
Business Report

**PST and GST Harmonization
in British Columbia
March 2010**



Overview

In July 2009, Premier Gordon Campbell and Finance Minister Colin Hansen announced their intention to “harmonize” the provincial sales tax (“PST”) with the federal Goods and Services Tax (“GST”) in the Province of British Columbia resulting in a combined Harmonized Sales Tax (“HST”) of 12%. The HST is effective **July 1, 2010**.

How Does HST Affect Your Business

HST will be federally administered and therefore your business will only have to deal with one authority when accounting for the tax. This means reduced complexities as your business will no longer be required to adhere to the various forms and reporting requirements necessary for PST.

The HST will follow much of the same general rules that pertain to GST with certain exceptions. Businesses that are currently registered for GST will automatically have their accounts transitioned to HST accounts and will be required to account for HST when applicable. It is important that businesses make note of the transition rules to HST discussed below.

In a general sense, registered businesses should benefit from HST as they will, for the most part, be able to claim input tax credits (ITC’s) for the full amount of HST paid on expenses whereas previously there was no tax credit available for the amount of PST that was paid on expenses. Of course, the ITC’s are subject to certain restrictions similar to those restrictions that were previously in place for GST. However, not all businesses will benefit from HST. Businesses making exempt supplies that do not qualify to claim ITC’s will likely face increased costs.

How Does HST Affect You

If you are not a GST registered business, the new HST regime will likely result in increased costs to you as many goods and services that were previously not subject to PST will now be subject to HST. However, to help compensate for the increased cost of the HST to consumers, B.C. proposes to pay a quarterly HST credit along with the existing GST and carbon tax credits to offset the impact of the tax on those with low incomes.

Notable Changes:

- a) What is more expensive?
 - Restaurant meals and entertainment such as movies not previously subject to PST will be subject HST.
 - Personal services such as haircuts, dry-cleaning and gym memberships.
 - Professional services such as investment manager fees, lawyer fees and accountant fees to which PST did not previously apply.
 - Non-prescription medications.
 - Commercial property and commercial leases.
 - New residential housing purchased for \$ 525,000 or more (discussed in greater detail below).
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- b) What is not affected?
- A 7% “point-of-sale” rebate will apply to the following products:
 - Books
 - Diapers
 - Children’s clothing and footwear
 - Children’s car seats and car booster seats
 - Feminine hygiene products
 - Gasoline and diesel fuel for motor vehicles including any bio-fuel components.
 - Qualifying residential homes purchased for \$ 525,000 or less (discussed in greater detail below).
 - Sales of used residential homes will continue to be exempt from HST.
 - Residential home rentals, other than short-term rentals for periods less than 30 days, will also continue to be exempt from HST.
- c) Other points:
- Hotel Room Tax to be eliminated
 - 10% liquor tax to be eliminated and replaced with HST.

Transitional Rules

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. 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.

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.

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.

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.

Leases and Licences of Personal Property

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.

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 above, 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.

Consideration that becomes due, or is paid without having become due, after October 14, 2009 and before May 2010 by non-consumers

Certain businesses that provide GST/HST-exempt supplies, who use simplified procedures such as the Quick Method to account for GST/HST, or that are subject to ITC restrictions, may be required to self-assess the provincial component of the HST on consideration that becomes due or is paid after October 14, 2009 and before May 1, 2010 for property and services provided on or after July 1, 2010.

Transitional Rules Regarding Housing

Consistent with current GST legislation, HST will generally apply on the purchase or construction of a new residential property whether that property is intended to be a primary place of residence or whether the property is intended to be a residential rental property. Accordingly, on November 19, 2009 the B.C. Minister of Finance released its intentions of an enhanced new housing rebate along with the applicable transition rules relating thereto.

The new housing rebate will be equal to 5/7 of the provincial component of the HST (or 5% of the price of the home) for homes that are priced up to \$ 525,000. The maximum rebate would therefore be \$ 26,250. Homes purchased for greater than \$ 525,000 will receive a flat rebate of \$ 26,250. This rebate is available to purchasers and builders of new homes to be used as a primary residence as well as to purchasers and builders of new homes to be used as a rental property.

Consistent with the HST transitional rules mentioned above, HST will generally apply on homes where both ownership and possession of the homes are transferred on or after July 1, 2010.

Pursuant to the grandfathering rules, sales of new homes under written agreement of purchase and sale entered into before November 18, 2009 should not be subject to the provincial component of the HST and therefore not be eligible for the B.C. new housing rebate. The grandfathering may also apply to a grandfathered purchase and sale agreement that is subsequently assigned to a third party or where there is a taxable sale of a new home where the original purchase and sale agreement was entered into before November 18, 2009.

Homes that are newly constructed or substantially renovated in full or in part prior to July 1, 2010 should have PST embedded in the price of the home relating to the PST paid on building materials used in the construction of the home. For non-grandfathered homes that are subject to the portion of the HST on or after July 1, 2010, a PST transitional tax rebate will be available to provide relief in respect of the embedded PST. This rebate is available to either individuals that purchase the home or to builders that first rent the home on or after July 1, 2010. The rebate is based on the percentage of completion of the home as of July 1, 2010 and as such the builder will be required to certify this amount for the purposes of the rebate. Eligible applicants would be permitted to calculate the estimated embedded PST (“estimated PST content”) by choosing one of two methods:

1. **Floor Space Method** – Estimated PST content calculated at a prescribed amount of \$ 60.00 per square metre of floor space in the home; or
2. **Selling Price Method** – Estimated PST content calculated at 2% of the fair market value of the home or the total value of consideration paid for the home as the case may be.

The qualifying transitional rebate would then be calculated as a percentage of the estimated PST content. The percentage eligible for rebate will vary from 0% to 100% depending on the degree of completion of the home on July 1, 2010.

Conversely, where a home is grandfathered, the builder will be required to pay a “transitional tax adjustment” where the home construction or substantial renovation is completed on or after July 1, 2010. The tax adjustment is intended to approximate the amount of PST (approximately 2%) that would have otherwise been embedded in the price of the home under the current PST regime. This transitional tax adjustment is calculated differently with respect to sales of Single Homes and sales of Condominiums as follows:

1. **Single Homes** – 2% of the greater of the fair market value of the home or purchase price multiplied by a percentage ranging from 0% to 100% dependent on the degree of completion of the home on July 1, 2010.
2. **Condominiums** – 2% of the greater of the fair market value of the home or purchase price net of a possible entitlement to a PST transitional housing rebate discussed above.

This is a summary of the application and transition to HST. For assistance in determining how HST affects you and/or your business, please contact a D&H Group LLP representative or your personal Tax Advisor.

D&H Group LLP continues to keep you informed of changes (and proposed changes) that can affect you and your business. D&H Group LLP is an eighty person firm with over 50 years experience in providing clients with sound professional advice. We are a member of IAPA which has over 130 offices located throughout the world, including major cities in Canada, the U.S., the Pacific Rim countries and Europe.

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D+H Group LLP Chartered Accountants

10th Floor, 1333 West Broadway
Vancouver, British Columbia
Canada V6H 4C1

Telephone: 604 731 5881
Facsimile: 604 731 9923
Email: info@dhgroup.ca

www.DHgroup.ca
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of Corporations

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