

## Harmonized Sales Tax

### Is your Company in Harmony with Harmonized Sales Tax? Rules to smooth the transition for Ontario and British Columbia based companies

As you have no doubt heard, effective July 1, 2010 PST and GST are out, and HST is in for goods and services in both Ontario and B.C. The traditional system of charging 5% GST (and 8% PST on applicable sales) is being eliminated and Ontario and B.C. will follow in the footsteps of their Maritime counterparts by charging a flat 13% (Ontario), 12% (B.C.) harmonized tax on most goods and services.

What does this mean for you?

To make your company's transition to the new sales tax regime as smooth as possible, there are rules in place that you should be aware of.

These rules range in complexity from relatively straight forward to quite confusing. To help your business cope with the ever evolving regulatory environment in which you operate, we wish to provide you with a general overview of some of the transitional rules as well as to help identify some of the more complex areas that may require special attention.

#### Sale of Goods

In general HST will apply to the sale of goods where the goods are delivered and ownership is transferred on or after July 1, 2010. Until then, GST and PST will continue to apply. However, transitional rules may be applicable to certain transactions entered into from May 1, 2010 to July 1, 2010 in regards to goods or services that are supplied on or after July 1, 2010, which may result in HST being applicable.

#### Provision of Services

Determining the correct sales tax to charge on the provision of services is less straightforward given there will be common situations where, as at July 1, 2010 a service is partially complete. The transitional rules outlined by the Canada Revenue Agency are such that for instances where, on July 1, 2010 a service is already more than (or exactly) 90% complete

then the current sales tax regime would still apply. In contrast, for service contracts where 90% or more of the work is performed on or after July 1, 2010, HST would apply, and the service would have 13% (Ontario), 12% (B.C.) charged on it.

For invoices issued on or after July 1, if payment remains outstanding after November 1, 2010, HST applies regardless of the 90% rule.

#### Sale of Intangible Personal Property

In general, revenues generated from the sale of intangible property, such as intellectual properties or contractual rights, will be subject to HST if payment is due on or after July 1, 2010.

#### Leases, Licenses and Equivalent Arrangements

The general transitional rule for agreements where the term straddles July 1<sup>st</sup> is that HST will apply for the part of the agreement interval that occurs on or after July 1, 2010. If the interval begins before July 1, 2010 and ends before July 31, 2010 then HST does not apply. A useful example would be if a monthly car lease payment term is from June 15 – July 14, 2010, the payment is not subject to HST as it began before July 1<sup>st</sup> and also ended before July 31<sup>st</sup> 2010.

#### Areas Where Specific Rules Exist

The items listed below are areas where specific rules exist regarding the transition to HST:

- Magazine and newspaper subscriptions;
- Prepaid funeral & cemetery services;
- Transportation services;
- Commercial parking passes;
- Memberships and admissions; &
- Residential real estate.

Special attention should be paid to these areas, particularly where prepayments are made or collected between October 14, 2009 and July 1, 2010.

If your business is involved in any of these areas, it is imperative that you become familiar with the special steps you will need to follow to ensure that compliance with the new filing requirements is achieved. In many situations, professional consultation should be sought to make sure that your business is properly prepared to handle the transition.

For more information on the transition to HST, the Ontario and B.C. provincial governments have provided detailed transitional rules which are available on line at

[www.rev.gov.on.ca/en/notices/hst/03.html](http://www.rev.gov.on.ca/en/notices/hst/03.html)

[www.sbr.gov.bc.ca/documents\\_library/shared\\_documents/HST/HST\\_General\\_Transitional\\_Rules\\_Notice.pdf](http://www.sbr.gov.bc.ca/documents_library/shared_documents/HST/HST_General_Transitional_Rules_Notice.pdf)

#### Harmonization Traps

There are certain situations where it will be important for many businesses to determine if they are required to self assess HST. The self assessment liability would be triggered when purchases are not entitled to a full Input Tax Credit for goods or services delivered or performed on/after July 1, 2010 but are paid after October 14, 2009 and before May 1, 2010.

It is also important not to lose sight of the fact that certain large businesses will not be able to recover all the HST they pay during the first five years of the new system. This applies to financial institutions and business with taxable sales in excess of \$10 million annually.

#### In Closing

HST, in general, is not a complicated sales tax structure to manage as a good or services provider. In fact, it will result in the complex PST being harmonized with the more straightforward GST. However, it will be important, depending on your industry and types of transactions, to have a sound understanding of the transitional measures between now and July 1, and in certain cases, beyond.

**Join us Thursday, February 18th for our Lunch Seminar. Visit our website at [www.logankatz.com/events.shtml](http://www.logankatz.com/events.shtml) for further details.**