

What You Need to Know About the HST

Overview

The Harmonized Sales Tax (HST) is set to take effect on July 1, 2010. Overall, the HST would apply to goods and services purchased on or after July 1, 2010. They would also generally apply to prepayments starting on May 1, 2010 for goods or services that would be provided on or after July 1, 2010.

The Canada Revenue Agency has published various notices and information bulletins on the HST transition and we have provided links to this information, below. In this article for your convenience, we have summarized the transitional rules up to July 1, 2010 by “type of supply” or subject and we have identified specific changes to the “place of supply” rules under the new HST regime.

General Transitional Rules for Personal Property and Services

Tangible Personal Property (Goods)

When the goods are delivered or ownership is transferred to the purchaser before July 2010, GST would apply.

When the goods are delivered or ownership is transferred to the purchaser on or after July 1, 2010:

- GST would apply to any amount that becomes due (or is paid without having become due) on or before October 14, 2009.
- GST would apply to any amount that becomes due (or is paid without having become due) after October 14, 2009 and before May 2010. However, certain purchasers have to self-assess the provincial part of the HST on an amount that becomes due (or is paid without having become due) after October 14, 2009 and before May 2010 by non-consumers.
- HST would apply to any amount that becomes due or is paid without having become due on or after May 1, 2010.

Intangible Personal Property (Goods)

These transitional rules are for goods and intangible personal property (IPP) supplied by way of lease, license or similar arrangement for which the amount is rent, royalties or similar payments.

When the lease or license period (lease interval) begins before July 2010 and ends before July 31, 2010, GST would apply.



When the lease interval begins before July 2010 and ends on or after July 31, 2010:

- GST would apply to any amount that becomes due (or is paid without having become due) on or before October 14, 2009.
- GST would apply to any amount that becomes due (or is paid without having become due) after October 14, 2009 and before May 2010. However, certain purchasers have to self-assess the provincial part of the HST.

When an amount becomes due (or is paid without having become due) on or after May 1, 2010:

- GST would apply to the part of a lease interval that occurs before July 2010; and
- HST would apply to the part of a lease interval that occurs on or after July 1, 2010.

Services

The following rules would apply to any amount that becomes due or is paid without having become due on services performed during the period that includes July 1, 2010.

When 90% or more of the service is performed before July 2010, GST would apply.

When more than 10% of the service is performed on or after July 1, 2010:

- GST would apply to any amount that becomes due or is paid without having become due on or before October 14, 2009.
- GST would apply to any amount that becomes due or is paid without having become due after October 14, 2009 and before May 2010. However, certain purchasers have to self-assess the provincial part of the HST.

When an amount becomes due or is paid without having become due on or after May 1, 2010:

- GST would apply to any amount that relates to the portion of the service that is performed before July 2010; and
- HST would apply to any amount that relates to the portion of the service that is performed on or after July 1, 2010.

For further information on the general transitional rules, refer to Canada Revenue Agency (CRA) Publication GST/HST Notice 247 - *Questions and Answers on General Transitional Rules for Personal Property and Services*.

Place of Supply Rules

The place of supply rules determines whether a supply is made in a HST participating province or GST province for purposes of determining which rate to apply on the sale. Although no changes are proposed to the current place of supply rules for supplies of tangible personal property and real property, significant changes are proposed to the current place of supply rules for supplies of intangible personal property and services.



Although the general rules will generally continue to be based in large part on where the intangible personal property can be used, the place of negotiation under the current rules will no longer be a factor and greater emphasis will be placed on the location of the recipient of the supply of the intangible personal property. As is the case under the current place of supply rules, specific place of supply rules will apply with respect to supplies of intangible personal property that relate to tangible personal property, real property and services.

The proposed place of supply rules for supplies of services are generally based on the home or business address of the recipient (or another address of the recipient) obtained by the supplier in the normal course of business except for certain types of services in respect of which specific place of supply rules will apply.

For further information on this refer to the CRA Publication GST/HST Technical Information Bulletin B-103 - *Place of supply rules for determining whether a supply is made in a province.*

Other Rules

Housing Rebates and Transitional Rules for Housing and Other Real Property in BC

Generally, the HST would apply to a builder's taxable supply by way of sale of a newly constructed or substantially renovated residential complex where both ownership and possession of the complex are transferred to the purchaser under the agreement for the supply after June 2010. If either ownership or possession is transferred to the purchaser before July 2010, the HST would not apply.

This general rule applies to sales of all housing types, including residential condominium units, mobile homes and floating homes. (An exception exists for certain types of housing if, among other conditions, a written agreement of purchase and sale was entered into on or before November 18, 2009.) The HST would generally be payable on the earlier of the day ownership or possession of the residential complex is transferred to the purchaser.

For further information on this topic, refer to CRA Publication GST/HST Notice 246 – *Questions and Answers on Housing Rebates and Transitional Rules for Housing and Other Real Property Situated in British Columbia.*



HST for Public Service Bodies

A public service body (PSB) means a non-profit organization (NPO), a charity, a municipality, a school authority, a hospital authority, a public college or a university. Under the existing system, most NPOs claim a 50% rebate on the GST they pay and absorb PST as an operating expense. When the GST is replaced with the HST, NPOs will have to contend with a number of important changes:

- Expenses that used to attract just 5% GST will now attract 12% HST.
- The rebate on HST paid will need to be tracked in two parts, one for the 5% federal portion and one for the 7% provincial portion, as different rebate rates will apply to each component. The result for these types of expenses is that overall cost to a NPO will very likely increase.
- Expenses that used to attract both 5% GST and 7% PST will now be eligible for a larger rebate, so the result for these types of expenses is that the overall cost will very likely decrease.

Supplies of property and services that are currently taxable under the GST would also be taxable under the HST, unless a point-of-sale rebate applies.

In general, qualifying NPOs are currently entitled to rebates of the GST determined by a percentage of their total expenses used in taxable and exempt activities. The proposed rebate for qualifying non-profit organizations is 50% of the federal portion and 57% of the provincial portion of the HST.

For further information on this topic, refer to CRA Publication GST/HST Notice 253 - *Questions and Answers for Public Service Bodies*.

Please contact your Manning Elliott advisor if you have any questions with regard to the HST, GST or any related tax or accounting matters.

