

**Harmonized
Sales Tax**
for Ontario Business
(Book II)

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This booklet is the sequel to *Harmonized Sales Tax in Canada, Ontario Edition*. It is intended to expand on the information presented in the first book, to provide useful information to assist businesses in best managing harmonized sales tax (HST) in Ontario, and does not replace federal or provincial legislation and accompanying regulations. It is strictly intended for reference purposes. As it may not completely address your particular operation, you may wish to consult the appropriate legislation or contact:

- A certified general accountant.
- Canada Revenue Agency at 1-800-959-5525.
- Ontario HST information line at 1-800-337-7222.

The content of this booklet is based on information available as of April 2011. Contact the Ontario HST information line for the most recent information.

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Introduction

On July 1, 2010, Ontario and British Columbia replaced their retail sales tax with the harmonized sales tax (HST). The HST is a federally administered value-added tax that combines the provincial retail sales tax (PST) with the federal good and services tax (GST). This historic event marked a significant change affecting all GST registrants, since no separate HST registration is required. All GST registrants are automatically registered for the HST and are required to comply with the GST/HST legislation.

To complement the CGA Ontario Harmonized Sales Tax in Canada, Ontario Edition booklet prepared in 2009, this booklet provides an update and technical overview focused on the current HST rules.

One of the key benefits of a harmonized sales tax is that it is a one-stop sales tax. Businesses only have to manage one tax, file one remittance and undergo one sales tax audit. Outside of a few instances, the HST implemented in Ontario and British Columbia employs the same tax base as the GST legislation contained in the Excise Tax Act (ETA) and its regulations. It is similar to the original HST in Newfoundland and Labrador, Nova Scotia and New Brunswick. As a result, most businesses only have to focus on one sales tax.

The HST also has some very unique differences. Both provinces were permitted to grant specific point-of-sale rebates similar to the retail sales tax exemptions that existed under the abolished retail sales tax legislation. Also introduced was the temporary recapture of input tax credits, modeled after the Quebec sales tax restrictions for large businesses. The provincial component of the HST for certain property and services acquired in Ontario and British Columbia will be restricted from recovery as an input tax credit when acquired by certain large businesses.

To compensate public service bodies for the additional cost of the HST, Ontario and British Columbia provide rebates for the provincial component of the HST similar to the GST rebates currently available.

Coinciding with the HST implementation was another major announcement from the Canada Revenue Agency (CRA) to amend the HST place-of-supply rules. These rules are used to determine the province in which a supply is made for purposes of assigning the appropriate rate of tax to be collected. The most significant changes were made to the rules applicable to services and intangible personal property.

Top 10 Things You Must Know

1. GST/HST rates for supplies made in Canada.
2. Point-of-sale rebates available on certain goods and services.
3. Place-of-supply rules.
4. Rules for claiming input tax credits.
5. General restrictions for recovering input tax credits.
6. Temporary recapture of input tax credit provisions.
7. Correct use of proxies.
8. Ontario retail sales tax applicable on insurance premiums.
9. Mandatory electronic reporting.
10. Interest and penalties for misreporting and late filing.

Point-of-Sale Rebates in Ontario and British Columbia

As part of the harmonization agreement, Ontario and British Columbia were allowed to provide point-of-sale (POS) rebates for the provincial portion of the HST to purchasers at all levels of the purchasing chain. Generally, purchasers will automatically receive the POS rebate at the time of purchase. In addition, there is a special POS rebate for Ontario First Nations that are discussed in detail below. The memorandum of agreements between the provincial and federal governments provide for either province to amend or add property or services from time to time to the list of eligible POS rebates. The current POS rebates by province are set out in the list below.

Point-of-sale rebates as of March 1, 2010	ON	BC
Books	X	X
Children's sized clothing and footwear	X	X
Children's car and car booster seats	X	X
Diapers	X	X
Feminine hygiene products	X	X
Prepared foods and beverages four dollars or under	X	
Print newspapers	X	
Gasoline, ethanol, diesel and biodiesel for motor vehicles, locomotive fuel for trains, marine diesel for boats and aviation/jet fuel for aircrafts		X
Residential energy, oil, electricity, natural gas or propane used to heat or power homes (administered by British Columbia)		X
Ontario First Nations (effective September 1, 2010)	X	

Suppliers have their choice of two methods when invoicing and reporting the POS rebate. The most common method used by suppliers is to charge only the five per cent GST. (Refer to CRA publication RC4022, General Information for GST/HST Registrants.)

More information pertaining to the various point-of-sale rebates can be found on the CRA website. See the following GST/HST information sheets:

- GI-060, Harmonized Sales Tax for Ontario–Point-of-Sale Rebate on Newspapers
- GI-061, Harmonized Sales Tax for British Columbia–Point-of-Sale Rebate on Motor Fuels
- GI-062, Harmonized Sales Tax for Ontario, British Columbia and Nova Scotia– Point-of-Sale Rebate on Feminine Hygiene Products
- GI-063, Harmonized Sales Tax for Ontario, British Columbia and Nova Scotia– Point-of-Sale Rebate on Children’s Goods
- GI-064, Harmonized Sales Tax for Ontario–Point-of-Sale Rebate on Prepared Food and Beverages
- GI-065, Harmonized Sales Tax for Ontario and British Columbia–Point-of-Sale Rebate on Books



Suppliers should always use extra caution when assigning a POS rebate to an item. In some instances, a single item may have more than one tax status. For example, a magazine is generally subject to HST when sold individually at a retail outlet in Ontario or British Columbia, whereas, when sold under a subscription, it may qualify for the POS rebate.

Ontario’s First Nations Point-of-Sale Exemption

Following the basic GST/HST rules, most goods and services acquired by Indians and Indian bands off a reserve without being delivered to a reserve in Ontario or British Columbia, would be subject to HST as of July 1, 2010. In contrast, goods delivered to, or services performed on, a reserve would not be subject to HST. However, in Ontario, Status Indians and Indian bands were previously exempt from paying retail sales tax on purchases acquired off reserve for use on the reserve.

To ensure consistent sales tax rules for Status Indians and Indian bands, the Government of Ontario announced on June 23, 2010, that the Ontario retail sales tax exemption for First Nations would continue under the GST/HST regime for qualifying off-reserve purchases after the implementation of the HST.

Effective September 1, 2010, suppliers are able to provide a point-of-sale credit of eight per cent (the provincial component of the HST) at the time of sale to eligible Ontario First Nation purchasers. To be eligible for the exemption, the

purchaser must show a valid Certificate-of-Indian-Status card (or provide written certification for band or band council purchases) and the supplier must retain this information for audit purposes.

For the period of July 1, 2010 to August 31, 2010, refunds of the eight per cent provincial component of HST paid are available to qualifying Ontario-First-Nation purchasers for eligible off-reserve purchases of property and services, by filing a refund claim with the Ontario Ministry of Revenue.

SPECIAL REPORTING REQUIREMENTS

Pay attention to the special reporting requirements imposed on suppliers who give the Ontario-First-Nation exemption. The reporting requirements are best described as a two-step process. First, the POS exemption is reported on form GST34, Goods and Services Tax/Harmonized Sales Tax Return for Registrants as follows:

- Line 105–Total GST/HST & Adjustments–Suppliers must report the full 13 per cent HST that would have been charged on the sale of goods or services eligible for the POS rebate.
- Line 111–Rebates–Supplier is required to report the eight per cent POS exemption amount provided to qualifying purchasers.

Secondly, the POS exemption amount must also be reported on form GST189, General Application for Rebate of GST/HST.

- Suppliers are required to report the eight per cent POS exemption amount provided to qualifying purchasers under the newly created rebate code number 23.

A GST registrant that files a paper GST/HST return is required to submit the return for the reporting period in which the rebate is given, along with the completed form GST189, to the local tax centre.

A GST registrant that files the GST/HST return electronically would be required to complete the form GST189 in paper format and mail it to:

Sudbury Tax Centre
1050 Notre Dame Avenue
Sudbury, ON, P3A 5C1

Additional information can be found on the CRA website under GST/HST Info Sheet GI-106, Ontario First Nations Point-of-Sale Relief–Reporting Requirements for GST/HST Registrant Suppliers and the Ontario Ministry of Revenue’s Backgrounder, Ontario Point-of-Sale Exemption for Ontario Status Indians and the Frequently Asked Questions (FAQ) document at www.rev.gov.on.ca under the heading First Nations.



Since the reporting requirement for the rebate available to Ontario-First-Nation purchasers is quite different from the other Ontario and British Columbia POS rebates, it is advantageous to differentiate it as a special exemption instead of a POS rebate. The unique reporting requirement of this exemption may be simplified by a separate coding or tracking system. Suppliers who ignore this reporting requirement will be subject to a penalty for misreporting the net tax owing on the GST/HST return.

Application of HST: New HST Place-of-Supply Rules

Effective May 1, 2010, the Department of Finance amended the HST place-of-supply rules to coincide with the implementation of the HST. At the time the CGA Ontario Harmonized Sales Tax in Canada booklet was printed, it was not known that the HST place-of-supply rules were going to be amended. As a result, some of the rules contained in that booklet are no longer applicable. Significant changes were made to the place-of-supply rules for services and intangible personal property.

All registered suppliers are required to determine the appropriate rate of GST or HST that is applicable to supplies of property or services. The HST place-of-supply rules are not specifically designed for use only in Ontario and British Columbia. They are pertinent to all registered suppliers. Note also that Quebec has harmonized with the revised federal place-of-supply rules in its QST legislation, effective the same date.

The determination of the HST rate is generally the final step in a two-step process. Before the process can commence, it is necessary for a supplier to identify the particular supply by type, given that different place-of-supply rules apply to tangible personal property, services, real property and intangible personal property.

The first set of place-of-supply rules is used to determine if a supply is made in or outside Canada (refer to CRA publication GST/HST Memoranda Series, Chapter 3.3, Place-of-Supply). Where the supply is made outside Canada, neither GST nor HST will apply (unless the supply is imported or is deemed to be imported into Canada by the recipient). If the supply is made in Canada, then at least the GST must be collected if the supply is not exempt or zero-rated.

The second set of place-of-supply rules applies once a supply is considered made in Canada, and determines whether a supply is made in a particular HST province. The HST provinces currently include New Brunswick, Nova Scotia, Newfoundland and Labrador, Ontario and British Columbia. As stated above, Quebec has also harmonized with these rules. The table below lists the current HST rates.

HST Province	2011 HST Rates
New Brunswick, Newfoundland & Labrador, Ontario	13%
Nova Scotia	15%
British Columbia	12%

For more information, refer to the CRA publication GST/HST Technical Information Bulletin (TIB) B-103, Harmonized Sales Tax–Place-of-Supply Rules for Determining Whether a Supply is made in a Province, which provides detailed information and includes numerous examples, Schedule IX to the Excise Tax Act (ETA) and the New Harmonized Value-Added Tax System Regulations.

Goods

The place-of-supply rule for goods was not affected by the amendments. Generally, the tax rate would be determined based on the province where legal delivery of the goods to the recipient of the supply occurs. However, notwithstanding where title to the goods changes hands, goods will be deemed to be delivered in a particular province, and not in any other province, if the supplier either:

- Ships the goods to a destination in a particular province that is specified in the contract for carriage of the goods or transfers possession of the goods to a common carrier or consignee that the supplier has retained on behalf of the recipient (purchaser) to ship the goods to such a destination.
- Sends the goods by mail or courier to an address in a particular province.

Example

A manufacturer in Alberta sells raw material to a customer in Ontario. Based on the terms of delivery, legal delivery of the goods to the customer occurs in Alberta. However, the manufacturer agrees to ship the goods to the customer in Ontario.

Although legal delivery of the goods to the customer occurs in Alberta, delivery by the Alberta manufacturer of the goods to the customer's location in Ontario deems the supply to occur in Ontario because the manufacturer ships the goods to Ontario. The supply of the goods is made in Ontario and is subject to Ontario HST at a rate of 13 per cent.

Example

An Ontario retailer sells goods to a purchaser that is located in British Columbia. The British Columbia purchaser picks up the goods at the retailer's warehouse in Ontario and subsequently transports the goods by common carrier (arranged by the purchaser) to British Columbia. The goods are considered supplied to the purchaser in Ontario, where legal delivery occurs. The supply of the goods is made in Ontario and is subject to Ontario HST at a rate of 13 per cent.

Rentals, Leases, Licensing of Property

The changes to the HST place-of-supply rules also do not affect the rental, lease, or licensing of goods. These rules are as follows:

RENTAL OF GOODS FOR THREE MONTHS OR LESS

Where goods are rented for three months or less, the rental is deemed to occur in the province in which the supplier delivers or makes the goods available to the recipient of the supply.

Generally, a specified motor vehicle is considered supplied in the province in which it must be registered under the provincial motor vehicle legislation.

LEASE OF GOODS FOR MORE THAN THREE MONTHS

Goods leased for more than three months are generally supplied in the province where the goods are ordinarily located. At the commencement of a lease, the lessor and lessee may mutually agree on the particular province where goods are ordinarily located and this will be the deemed province of supply for HST purposes. The mutual agreement does not permanently deem the province of supply for the entire lease period. If the goods are moved to another province, the province of supply may change depending on the circumstances.

In other situations, the province of supply for leases, licences, or similar arrangements may be determined at the beginning of each payment period (lease interval). Therefore, the lessor is deemed to have made a separate supply for each payment period commencing on the earliest of:

- The first day of the lease interval.
- The day on which the payment for that interval becomes due.
- The day on which the payment attributable to the lease interval is paid.

Example

An Alberta construction company leases equipment to an installation company located in Ontario. The Ontario installation company takes possession of the equipment in Alberta where it contracts with a freight company to ship the equipment to Ontario where it will remain until the project is completed. Each lease payment will be subject to 13 per cent Ontario HST.

Subsequently, the leased equipment is relocated to British Columbia. The first day of the lease interval where the equipment is located in British Columbia would cause the lease payment to be subject to 12 per cent British Columbia HST.

Services

A significant change was made to the place-of-supply rules for services. Now the emphasis is on the location of the recipient (or purchaser) of the supply, instead of where the service is performed. Generally, the province of supply is determined by the location of the business or home address of the recipient that is obtained by the supplier in the ordinary course of business. The business or home address is typically considered to be the address where the business or person is physically located or resides (e.g., plant facility, head office, branch location, or province of residency) and it would not include a post office box or an invoice processing centre. In the event that more than one such address is obtained, then it would be the address that is most closely connected with the supply.

The following services have special rules, which TIB-103 describes in greater detail:

- Personal services
- Services in relation to tangible personal property
- Services in relation to real property
- Services in relation to a location-specific event
- Services in relation to connection with litigation
- Customs, brokerage services
- Repairs, maintenance, cleaning, alterations, etc.
- Services of a trustee governed by a RRSP, RRIF, TFSA or RDSP
- Premium-rate telephone services
- Computer-related services and internet access
- Air navigation services
- Passenger transportation
- Freight transportation
- Postage and mail delivery services
- Telecommunication services

Intangible Personal Property

The HST place-of-supply rule for intangible personal property (IPP), such as franchise rights, admissions, intellectual property, contractual rights, etc., has also been significantly altered. Multiple determinations may be required to determine the province of supply which, in many instances, is based on where the IPP can be used and the address of the recipient that is most closely connected to the supply.

The explanation of the rules set out below has been over-simplified to better illustrate the HST rate determination. In addition, there are specific place-of-supply rules that apply to specific types of IPP that relates to tangible personal property, real property and passenger transportation services. As a result, when making a tax-rate determination, consult with a sales tax advisor or refer to TIB-103 and the HST Regulations.

Generally, the place-of-supply rules for IPP can be summarized as follows:

- IPP that can be used in Canada but that can only be used primarily (more than 50 per cent) in the HST provinces will be deemed to be made in the HST province and, therefore, subject to the particular HST province's HST rate, where the address of the recipient of the supply is located.
- IPP that can be used in Canada but that can only be used primarily outside HST provinces will be deemed to be made in a non-HST province and subject to GST.
- IPP that can be used inside and outside HST provinces:
 - If the value of the IPP is \$300 or less, the supply is made in a province if the supply is made through a permanent establishment or a vending machine located in the province and the IPP can be used in the province.
 - If the above rule does apply, the supply is deemed made in a province if the supplier obtains the business or home address of the recipient.

Note: The CRA should always be contacted for a ruling when it comes to the place-of-supply for IPP.

Real Property

No changes were made to the place-of-supply rule for real property. A supply of real property is deemed made in a province where the property is situated.

Example

A developer sells land that straddles two provinces, 25 per cent in Manitoba and 75 per cent in Ontario. The developer must charge the purchaser Ontario HST on 75 per cent of the selling price for the land located in Ontario and GST on 25 per cent of the selling price for the land located in Manitoba.

Summary

The importance of the place-of-supply rules is sometimes underestimated. During an audit the onus is on the registered supplier to charge the correct amount of tax on a supply in order to be tax compliant.

Determining the province where a supply is made, can be a very complicated exercise for suppliers given that there are different place-of-supply rules for various types of supplies. It is imperative that suppliers clearly understand the type and nature of a supply for the correct application of these rules. The intent of the above summary is only to illustrate the different place-of-supply rules.

Due to the implementation of the HST in Ontario and British Columbia and the significant changes made to the place-of-supply rules, especially for services and IPP, it is recommended that suppliers review their current processes to ensure the new rules are being followed to minimize audit exposures.

We encourage readers to contact their sales tax specialist or the CRA technical enquiry line at 1-800-959-8287 or 1-800-959-5525, if they have any questions in making these tax rate determinations.

Recovering the Ontario and British Columbia HST

The rules for recovery of the HST implemented in Ontario and British Columbia, for the most part, follow the existing GST/HST legislation but some large businesses and certain financial institutions will be subject to new temporary recapture rules. Fundamentally, the recapture rules require large businesses to pay back the provincial portion of the HST input tax credits on certain goods and services and separately report the amount recaptured on their GST/HST return.

Small- and Medium-Sized Businesses

One of the advantages of a value-added tax system is the underlying principle that generally tax paid on inputs is not a cost to businesses involved in commercial activities. Subject to the general exceptions, GST registrants are entitled to claim full input tax credits (ITCs) to recover the tax paid on most purchases acquired for consumption, use or supply in a commercial activity.

As a result, the elimination of the retail sales tax enables GST-registered small- and medium-sized businesses to recover the HST on most business expenses. This is a major cost saving. In addition, administration costs are reduced since there is only one sales tax, one return to file and one audit. For most businesses, there is no requirement to track the GST and HST separately.



GST/HST is not recoverable on tax paid on the purchase of expenses related to personal consumption (e.g., club memberships, home office expenses, personal expenses and expenses not considered reasonable). As well, there is a 50 per cent restriction on meals and entertainment expenses, which includes most business meals.

Temporary Recapture of Input Tax Credits for Large Businesses

One of the most challenging tasks related to the HST implementation was compliance with the temporary recapture rules. The recapture rules do not change the general rules for claiming GST and HST ITCs. However, they add another step to the recovery and reporting process, by requiring large businesses and certain financial institutions to recapture (or pay back a portion of the HST ITC recovered) and separately report the provincial portion of the HST recaptured on specified property and services. The special reporting requirements for recaptured input tax credits (RITCs) are necessary in order to allow federal administrators of the GST/HST to properly allocate HST revenues to HST provinces. These temporary rules will be in effect for eight years.

For additional information, see CRA publication, GST/HST Technical Information Bulletin B-104, Harmonized Sales Tax—Temporary Recapture of Input Tax Credits in Ontario and British Columbia.

DEFINITION OF A LARGE BUSINESS

It is important to remember only large businesses are affected by the recapture rules. A “large business” is defined as a GST/HST registrant that has one of the following:

- An “RITC threshold amount” over \$10 million, based on its last fiscal year that ended before the recapture period (defined on pg. 17), including in that threshold amount revenue from all associated companies, (refer to RITC threshold amount in TIB B-104 for more information).
- Been defined as one of the following financial institutions (other than a selected listed financial institution), or a person who is related (for purposes of the Act) to one of the following financial institutions;
 - a bank;
 - a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee;
 - a credit union;
 - an insurer or any other person whose principal business is providing insurance under insurance policies;
 - a segregated fund of an insurer;
 - an investment plan or the Canada Deposit Insurance Corporation (hereafter defined as a “specified financial institution”).



The threshold amount includes all taxable supplies including zero-rated supplies.

The following entities are not considered to be a large business:

- A public service body (e.g., charities, non-profit organizations, schools, hospitals, etc.) even if that body is entitled to 100 per cent ITCs.
- A business whose chief source of income is farming.
- A government of Canada not listed in Schedule I to the Federal Provincial Fiscal Arrangement Act and any department or entity of the provincial government that is eligible for a rebate of the GST/HST.
- Selected listed financial institutions, although not excluded from being a large business, account for the restriction on recovery of the provincial component charged on the purchase of specified property and services through the application of the special attribution method.



A small business that is associated with a large business is also required to follow the recapture rules. Refer to section 256(1)-(6) of the Income Tax Act for the definition of an associated corporation.

RECAPTURE PERIOD

The temporary recapture rules in Ontario and British Columbia will be in effect for eight years. The recapture period means a one year period that begins on July 1 of a particular calendar year and ends on June 30 of the next calendar year.

For five years commencing July 1, 2010, the restriction will be 100 per cent of the provincial portion of the HST (eight per cent in Ontario and seven per cent in British Columbia) paid on acquisitions of specified property and services. After that, a three-year phase-out period will commence as illustrated in the table below.

RITC Restriction Rate	Recapture Period
100%	July 1, 2010 – June 30, 2015
75%	July 1, 2015 – June 30, 2016
50%	July 1, 2016 – June 30, 2017
25%	July 1, 2017 – June 30, 2018
0%	July 1, 2018

SPECIFIED PROPERTY AND SERVICES

It is important to understand that the temporary RITC rules only restrict the recovery of the provincial portion of the HST on certain goods and services purchased in, or brought into, Ontario and British Columbia, as listed in the table below.

Specified Property and Services	ON	BC
Motor vehicles licensed or required to be licensed under the provincial laws for use on a public highway that have a curb weight of less than 3,000 kg (supplied by sale, rental or lease) and parts and/or certain services acquired or brought into the province within 12 months of acquisition	X	X
Fuel for specified motor vehicles (excluding diesel fuel) for use in the engine	X	N/A ¹
Electricity, gas, combustibles (exceptions include farm usage, use in manufacturing process or acquired for resale)	X	X
Telecommunication services (other than Internet access, web-hosting and toll-free numbers)	X	X
Food, beverages and entertainment (some limited exceptions)	X	X

¹ British Columbia has a point-of-sale rebate for the seven per cent provincial part of the HST on fuel.

EXCEPTIONS TO THE TEMPORARY RITC PROVISIONS

There are some very noteworthy exceptions to the RITC rules as outlined in the table on pg. 19. For example, the restrictions will not apply when specified property or services are acquired for the purpose of being resupplied. In the latter case, it will generally be the recipient of the resupply that will be subject to restriction.

The use of proxies (prescribed mathematical factors) was introduced to simplify the calculation of RITCs for supplies that include both a restricted and a non-restricted portion.

Exceptions to the Recaptured Input Tax-Credit Provisions

Specified Property and Services	ON	BC
Licensed motor vehicles	<ul style="list-style-type: none"> • Acquired for resale (sale or lease, demonstration vehicles are subject to a special recapture calculation) • Routine repairs and maintenance • Vehicles with a curb weight over 3,000 kg • Trailers, semi-trailers, and detachable axles 	
Fuel for specified road vehicles	<ul style="list-style-type: none"> • Acquired for resale • Diesel fuel 	<ul style="list-style-type: none"> • Point of sale rebate (7% provincial component of HST)
Electricity, gas, combustibles (described in further detail below)	<ul style="list-style-type: none"> • Acquired for resale • Acquired for use at a convention • Acquired to heat asphalt for construction or repairs of roadways • Consumed in qualifying farm activities • Consumed to produce goods for resale* • Consumed to produce production equipment used to produce goods for resale* • Consumed directly in eligible scientific research and experimental development (SR&ED) activities* <p>* Proxies are available</p>	
Telecommunication services (described in further detail on pg. 20-21)	<ul style="list-style-type: none"> • Acquired for resale • Proxies available to carve out non-restricted portion of a single supply • Internet access (other than access acquired for data transfer) • Acquired for use at a convention • Toll-free numbers 	
Food, beverages and entertainment	<ul style="list-style-type: none"> • Acquired for resale • Exceptions following Income Tax Act, such as: <ul style="list-style-type: none"> ◦ Events where all employees from a particular location are invited (six events per year) ◦ Expenses that are a taxable benefit to an employee 	

SPECIFIED TELECOMMUNICATION SERVICES

Specified telecommunication services acquired for consumption or use in Ontario or British Columbia generally include the following services:

- Local and long-distance telephone
- Cable and pay television
- Satellite television
- Facsimile and electronic mail
- Video, audio and computer link-ups
- Data transmission (EDI)

In contrast, the RITC provisions generally do not apply to:

- Internet access services
- Web-hosting services
- Toll-free telephone services (e.g., 1-800, 1-866, 1-888 or 1-877 telephone services) or a telecommunication service related to toll-free telephone services
- Telecommunication services acquired by a sponsor or organizer of a convention for use exclusively at that convention

To determine if a supply is subject to the RITC rules, a business must first understand what telecommunication service is being acquired. Some services are supplied by “means” of a telecommunication service but are not themselves a telecommunication service. These services will not be subject to the RITC provisions. Examples include: building surveillance, news services offered by the press agencies, rights to access a data bank and services provided by means of a 1-900 service.

To ease the burden of calculating RITCs, proxies are available where restricted telecommunication services, and non-restricted other services and/or goods are supplied together as a single supply. The proxy method can only be used where the large business cannot readily ascertain which portion of the provincial part of the HST is attributable to the non-restricted services and/or goods.

Large businesses are not required to file an election to use this proxy method. The table on pg. 21 summarizes the telecommunication proxy rates.

Proxy Recovery Rates for a Single Supply of a Telecommunication Service	
Recovery Percentage	Goods and Services Contained in Single Supply
Ontario Proxies	
14%	• Telecom services, other services* and goods*
4%	• Telecom services and other services*
11%	• Telecom services and goods* (equipment rental)
BC Proxy	
5%	• Telecom services and other services/goods*

* Not subject to RITC rules

Specified Energy

The specified energy restriction applies to electricity, gas, steam and anything that can be used to generate energy by way of combustion or oxidization, or by undergoing a nuclear reaction in a reactor for the generation of energy when acquired, or brought into Ontario or British Columbia, for consumption or use in these provinces (other than fuel for use in a propulsion engine, the restriction on which is captured separately, see below).



Specified energy acquired by a lessee as part of the single supply of a real property lease would not be subject to the RITC requirement (since the lessee would not, for purposes of the GST/HST, be acquiring a supply of energy, but would rather be treated as paying additional rent for the premises). Consequently, the lessor would be required to report the RITC.

Qualifying producers (defined in TIB-104) of tangible personal property for sale may use one of the following recovery methods to determine the energy directly consumed during the production process:

- The actual method (energy metering equipment is attached to production equipment to determine the actual amount of energy consumed during the production process).

- An engineering study (third party or in-house studies must provide a supportable estimate using a logical method and include detailed measurements of actual energy consumption by specific pieces of production equipment to estimate energy consumption).
- The production proxy method (CRA prescribed recovery rates).



An engineering study will require updating where the production equipment or production process has significantly changed.

PRODUCTION PROXY ELIGIBILITY

The proxy method is intended to simplify a manufacturer's RITC calculation when determining the portion of energy not attributable to the production of tangible personal property for sale. However, the proxy can only be used by manufacturers that meet specific conditions.

Manufacturers must first be carrying on their production primarily (more than 50 per cent) in Ontario (to recover the Ontario provincial component) or at least 10 per cent in British Columbia (to recover the British Columbia provincial component). Meeting this requirement will be dependent on the level of the manufacturer's previous fiscal year production revenue.

Next, a manufacturer must evaluate if its most significant business activity (again based on the previous fiscal year revenue) falls into one of the 24 listed categories (based on the three-digit North American Industry Classification System (NAICS) Canada 2007 code). Therefore, a qualifying manufacturer using the proxy method will calculate the recapture amount based on a prescribed percentage (see list on pg. 23) for all its energy costs acquired in Ontario or British Columbia for the entire legal entity located in that particular province.

If a large business does not carry on the required percentage of production activities in Ontario or British Columbia, and does not have significant manufacturing activity in one of the specific NAICS categories, it will not be entitled to use the proxy method and the business will have to use another method to calculate its allowable claim.

This list containing the 24 NAICS categories is reproduced from TIB-104.

For a large business whose most significant business activity in its last fiscal year fell within one of the following categories (the corresponding three-digit NAICS Canada 2007 codes are also provided), the production proxy will be four per cent:

- 113 – forestry and logging
- 211 – oil and gas extraction
- 212 – mining and quarrying (except oil and gas)
- 322 – paper manufacturing
- 324 – petroleum and coal product manufacturing
- 325 – chemical manufacturing
- 327 – non-metallic mineral product manufacturing and
- 331 – primary metal manufacturing.

For a large business whose most significant business activity in its last fiscal year fell within one of the following categories, the production proxy will be 13 per cent:

- 311 – food manufacturing
- 312 – beverage and tobacco manufacturing
- 313 – textile mills
- 314 – textile product mills
- 321 – wood product manufacturing
- 326 – plastics and rubber products manufacturing and
- 332 – fabricated metal product manufacturing.

For a large business whose most significant business activity in its last fiscal year fell within one of the following categories, the production proxy will be 30 per cent:

- 315 – clothing manufacturing
- 316 – leather and allied product manufacturing
- 323 – printing and related support activities
- 333 – machinery manufacturing
- 334 – computer and electronic product manufacturing
- 335 – electrical equipment, appliance and component manufacturing
- 336 – transportation equipment manufacturing
- 337 – furniture and related product manufacturing and
- 339 – miscellaneous manufacturing.

FILING THE ELECTION

The CRA election Form RC4530, Election or Revocation of an Election to Use a Production Proxy to Report the Recapture of Input Tax Credits, must be filed with the CRA by the due date of the GST/HST return for the first reporting period in a particular recapture period and it will generally apply for the entire recapture period. The election will remain in effect until revoked, and it can only be revoked after a minimum of one recapture period.

Scientific Research and Experimental Development (SR&ED) Activities and the SR&ED Proxy

There is relief from the RITC rules for specified energy that is used by a large business directly in qualifying SR&ED activities in Ontario for purposes of the Taxation Act, 2007 (Ontario) or directly in SR&ED activities in British Columbia for purposes of the British Columbia Income Tax Act.

Any large business engaged in SR&ED activities in its current taxation year that is eligible for, and actually claims SR&ED expenditures or investment tax credits for income-tax purposes for the current taxation year, will generally be eligible to recover some of the provincial part of the HST paid if the energy expenses are directly related to qualifying SR&ED activities.

A large business may track the actual amount of specified energy consumed directly in qualifying SR&ED activities or apply the following SR&ED formula to determine the RITC amount to be reported:

$$A = B/C$$

where:

“A” is the proportion (expressed as a percentage) of the specified energy not considered to be used directly in qualifying SR&ED activities in Ontario or British Columbia.

“B” is the total amount of the portion of the salaries and wages of employees of the large business that were paid by the large business in the second last taxation year of the person and that were not directly engaged in SR&ED activities in Ontario or British Columbia.

“C” is the total amount of salaries and wages of employees of the large business in Ontario or British Columbia that were paid by the large business in the second last taxation year of the large business.

FILING THE ELECTION

The CRA election Form RC4613, Election to Use the Scientific Research and Experimental Development Proxy to Report the Recapture of Input Tax Credits, must be completed and retained by a large business before the first day of a recapture period. It does not need to be filed with the CRA. The proxy will apply to the current recapture period only. A new election form must be completed for each recapture period for which the SR&ED proxy is used.

ORDERED APPLICATION OF PROXIES FOR SPECIFIED ENERGY

Where a large business is using both the production proxy and the SR&ED proxy, it must use an "ordered approach" in applying the proxies. It must first apply the SR&ED proxy and then apply the production proxy to the residual amount of the HST paid.

Example

A large business that is not a manufacturer has eligible SR&ED activities in Ontario for purposes of the Taxation Act, 2007 (Ontario). It will be claiming SR&ED expenditures or investment tax credits for activities in the current 2011 taxation year, and decided to elect to use the proxy formula in respect of the specified energy used directly in the qualifying Ontario SR&ED activities. The amount of salaries and wages used in the proxy formula will be the amount paid by the large business in its second last taxation year.

SR&ED proxy calculation:

$$\frac{\$75,000}{\$100,000} \frac{\text{Non-SR\&ED salaries and wages}^*}{\text{Total salary and wages}^*} = 75\%$$

* Based on second last taxation year.

Ontario energy invoice is \$10,000 + 13% ON HST

The gross ITC is calculated as follows: \$10,000 x 13% = \$1,300

Provincial component of ON HST paid for month \$1,300 x 8/13 = \$800

The RITC is calculated as \$800 x 75% = \$600

Therefore, the gross ITC to be reported is \$1,300 and the Ontario RITC is \$600.

Specified Meals and Entertainment

Meals and entertainment (M&E) expenses include food and beverages for human consumption (e.g., business meals) and entertainment (such as theatre, concert or athletic event tickets, private boxes at sports facilities, or admissions to nightclubs, athletic, social and sporting clubs). Currently, these expenses are subject to the 50 per cent ITC restriction where the expense is subject to the 50 per cent deductibility rules under the Income Tax Act.



The 50 per cent ITC restriction is not applicable where the 50 per cent M&E income tax restriction does not apply, e.g., M&E acquired for events where all employees at a particular location are invited to attend (maximum of six events per year) or M&E acquired solely for the purpose of re-supply.

M&E acquired in Ontario and British Columbia that is subject to the 50 per cent GST restriction will also be impacted by the recapture rules. Therefore, the provincial part of the HST paid on M&E must be recaptured. Since, the 50 per cent restriction may be accounted for on an annual basis or an invoice basis, the same timing rule will be applicable to the reporting of the RITCs.



This illustrates how a large business may calculate the RITC for meals served at a business meeting in Ontario:

Ontario M&E invoice is \$1,000 + 13% ON HST

The gross ITC is calculated as: $\$1,000 \times 13\% \times 50\% = \65

RITC for the provincial component of the Ontario HST paid is $\$65 \times 8/13 = \40

Therefore, the gross ITC to be reported is \$65 and the Ontario RITC is \$40.

Employee Reimbursements and Allowances

Large businesses paying employees allowances or reimbursements for business expenses will generally be required to recapture the provincial component of the HST on those expenses that are specified property and/or services.

EMPLOYEE REIMBURSEMENTS

The following two methods are permitted by the CRA in the determination of available ITCs and RITCs in respect of employee expense reimbursements. (Refer to GST Memorandum 400-3-11, Allowances and Reimbursements.)

- (a) "Actual Method"- where sufficient documentary evidence is available, the ITC will equal the actual tax paid on reimbursed expenses.
- (b) "Simplified Factor"- ITCs may be calculated based on the total amount reimbursed multiplied by a prescribed factor (see table below).

We remind readers that they must use the simplified factor for a particular category of expense for an entire fiscal period, and not merely as a "proxy" to extract the actual amount of GST/HST on an invoice where the actual tax is not evident. As previously discussed, regardless of the method selected, ITCs on GST/HST paid for M&E are generally restricted by 50 per cent.

Businesses should be aware that many of the expenses on an employee expense report might be subject to the recapture rules (e.g., car rentals, qualifying mileage allowances, fuel for qualifying vehicles, business meals, etc.).

Employee Expense Report Factors

Province	GST/HST Rate	Simplified Factor	Allowance Factor
Non-participating provinces Alberta, Manitoba, Saskatchewan, Quebec, PEI, Nunavut, NWT, Yukon	5% GST	4/104	5/105
Participating provinces New Brunswick, Newfoundland & Labrador, Ontario	13% HST	12/112	13/113
British Columbia	12% HST	11/111	12/112
Nova Scotia	15% HST	14/114	15/115

Where a large business is required to report RITC amount in Ontario or British Columbia, they may use the following RITC adjustment factors:

- ON - 8/13
- BC - 7/12

USING EMPLOYEE EXPENSE REPORT FACTORS

The use of the simplified factors does not permit a large business to ignore the reporting of RITCs. Large businesses are required to determine which expenses contained in an employee's expense report are subject to the recapture rules and report the associated RITC.

The following examples show journal entries for typical M&E expenses illustrating the actual and the simplified factor recovery methods.

Actual Recovery Method Business meal expense incurred in ON for \$100 plus 13% ON HST + \$15 tip	DR	CR
Dr Meals and Entertainment Expenses	125.50	
Dr Gross ITCs	6.50	
Cr RITC--ON		4.00
Cr A/P		128.00

Notes:

1. Meal including tip = \$100 + \$13 ON HST + \$15 tip = \$128
2. Gross ITC is based on the maximum ITC after consideration of the 50% ITC restriction on meals and entertainment and before the RITC
This is pursuant to section 236 of the Excise Tax Act.
Gross ITC: \$13 ON HST x 50% = \$6.50
3. RITC is the provincial component of the Gross ITC.
RITC: \$6.50 X 8/13 = \$4.00

Simplified Factor Recovery Method Business meal expense incurred in ON for \$100 plus 13% ON HST + \$15 tip	DR	CR
Dr Meals and Entertainment Expenses	125.36	
Dr Gross ITCs	6.86	
Cr RITC – ON		4.22
Cr A/P		128.00

Notes:

1. Meal including tip = \$100 + \$13 ONHST + \$15 tip = \$128
2. Gross ITC is based on the maximum ITC after consideration of the 50% ITC restriction on meals and entertainment and before the RITC
This is pursuant to section 236 of the Excise Tax Act.
Gross ITC: \$128 x 12/112 (prescribed factor) x 50% = \$6.86
3. RITC is the provincial component of the Gross ITC.
RITC: \$6.86 x 8/13 = \$4.22.

EMPLOYEE ALLOWANCES

Embedded in an employee allowance is generally a GST or HST component. Thus, an employer may recover the tax included in the allowance using the factors provided in the Employee's Expense Report Factors table (section 174 of the ETA lists the conditions that must be satisfied before claiming an ITC).

For example, an Ontario meals and entertainment allowance paid to an employee represents an estimate of the amount an employee would typically spend on business related meals including taxes on a daily basis. As a result, the employer may claim an ITC (subject to the 50 per cent M&E restriction) and since the expense is one of the specified expenses, it is subject to the recapture rules and an employer that is a large business would have to calculate and report the recaptured amount.

One of the most common allowances is the mileage allowance based on actual business kilometres driven. Mileage allowances have not explicitly been addressed by the CRA to date. However, a CRA Headquarters Ruling Letter has confirmed there is a recapture reporting requirement for the deemed HST paid on mileage allowances for employees travelling in British Columbia and Ontario.

Complicating this matter is the fact that there is a point-of-sale rebate for the seven per cent provincial portion of the BC HST for fuel purchased in British Columbia. Therefore, it would seem only a portion of the allowance is subject to recapture rules in British Columbia.

The federal Department of Finance, together with British Columbia and Ontario Revenue Ministries, have indicated they are working on a simplified RITC factor to apply to mileage allowances, but it has not been finalized. Once the factor is published, it is possible that a large business would have the option of choosing to use the prescribed government factor or establishing its own fair and reasonable breakdown between fuel and non-fuel portions.

Currently large businesses are required to follow the Quebec model. As such, the provincial component of the HST deemed embedded in a mileage allowance paid to an employee for travel in Ontario and British Columbia is currently 100 per cent unrecoverable under the recapture rules, as it relates to restricted fuel in Ontario and the restricted provision of a vehicle in Ontario and British Columbia.



This illustrates that current calculation of the gross ITC and the recapture amount for large businesses paying mileage allowances to employees.

An employee reports 100 km for business travel in Ontario on an expense report. The employer reimburses the employee \$.52 per km. The tax recovery and recaptured HST portion would be calculated as follows:

Mileage allowance: $100 \text{ km} \times .52 \text{ per km} = \52.00

Embedded HST (gross ITC): $\$52 \times 13/113 = \5.98

Recapture amount to be reported: $\$5.98 \times 8/13 = \3.68

Estimation and Reconciliation Method

To simplify the reporting of RITCs, a large business subject to the RITC provisions may elect to use the estimate and instalment method, whereby the business reports and remits the restricted provincial component of the HST generally based on the monthly average of its prior year's total restricted amount. The "estimate year" runs from a period that begins on the first day of the fourth month after the commencement of a fiscal year and ends three months after the end of the fiscal year. In that third month after the end of the year, the business reconciles its estimate to the amount of the actual restrictions that apply for the fiscal year. In order to adopt this method, the business must file Form RC4531, Election or Revocation of an Election to Use the Estimation and Reconciliation Method to Report the Recapture of Input Tax Credits before the filing date for the first month of the estimate year. Detailed information on the application of this method is in TIB-104.

Public Service Bodies

Public service bodies generally are not entitled to input tax credits since most of their activities are exempt. To compensate these entities for the GST paid on exempt activity inputs, they receive a rebate. The rebate is a CRA-prescribed percentage applied to the GST paid where ITCs are not available. Due to the introduction of the HST, public service bodies are also entitled to a rebate for the provincial portion of the HST as illustrated in the table below. The intent of the rebate is to offset the additional cost due to the implementation of the HST. Public service bodies are required to file Form GST66, Application for GST/HST Public Service Bodies' Rebate and GST Self-government Refund and attach Form RC7066, Provincial Schedule–GST/HST Public Service Bodies' Rebate.

Public-Service Bodies Rebates			
Activity Type	GST Rebate	Provincial portion of HST rebate	
		ON	BC
Municipalities	100%	78%	75%
Universities and Colleges	67%	78%	75%
Schools	68%	93%	87%
Hospitals	83%	87%	58%
Charities/Qualifying Non-Profit Organizations	50%	82%	57%



Due to the additional provincial rebate, public service bodies are generally required to report the federal and provincial rebate components individually. To maximize rebate claims, it is recommended these two components be separately tracked.

References:

- CRA Notice 253, Harmonized Sales Tax for Ontario and British Columbia—Questions and Answers for Public Service Bodies
- Guide RC4082, GST/HST Information for Charities
- Guide RC4034, GST/HST Public Service Bodies’ Rebate—Includes Form GST66
- Guide RC4049, GST/HST Information for Municipalities
- Guide RC4033, General Application for GST/HST Rebates—Includes Forms GST189, GST288, and GST507, for information on the rebate available for intangible personal property or services that are for use primarily outside the participating provinces”
- GST/HST Info Sheet GI-066, How a Charity Calculates the Net Tax to be Reported on its GST/HST Return
- RC4247 The Special Quick Method of Accounting for Public Service Bodies—Includes Form GST287

Guides, forms and other publications are available on the CRA Web site at www.cra.gc.ca.

For technical information on GST/HST entitlements and obligations call the CRA technical information line at 1-800-959-8287.

Ontario Retail Sales Tax and Insurance Premiums

There is no change to the taxation of insurance premiums in Ontario. Ontario retail sales tax (ORST) will continue to apply to most types of insurance covering risks in Ontario at a rate of eight per cent (e.g., group insurance and business insurance). Insurance that is currently exempt from ORST, such as automobile insurance premiums, will continue to be exempt.

The ORST is not a recoverable tax. Therefore, where a supplier does not collect the ORST, it is the purchaser's responsibility to self-assess the ORST and remit it to the Ontario Ministry of Revenue.

For GST/HST purposes, insurance premiums are exempt supplies because they are considered to be a financial service.

For further information, refer to Ontario Retail Sales Tax Guide 519, Insurance – General Information, Prepare for Ontario's HST, Tax Tip #4, Insurance Premiums or from the Ontario Ministry of Revenue Tax Advisory Services Branch.

Taxable Benefits

Employers are required to remit tax on the value of benefits provided to their employees on their return for the February reporting period following the year in which the benefit was provided to the employee. Exceptions include those benefits that are not taxable for GST purposes, taxable benefits resulting from the payment of an unreasonable allowance, those benefits for which the employer is restricted from recovering an ITC and those benefits provided outside Canada.

The rate of tax to be remitted generally depends on the province in which the employee ordinarily reported for work. For 2011 to 2014, the rates are as follows:

Non-HST provinces:	Automobile operating costs	3%
	Standby charges and other expenses	4/104
New Brunswick, Newfoundland & Labrador:	Automobile operating costs	9%
	Standby charges and other expenses	12/112
Nova Scotia:	Automobile operating costs	11%
	Standby charges and other expenses	14/114
British Columbia:	Automobile operating costs (SMB)	5%
	Standby charges and other expenses (SMB)	11/111
	Automobile operating costs (LB)	5%
	Standby charges (LB)	4/104
	Other expenses (LB)	11/111
Ontario:	Automobile operating costs (SMB)	9%
	Standby charges and other expenses (SMB)	12/112
	Automobile operating costs (LB)	6%
	Standby charges (LB)	4/104
	Other expenses (LB)	12/112

The rates applicable to large businesses in Ontario are scheduled to increase for automobile operating costs in 2015 to 2018, as the restriction on large businesses progressively cuts out.

Mandatory Electronic Filing

Effective for reporting periods ending on or after July 1, 2010, many registrants are required to file their GST/HST return electronically.

The CRA provides the following guidelines to assist registrants when determining if they are required to file electronically:

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

These changes affect all registrants meeting the above criteria, including registrants whose account is administered by Revenu Quebec.

Filing Options

The filing options available depend on a registrant's reporting circumstances and may include: NETFILE, TELEFILE, EDI (electronic data interface) and GIFT (GST/HST internet file transfer). For more information refer to GST/HST Notice 249, Questions and Answers on the New Reporting Requirements for GST/HST Registrants.

Registrants not required to file electronically may voluntarily choose to file electronically for reporting periods ending on or after July 1, 2010.



Businesses reporting RITCs must use the NETFILE option.

Failure to File Electronically

A penalty will apply if a business is required to file electronically and does not do so. The initial failure to file electronically will result in a \$100 penalty. Each subsequent failure to file electronically will result in a \$250 penalty.

Penalties for Misreporting the Recaptured ITCs

Large businesses (and their associated companies) subject to the RITC rules are required to report the RITCs in schedule B to the GST/HST return. This schedule becomes available on the CRA electronic filing screen when a registrant declares that it is required to follow the RITC rules.

TIB B-104 mentions that RITCs must be reported in the period in which the ITC first becomes available, in other words, the first reporting period in which the ITC becomes payable or paid, whichever comes first. As a consequence, a business may be required to report an RITC in one period and an ITC in different period. This may be considerably problematic for some businesses. This controversial issue is currently under consideration by the CRA.



Businesses subject to the RITC requirement will not be allowed to simply forego claiming the recaptured ITCs in their calculation of net tax. Instead, they must separately identify and report all recaptured ITCs in their GST/HST returns. Because of the requirement to file sales and other revenue detail on the return, the CRA can usually tell when a business exceeds the large-business threshold, and businesses are routinely being contacted where restrictions have not been reported but the CRA expects the business to do so. It is expected initial forgiveness will end early in 2011 as the CRA's tolerance for those ignorant of the new requirements lapses.

If a large business discovers a GST/HST return was filed with RITCs overstated or understated, send an amended return (in the form of a letter) to the local CRA Tax Centre. Failure to report accurate RITCs in a reporting period will be subject to penalties as illustrated in the below example.

A large business in Ontario fails to report a recapture amount of \$10,000 on a particular return. Immediately, the large business is subject to a penalty of \$500 ($\$10,000 \times \text{five per cent}$ (prescribed penalty percentage)). If the business does not file an amended return the failure to report the correct recaptured amount continues. The penalty will increase by one per cent per each full month, up to a maximum of 10% after five full months. Therefore, if the reporting omission is not corrected within five months the penalty will increase by another \$500 ($\$500 \times 1/5 \times \text{five months maximum}$) to a total penalty of \$1,000.

Additional penalties for amounts and information that must be reported on a return filed electronically but that are not included, are under/over-reported, or are reported incorrectly include:

- Grand-fathered sales of housing in Ontario, Nova Scotia and British Columbia where the purchaser was not entitled to claim a GST/HST new-housing rebate, new residential rental property rebate, or the Nova Scotia new-housing rebate.
- Resales of housing that are subject to the HST at 13 per cent in Ontario, 12 per cent in British Columbia or 15 per cent in Nova Scotia where the housing was originally purchased on a grand-fathered basis.
- The transitional tax adjustment.
- Provincial transitional new-housing rebates.

As illustrated above, the penalties will generally be five per cent of the incorrect amount plus one per cent per month until the amount is corrected (to a maximum of 10 per cent) of the difference between what is reported and what should have been reported.

Interest

In addition, interest equal to the basic rate (based on a 90-day treasury bill) plus four per cent will be charged on all overdue amounts.

Additional information

Readers are encouraged to contact a sales tax specialist or visit the CRA website that contains numerous publications in respect of the GST and HST (www.cra.gc.ca/gsthsttech) for assistance when contemplating sales tax matters.

The Ontario and British Columbia websites provide a variety of publications to assist businesses administering the HST (www.rev.gov.on.ca/en/taxchange/publications.html and www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hst.html).

For specific information, the CRA provides a technical enquiry telephone service at 1-800-959-5525. While these rulings cannot be binding, the CRA can provide general interpretations of the legislation or other assistance.

APPENDIX A

COMPARISON CHART

The harmonization of the Ontario and British Columbia retail sales taxes with the GST will cause a number of products and services to become taxable. This table illustrates a variety of purchases that will have a new sales tax status on July 1, 2010.

Purchase description	Old sales tax status		Tax status under the GST rules
	Ontario	British Columbia	
Energy (gas, fuels, electricity)	Non-taxable	Non-taxable	Taxable ¹
Professional services (engineering, accounting, consulting)	Non-taxable	Non-taxable	Taxable
Legal services	Non-taxable	Taxable	Taxable
Advertising services	Non-taxable	Non-taxable	Taxable
Training seminars	Non-taxable	Non-taxable	Taxable
Trade show admissions and conferences	Non-taxable	Non-taxable	Taxable
Admissions to live theatrical or musical performances in places of amusement where 90 per cent of the performers who regularly participate in the cast are permanent residents of Canada	Non-taxable	Non-taxable	Taxable
Admissions under \$4	Exempt	Non-taxable	Taxable
Footwear under \$30	Exempt	Taxable	Taxable
Basic groceries, eggs, milk, bread, fruit and vegetables	Exempt	Exempt	Zero-rated
Prepared foods, e.g., restaurant and catered meals	Taxable under \$4 Exempt	Exempt	Taxable ²
Snack foods and soft drinks	Taxable	Exempt	Taxable

Purchase description	Old sales tax status		Tax status under the GST rules
	Ontario	British Columbia	
Internet access fees	Non-taxable	Taxable	Taxable
Membership fees (fitness, golf)	Non-taxable	Non-taxable	Taxable
Real property contracts (home improvements, office renovations)	Exempt	Exempt	Taxable
Office rent	Exempt	Exempt	Taxable
Personal services (manicures, hair cutting)	Non-taxable	Non-taxable	Taxable
Commissions	Non-taxable	Non-taxable	Taxable
Magazines (subject to certain conditions)	Exempt	Exempt	Taxable ^{1, 2}
Newspapers	Exempt	Exempt	Taxable ²
Manufacturing equipment (subject to certain conditions)	Exempt	Exempt	Taxable
Taxi and limousine fares	Non-taxable	Non-taxable	Taxable
Goods for resale and raw materials	Exempt	Exempt	Taxable
New residential housing	Exempt	Exempt	Taxable
Cleaning services	Non-taxable	Non-taxable	Taxable
Safety clothing (defined by province)	Exempt	Exempt	Taxable
Custom software (subject to certain conditions)	Exempt	Exempt	Taxable
Software services (subject to certain conditions)	Taxable	Exempt	Taxable
Adult-sized clothing for children under 15	Taxable	Exempt	Taxable

¹ POS rebate in British Columbia.

² POS rebate in Ontario.

APPENDIX B

ADDITIONAL READING

To learn more about how to prepare for the HST, or the economic benefits of harmonizing retail sales tax with the GST, read the following reports:

Canada Revenue Agency, "Questions and Answers on General Transitional Rules for Personal Property and Services."

www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf

C.D. Howe Institute commentary, "Lessons in Harmony: What Experience in the Atlantic Provinces Shows About the Benefits of a Harmonized Sales Tax."

www.cdhowe.org/pdf/commentary_253.pdf

C.D. Howe Institute commentary, "Growth-Oriented Sales Tax Reform for Ontario: Replacing the Retail Sales Tax with a 7.5% Percent Value-Added Tax."

www.cdhowe.org/pdf/Commentary_273.pdf

Ontario Chamber of Commerce, "Made in Ontario: the Case for Sales Tax Harmonization," prepared by Ernie Stokes and Robin Sommerville of the Centre for Spatial Economics.

http://taxharmonization.on.ca/files/HST_Report.pdf

TD Economic Report "The Impact of Sales Tax Harmonization in Ontario and BC on Canadian Inflation", September 18, 2009.

www.td.com/economics/special/dp0909_hst.pdf

About the Authors

Author

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Rod is a frequent editorial contributor to industry and professional publications such as CGA Magazine, including newsletters and other communications vehicles, in addition to author of several tax publications. Rod also presents seminars to many industry and professional associations on Canadian sales tax internationally.



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card,
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Securities borrowed or
under resale agreements
Subtotal
customers' liability funds
total
Net interest income (teb)
Non-interest revenue
Total revenue (teb)
Provision for credit losses
Non-interest expense
Income before income
taxes and noncontrolling
interest in subsidiaries
Income taxes (teb)