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# Tax Alert

## ***PST and GST Harmonization in British Columbia June 2010***



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Effective July 1, 2010, the provincial sales tax ("PST") will be harmonized with the federal Goods and Services Tax ("GST") in the Province of British Columbia resulting in a combined Harmonized Sales Tax ("HST") of 12%. An overview of the HST and the transitional rules were summarized in our March 2010 HST newsletter, which can be found at:

[http://www.dhgroup.ca/index.php/news/article/pst\\_and\\_gst\\_harmonization\\_in\\_british\\_columbia/](http://www.dhgroup.ca/index.php/news/article/pst_and_gst_harmonization_in_british_columbia/)

In addition to those rules, some important changes will also affect GST/GST accounting and filing for certain businesses effective July 1, 2010.

### ***Mandatory Electronic Filing for HST/GST Registrants***

Under changes announced by the Canada Revenue Agency, certain GST/HST registrants will be required to file their GST/HST returns electronically for all reporting periods that end on or after **July 1, 2010**.

GST/HST registrants (excluding charities) with greater than \$ 1.5 million in annual taxable supplies (including those of all their associated businesses) will be required to file their GST/HST returns electronically using one of the following four options:

- GST/HST NETFILE
- GST/HST TELEFILE
- GST/HST EDI Filing and Remitting
- Internet File Transfer

Registrants who fail to file an electronic GST/HST return using the correct option may be subject to penalties.

### ***Restricted Input Tax Credits for "Large Businesses"***

During the initial period of the HST in British Columbia, "large businesses" will be required to repay or 'recapture' Input Tax Credits ("ITC's") attributable to the provincial component of HST in respect of "specified property and services" acquired, or brought into British Columbia, by the large business for use in the province. Generally, a business would qualify as a "large business" if its taxable supplies, along with the taxable supplies of any associated businesses, are **greater than \$ 10 million annually**.

In general, "specified property and services" include:

- 1) specified road vehicles, including related vehicle parts and services acquired within 12 months of the acquisition;
  - 2) specified energy (includes electricity, gas, fuel and steam for use in the province);
  - 3) specified telecommunication services (includes local and long distance telephone, cable and pay television, satellite television, facsimile and electronic mail); and
  - 4) specified meals and entertainment that are currently subject to an ITC repayment requirement under the Excise Tax Act (generally at a 50% repayment rate).
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Persons subject to the RITC requirement must separately identify recaptured ITC's in their GST/HST returns after July 1, 2010 - they will not be able to simply forego claiming these ITC's in their calculation of net tax. This will require large businesses to track gross ITC's, RITC's and net ITC's as separate items in their accounting system. In addition, RITC's must be identified in the reporting period when they occur, or penalties will be levied.

The rate of ITC recapture would be 100% for the first five years that the HST is in effect in British Columbia. The RITC requirement would then be phased-out by reducing the rate of recapture in equal increments over the following three years. Thus, the ITC recapture rates would be:

- 100% for the period from July 1, 2010 to June 30, 2015,
- 75% for the period from July 1, 2015 to June 30, 2016,
- 50% for the period from July 1, 2016 to June 30, 2017,
- 25% for the period from July 1, 2017 to June 30, 2018,
- 0% on or after July 1, 2018.

For assistance in determining how these HST rules will affect you and/or your business, please contact a D&H Group LLP representative.

*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.*

*The material contained in this and other newsletters is not intended to be advice on any particular matter. Readers are cautioned not to act on the basis of any matter contained in the Business Reports without first considering appropriate professional advice specific to their situation. We would be pleased to provide further information and address any questions that our readers may have.*

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