.

If the supplier cannot reasonably determine when the property or services are delivered, performed or made available, the consideration for the supply would be prorated in equal parts according to the number of days in the period to which the consideration is attributable.

Example 19:
A supplier of electricity issues an invoice to a person for the period from June 16, 2010 to July 15, 2010 (inclusive). A meter reading was not done on June 30, 2010. The HST would apply to 50 per cent of the total amount payable, representing the 15 days out of the 30-day period that are on or after July 1, 2010.

Budget Payment Arrangements
If property (other than newspapers, magazines or other periodical publications supplied by way of subscription) or services are supplied under a budget payment arrangement (e.g., natural gas supplied under an equal-payments billing plan) during a period that straddles the July 1, 2010 implementation date, and the reconciliation of payments for that period of the budget payment arrangement occurs prior to July 2011, the supplier would be required to make an adjustment at the time of the reconciliation to account for any difference between:

(a) the amount of the Ontario component of the HST that would have been payable for the property or services delivered, performed or made available on or after July 1, 2010 if the consideration for the property or services had become due on July 1, 2010 without having been paid before that date; and

(b) the amount of the Ontario component of the HST that was payable by the recipient of the supply for the property or services during the period.

If the amount described in (b) is greater than the amount described in (a), the supplier would be required to refund or credit the difference to the recipient. If the amount...
described in (a) is greater than the amount described in (b), the supplier would be required to collect the difference from the recipient.

If a supply of property or services delivered, performed or made available (as the case may be) on a continuous basis by means of a wire, pipeline or similar conduit or satellite or other telecommunications facility is made under a budget payment arrangement, and the time at which the property is delivered or the services are performed cannot reasonably be determined because of the method of recording the delivery of the property or the performance of the services, then the supply would, for the purposes of calculating the amount of the Ontario component of the HST that would be payable, be prorated in equal parts according to the number of days in the period to which the consideration is attributable.

Combined Supplies
If any combination of property and/or services is supplied together as a single supply and one of the items supplied is property of which ownership or possession has been transferred to the recipient of the supply before July 2010, and that property would not be subject to the HST under these general transitional rules if it were supplied separately, then the supply of that property would be deemed to be a separate supply from the other items for the purposes of the general transitional rules for the HST.

The combined supplies rule would not apply to sales of newly constructed or substantially renovated homes, which would be subject to the transitional rules for new residential housing. For information about the transitional rules for new residential housing, see Information Notice No. 2, Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, a New Rental Housing Rebate and Transitional Rules, dated June 18, 2009.

Example 20:
In May 2010, a contractor agrees to supply and install a dishwasher in a restaurant for a single consideration. The dishwasher is delivered, and possession transfers, in June 2010, and it is installed in July 2010. The HST would apply to the service of installing the dishwasher (because the service is performed on or after July 1, 2010), but it would not apply to the sale of the dishwasher (because delivery occurred before July 1, 2010). The contractor would pay RST on the dishwasher purchased for use in the supply- and- install contract.

Progress Payments/Holdbacks
The HST would generally apply to progress payments on contracts to construct, renovate, alter or repair (hereafter referred to as “construct”) real property or ships or other vessels to the extent that the progress payment can reasonably be attributed to property delivered or services performed on or after July 1, 2010.

For progress payments that become due or are paid without becoming due after October 14, 2009 and before July 1, 2010, the supplier would be required to account for the Ontario component of the HST, where applicable, in the GST/HST reporting period of the supplier that includes July 1, 2010. Similarly, the recipient of the supply would be able to claim any available input tax credits with respect to the Ontario component of the HST in the GST/HST reporting period of the recipient that includes July 1, 2010.

In the case of written contracts to construct real property, or to construct a ship or other vessel where it can be reasonably expected that the contract will require more than three months to complete, if the construction is substantially completed before June 2010, the construction would be deemed to have been substantially completed on June 1, 2010. Pursuant to the general GST rules¹, any consideration or part of the consideration payable on such a contract that had not been paid or becomes due on or before July 31, 2010 would be deemed to have become payable on July 31, 2010 and any portion of such payment attributable to construction on or after July 1, 2010 would be subject to the HST. In this context, “substantially completed” generally means 90 per cent or more.

A holdback from a progress payment would be considered to be part of the progress payment from which it was held back. The holdback would therefore be subject to the same allocation under the progress payment rule as the progress payment itself, even if the holdback becomes due or is paid on or after July 1, 2010 ².

The progress payments rule would not apply to sales of newly constructed or substantially renovated homes, which would be subject to the transitional rules for new residential housing. For information about the transitional rules for new residential housing, see

¹ Under the general GST/HST rules, where a construction, renovation, alteration or repair contract is substantially completed in a particular month and the consideration or part of the consideration has not been paid or becomes due on or before the last day of the month following the particular month, the consideration or part of the consideration is deemed to have become due on the last day of the month following the particular month.

² Under the general GST/HST rules, tax is payable on holdbacks made pursuant to statute law or contract on the earlier of the day the holdback, or any part thereof, is paid and the day it becomes payable.
Example 21:
A contract to construct a small commercial mall with a value of $1,500,000 is substantially complete on May 15, 2010. The contract specifies progress payments as follows:

- **Payment no. 1:** $500,000 due March 15, 2010; 0% attributable to property delivered and services performed on or after July 1, 2010;
- **Payment no. 2:** $500,000 due May 15, 2010; 0% attributable to property delivered and services performed on or after July 1, 2010;
- **Payment no. 3:** $500,000 (less a holdback amount) due August 15, 2010; 70% attributable to property delivered and services performed on or after July 1, 2010;
- **Holdback:** $150,000 (i.e., 30% of progress payment no. 3) due September 15, 2010.

All three progress payments and the holdback are paid when they become due.

With respect to the final progress payment, 70% of the payment would be subject to HST, representing the portion of the final progress payment attributable to property delivered and services performed on or after July 1, 2010. The holdback of $150,000 withheld from progress payment no. 3 would be considered to be a part of that payment and, accordingly, 70% of it would be attributable to property delivered or services performed on or after July 1, 2010 and subject to HST.

**HST with respect to the final progress payment would be payable on July 31, 2010, rather than on August 15, 2010, as a result of the rule that deems the construction to be substantially complete on June 1, 2010.**

**HST would therefore be payable on:**
- **July 31, 2010, on $245,000** (70% x ($500,000 – $150,000)); and
- **September 15, 2010, on $105,000** (70% x $150,000).

**Property and Services Brought into Ontario**

The Ontario component of the HST would generally apply to goods, mobile homes that are not affixed to land, and floating homes that are brought into Ontario on or after July 1, 2010, and to such property that is brought into Ontario before July 2010 by a carrier where the property is delivered in Ontario to a consignee on or after July 1, 2010.

The Ontario component of the HST would also generally apply to consideration that becomes due, or is paid without having become due, after October 14, 2009 for the part of a service performed on or after July 1, 2010 (unless 90 per cent or more of the service is performed before July 2010), if the service is supplied in a non-participating province to a resident of Ontario who acquires the service for consumption, use or supply primarily in the participating provinces. Consideration that becomes due, or is paid without having become due, after October 14, 2009 and before July 2010 for a supply of such a service would be deemed to become due on, and not to have been paid before, July 1, 2010. For consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010, this rule would only apply to non-consumers. The Ontario component of the HST would also generally apply to consideration that becomes due, or is paid without having become due, on or after July 1, 2010 and subject to HST.

**HST with respect to the final progress payment would be payable on July 31, 2010, rather than on August 15, 2010, as a result of the rule that deems the construction to be substantially complete on June 1, 2010.**

**HST would therefore be payable on:**
- **July 31, 2010, on $245,000** (70% x ($500,000 – $150,000)); and
- **September 15, 2010, on $105,000** (70% x $150,000).
The Ontario component of the HST would generally not apply to property and services that are brought into Ontario if they are acquired by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant.

Persons liable to pay the Ontario component of the HST in such circumstances would be required to self-assess the tax.

**Imported Goods**
The Ontario component of the HST would generally apply to non-commercial goods that are imported by a resident of Ontario on or after July 1, 2010, and to non-commercial goods imported by a resident of Ontario before that date that are accounted for under the relevant provisions of the federal Customs Act on or after July 1, 2010.

The Ontario component of the HST would also generally apply to a specified motor vehicle or commercial goods brought into Ontario from a place outside Canada on or after July 1, 2010.

This rule would generally not apply, however, to commercial goods that are brought into Ontario by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant. Persons liable to pay the Ontario component of the HST in these circumstances would generally be required to self-assess the tax.

**Imported Taxable Supplies**
The Ontario component of the HST would generally apply to consideration for an imported taxable supply of goods made to a resident of Ontario, or a GST/HST registrant to whom the goods are delivered or made available, or physical possession of the goods is transferred, in Ontario, to the extent that the consideration is for goods that are delivered or made available, or the physical possession of which is transferred, on or after July 1, 2010.

The Ontario component of the HST would generally apply to consideration for an imported taxable supply of a service made to a resident of Ontario who acquires the service for consumption, use or supply primarily in the participating provinces, to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010.

The Ontario component of the HST would generally apply to consideration for an imported taxable supply of intangible personal property that is made by way of lease, licence or similar arrangement to a resident of Ontario who acquires the property for consumption, use or supply primarily in the participating provinces, to the extent that the consideration is for the part of the lease interval that occurs on or after July 1, 2010.

Consideration for imported taxable supplies would, with appropriate modifications, generally be subject to the transitional rules described in the Tangible Personal Property, Services, and Leases and Licences sections (as the case may be) of this Notice.

Persons liable to pay the Ontario component of the HST in such circumstances would be required to self-assess the tax.

**WINDING DOWN THE RST**

This part of the Notice describes the general transitional rules for the wind-down of RST. These rules should be read in conjunction with the transitional rules for the introduction of the HST, as described in the part above. Taken together, the HST and RST transitional rules are complementary and would provide for a smooth transition to the HST.

**GENERAL RULES**

On July 1, 2010, the existing Ontario RST would generally cease to apply to:

- a sale of goods where the goods are delivered, and ownership of the goods is transferred, to the purchaser on or after July 1, 2010;
- a sale of services to the extent the services are performed on or after July 1, 2010 (however, the RST would apply where all or substantially all of the service is provided before July 2010);
- a supply of property by way of lease, licence or similar arrangement for the part of the lease or licence interval that is on or after July 1, 2010 (however, the RST would apply if the lease interval begins before July 2010 and ends before July 31, 2010);
- a supply of property by way of lease, licence or similar arrangement for the part of the lease or licence interval that is on or after July 1, 2010 (however, the RST would apply if the lease interval begins before July 2010 and ends before July 31, 2010);
- a sale of property or a service delivered or performed on a continuous basis by means of a wire, pipeline or similar conduit or satellite or other telecommunications facility to the extent the property or service is delivered, performed or made available on or after July 1, 2010;
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- goods brought into Ontario or imported by a resident of Ontario on or after July 1, 2010; and
- a sale (including promotional distribution) of an admission, including any ticket sold on a subscription or season ticket basis, for entry to a place of amusement on or after July 1, 2010.

Consideration due or paid on or before October 14, 2009
Notwithstanding the general RST wind-down rules, the RSTA would apply where consideration for a sale of goods, services or admissions becomes due or is paid on or before October 14, 2009.

Example 22: In September 2009, a vendor sells tickets to a circus show to be held in July 2010. The RST would apply to the price of admission.

Consideration due or paid after October 14, 2009 and before May 2010
Notwithstanding the general RST wind-down rules, the RSTA would apply where consideration for a sale of goods, services or admissions becomes due or is paid after October 14, 2009 and before May 2010.

However, this exception to the RST wind-down rules would not apply with respect to goods, services or admissions purchased for use exclusively in the course of commercial activities. It also would not apply with respect to goods, services or admissions for which the self-assessment rules in respect of consideration due or paid after October 14, 2009 and before May 2010 would apply (as described above in the HST part of this Notice). If an amount is paid in error as RST in these situations, the purchaser would be able to file a general application for refund with the Ontario Ministry of Revenue, subject to the refund conditions under the RSTA.

Consideration due or paid on or after May 1, 2010 and before July 2010
Where consideration becomes due or is paid on or after May 1, 2010 and before July 2010, the general RST wind-down rules would apply as set out above.

Example 23: In June 2010, a vendor sells tickets to a rock concert to be held in November 2010. The RST would not apply to the price of admission.

RST payable on or before October 31, 2010
To facilitate the wind-down of the RSTA, a transitional rule would provide that any applicable RST not otherwise payable on or before October 31, 2010 would become payable on October 31, 2010.

Example 24: A business gets vehicle repair work done in June 2010. The business does not pay for the repair work and does not receive an invoice until November 2010. The RST would become payable on October 31, 2010. The vendor would be required to account for the RST in a supplemental RST return for October 2010, which would be due on November 23, 2010.

DISCLOSURE REQUIREMENTS FOR TAX-INCLUDED PRICING IN TRANSITIONAL PERIOD
A transitional rule would help provide certainty and clarity to both vendors and purchasers with respect to the application of the RST for tax-included sales during the transitional period.

Where RST-included pricing is used for the sale of goods, a taxable service or an admission, the consideration for which becomes due or is paid after October 14, 2009 and before May 2010, and where the seller does not disclose in writing to the purchaser the amount, if any, included as or on account of RST in the stated price, the stated price would be deemed to include RST if the RST would have applied to the sale notwithstanding any other transitional rule that may apply.

Example 25: In April 2010, a vendor sells tickets to a rock concert that will occur in September 2010. Tickets are sold on a tax-included basis without disclosing the amount of RST included. The ticket price would be deemed to include RST.

FINAL RST RETURNS
Final RST returns would generally be required to be filed with the Ontario Ministry of Revenue on or before July 23, 2010.

Where an amount is collected or becomes payable as or on account of RST after June 2010, the vendor would be required to account for that amount in a supplemental RST return to be filed on or before the 23rd day of the following month. All supplemental RST returns would be required to be filed no later than November 23, 2010.
Example 26:
A person obtains a wheel alignment service from a mechanic in June 2010, but does not pay for the service and does not receive an invoice for the service until August 2010. The mechanic would be required to account for the RST in a supplemental RST return for August 2010, to be filed on or before September 23, 2010.

RST REFUNDS AND Rebates
Generally, refunds and rebates of RST would remain in place until the existing time limits for claiming them have expired for the transactions to which they relate, or June 30, 2014, whichever is earlier. An exception would be provided for refunds for returned goods – see section on Returns and Exchanges below.

ASSESSMENTS, OBJECTIONS, APPEALS AND ENFORCEMENT
Assessment, objection, appeal and enforcement provisions under the RSTA would generally apply to past transactions where the applicable limitation periods have not expired.

OTHER CIRCUMSTANCES
Notwithstanding the general transitional rules proposed in this Notice, additional information will be provided in the near future about these and other circumstances, including the following provisions under the RSTA:
- tax on multi-jurisdictional vehicles; and
- tax on private sales of used vehicles.

TRANSITIONAL RST INVENTORY REBATE FOR RESIDENTIAL REAL PROPERTY CONTRACTS
An RST rebate would be available to provide relief with respect to the RST embedded in construction materials used in residential real property contracts that are subject to the HST.

This rebate would be available to a real property contractor for the RST paid on construction materials that are purchased or produced for the contractor’s own use, held in inventory at the end of the day on June 30, 2010 and used in a residential real property contract to which the HST would apply.

The rebate would not be available with respect to inventory for which the RST is otherwise recoverable by the contractor or any other party.

Qualifying residential real property contracts would include contracts to repair or improve land and items permanently attached to land, such as buildings and patios. Residential real property contracts for repair or improvements to rental housing, condominium and apartment buildings and long-term residential care facilities may qualify for this rebate.

This rebate would be administered by Ontario. Contractors would be able to file an application for the rebate directly with the Ontario Ministry of Revenue. The application for the rebate would be required to be filed on or before December 31, 2010.

Example 27:
On June 27, 2010, a home renovation contractor purchases kitchen tiles and puts them in inventory. The contractor paid RST on the purchase of the tiles. The contractor uses the tiles in a home renovation contract in September 2010. The contractor charges the customer the HST for the renovation. The contractor would be eligible to apply for the transitional RST inventory rebate by December 31, 2010.

RETURNS AND EXCHANGES
The following rules would generally apply where a person purchases property before July 2010 that is subject to RST, but returns it on or after July 1, 2010 and before November 2010:
- if the property is returned and a full refund is given, the RST would be refunded;
- if an exchange is made resulting in neither a refund nor an additional payment, there would be no RST refund and the Ontario component of the HST would not be payable;
- if an exchange is made resulting in a partial refund, the Ontario component of the HST would generally not be payable on the replacement property and the purchaser would be entitled to recover the RST applicable to the amount refunded; and
- if an exchange is made resulting in an additional payment, no RST would apply but the HST would apply to the additional payment.
Example 28:
In July 2010, a person returns a shirt that was purchased in June 2010 for $40. The vendor exchanges the returned shirt for another shirt that costs $60. In this situation, the vendor would collect the Ontario component of the HST on $20.

If the RST did not apply to property that was purchased before July 1, 2010, and it is exchanged on or after July 1, 2010, the Ontario component of the HST would apply to the full consideration for the replacement property.

Example 29:
In June 2010, a person purchases an RST-exempt bicycle for $500. In July 2010, that person exchanges the bicycle for another bicycle that costs $600.

In this situation, the vendor would collect the Ontario component of the HST on the full value (i.e., $600) of the new bike.

If property is returned on or after November 1, 2010, no RST adjustments would be available at the point of sale. However, the purchaser may make an application for a refund of RST for tax paid in error. Purchasers would be able to file the application for refund with the Ontario Ministry of Revenue.

ANTI-AVOIDANCE

Existing anti-avoidance rules in the ETA would apply to transactions to which the general transitional rules for the HST apply. Additional anti-avoidance rules may be implemented in order to maintain the integrity of the GST/HST and the RST during the period of transition to the HST in Ontario.

ADDITIONAL INFORMATION

The province is continuing to work with the federal government to develop additional transitional rules for the HST. More information about these and other circumstances will be released in the near future to help taxpayers continue to prepare for the proposed changes.

For more information on the transitional rules for the HST, please call the Canada Revenue Agency:

- Personal property and services - 1 800 959-5525
- Real property - 1 800 959-8287

To speak with an information officer about the introduction of the HST in Ontario and wind-down of the Retail Sales Tax, please call 1 800 337-7222 or 1 800 263-7776 for teletypewriter (TTY).