

Temporary Recapture of Input Tax Credits

During the initial period of the Harmonized Sales Tax (HST) in British Columbia and Ontario, large businesses (generally defined as a person, including all associated persons, making taxable supplies of more than \$10 million annually) will be required to repay or “recapture” input tax credits (ITCs) attributable to the provincial component of HST payable for the following specified property and services:

- Road vehicles weighing less than 3,000 kg
- Motor fuel (other than diesel fuel) used by road vehicles in Ontario
- Energy including electricity, gas, fuel (other than fuel used in a propulsion engine) and steam
- Telecommunication services (other than internet access, web-hosting, toll-free numbers, and telecommunication services acquired for use at conventions)
- Meals and entertainment (other than meals and entertainment that are fully deductible for income tax purposes)

The ITCs on the provincial component of the HST on these expenses will be subject to full recapture for the first five years followed by a phase-out of the recapture requirement over the next three years.

Large businesses will be required to report the recaptured ITCs on their HST returns. Also, under the transitional rules, large businesses will be required to self-assess the provincial component of the HST on amounts that became due (or were paid without having become due) after October 14, 2009 and before May 2010 to the extent that the goods or services are subject to the ITC recapture rules and are not delivered until after June 2010.

The recapture of ITCs is not required for energy used by large businesses directly in the production of goods for sale or by production equipment used to produce goods for sale. To simplify the tracking of ITCs related to energy used in production, large businesses will be able to file an election with the Canada Revenue Agency to use a production proxy based on their North American Industry Classification System (NAICS) category.

ITCs for energy used directly in qualifying scientific research and experimental development (SR&ED) activities will not be subject to recapture. Large businesses will be able to use a proxy formula to apportion energy costs between SR&ED activities and other activities.

For further information on this topic, refer to the BC Ministry of Finance Publication HST Notice #4 – *Temporary Recapture of Input Tax Credits Requirement* and Ontario Ministry of Revenue Publication Harmonized Sales Tax Notice No. 5 – *Temporary Recapture of Input Tax Credits Requirement*.

