

**CRA MATERIALS
ON REDUCTION IN THE RATE OF THE GST/HST**

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du Canada

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July 1, 2006 - Reduction in the Rate of the GST/HST

Info Sheets and Questions and Answers

Revised June 7, 2006

The *Excise Tax Act* (the ETA) imposes the goods and services tax/harmonized sales tax (GST/HST) on most goods and services consumed in Canada, at the rate of 7%, and in the participating provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador, at the rate of 15%. These rates of tax are proposed to be reduced to 6% and 14%, effective July 1, 2006.

We are providing the following questions and answers to assist you in understanding how the reduction in these rates will apply.

Should you require further information please call 1-866-959-7797 from 8:15 a.m. to 8:00 p.m.

GST/HST Rate Reduction - Info Sheets

- [GI-013 Reduction in the Rate of the GST/HST](#)
- [GI-014 Applying the GST/HST Rate Reduction to Allowances and Reimbursements](#)
- [GI-015 GST/HST Rate Reduction and Purchasers of New Housing](#)
- [GI-016 Applying the GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements](#)

Note: Readers should note that the HST applies only to supplies made in or imported into the participating provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador. The GST applies to supplies made in the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.


GST/HST Rate Reduction - Questions and Answers

Since these questions and answers were first issued, seven new questions and answers have been added, 24.1 under *Information for Business*, 22.1 under *Information for Consumers* and 6.1, 6.2, 10.1, 10.2 and 16.1 under *Real Property*. In addition the answer to Question 40 under *Information for Business* has been revised.

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Information for Business

General

1. What are the new rates of GST and HST?

The rate of the GST and the federal component of the HST is to be reduced from 7% to 6%. The provincial component of the HST will remain at 8%. This means that the rate of HST is to be reduced from 15% to 14%.

2. When are the new rates of GST and HST effective?

The new rates of GST and HST are effective July 1, 2006.

3. When do I apply the GST/HST at the new rates?

Generally, the new rates apply to the supply of taxable goods and services in the following manner:

If GST/HST becomes payable on or after July 1, 2006 without having been paid before that day, the 6% GST rate or the 14% HST rate will apply.

If GST/HST is paid on or after July 1, 2006 without having become payable before that day, the 6% GST rate, or the 14% HST rate will apply.

If GST/HST becomes payable or is paid before July 1, 2006, the 7% GST rate or the 15% HST rate will apply.

4. When is GST/HST payable?

GST/HST on the consideration for a supply is usually payable the earlier of the day payment is made and the day the supplier issues an invoice. If there is an undue delay in issuing an invoice, GST/HST becomes payable when the invoice would have been issued if there had been no delay. In addition, if either the date of an invoice or the payment date under a written agreement is earlier than the date the invoice is issued, GST/HST becomes payable on the earlier date.

For a supply of property by way of lease, licence or similar arrangement under a written agreement, GST/HST becomes payable the earlier of the date the payment is made and the date it is required to be made under the agreement.

If GST/HST is not otherwise payable by the last day of the calendar month after the calendar month in which any of the following events takes place, it becomes payable on that day:

- in the case of a sale of tangible personal property, other than a sale referred to below, the buyer acquires ownership or possession of the property;
- in the case of a sale of tangible personal property on approval, consignment, sale-or-return basis or similar terms, the buyer acquires ownership of the property or re-supplies it to someone other than the seller; and
- in the case of a supply under a written agreement for construction, renovation, alteration or repair of real property, or of a ship or other marine vessel when the work is reasonably expected to last more than three months, the work is substantially completed.

The GST/HST will be payable at 6%, or 14% where it becomes payable under these rules on or after July 1, 2006.

Sales of property

5. I invoiced a customer before July 1, 2006 for the sale of tangible personal property. The customer paid the invoice after July 1, 2006. What rate of tax do I charge on this sale?

Since the GST/HST became payable on the date of the invoice and this was before July 1, 2006, you would charge the customer GST at the rate of 7%, or HST at the rate of 15%.

6. In January 2006, we had a sales promotion where our customers purchased furniture without having to make any payments until January 2007. What rate of tax should apply to these sales, where our customers received ownership and possession of this furniture in January 2006, but will not receive an invoice for payment until January 2007?

If the customers received possession and/or ownership of the furniture in January 2006, under a written agreement entered into at that time, the GST/HST is considered payable at the end of February 2006 (see the rule in Question 4 above). Since this date is before July 1, 2006, GST at the rate of 7%, or HST at the rate of 15% applies to the sale of this furniture.

7. In May 2006, a consumer buys a refrigerator under a layaway plan. Under the written agreement, the consumer must make six equal monthly payments from May 2006 to October 2006 (the payments became due during each of these months). Possession and ownership of the refrigerator will be transferred to the consumer after the final payment is made in October 2006. What rates of tax apply to these payments?

GST at the rate of 7%, or HST at the rate of 15% will apply to the monthly payments required to be made before July 1, 2006. Payments required to be made on or after July 1, 2006 will be subject to GST at the rate of 6%, or HST at the rate of 14%.

8. We sell property under a conditional sales contract where the customer receives possession of the property June 1, 2006, but does not receive ownership of the property until full payment of the purchase price. The customer agrees to make monthly payments for the property over a period of time, starting on June 1. How will the reduced rates of tax affect such a conditional sales contract?

In a conditional sales contract, the GST/HST on the consideration for the property is payable no later than the last day of the month following the month during which you transferred possession of the property to the customer. In this example, GST at 7% or HST at 15% will be payable on the payment made on June 1, since this is before July 1, 2006. GST of 6% or HST of 14% will be payable on the payment made July 1. Finally, on July 31 (i.e., the last day of the month following the month in which your customer took possession of the property), GST at 6% or HST of 14% will apply on the remainder of the consideration payable for the property.

9. How will the rules regarding the reduction in the GST and HST rates impact sales of goods from coin-operated devices, such as vending machines?

The prices of goods from a coin-operated device, such as a vending machine, include GST/HST. You are considered to have collected GST/HST at the time you remove the money from the coin-operated device. Consequently, if you remove the money from a vending machine on or after July 1, 2006, you will be deemed to have collected GST at the reduced rate of 6%, and if the vending machine is located in a participating province, HST at the reduced rate of 14%.

Exception: If the GST/HST equalled zero on supplies you made through vending machines before July 1, 2006, it will continue to be zero on or after July 1, 2006.

10. Are there any changes to the sale-leaseback provisions under the ETA as a result of the reduction in the GST/HST rates?

The sale-leaseback rules allow a credit of tax initially paid to preclude that property being subsequently taxed on lease payments a second time when the property is sold and leased back from the lessor. GST at the reduced rate of 6%, or HST at the reduced rate of 14%, will apply to the deemed consideration for the lease payments made and due on or after July 1, 2006.

11. After July 1, 2006, a registrant re-purchases containers (other than returnable beverage containers) that were initially taxed at 7% GST or 15% HST. Will there be a transitional rule to take into account that some containers returned after July 1, 2006 would have been taxed at 7% or 15%?

Currently, if a registrant is the recipient of a returnable container (other than a returnable beverage container), and no tax is payable on the supply, the registrant is deemed to have paid tax equivalent to

7/107 of the consideration for the supply, or 15/115 for a supply made in a participating province. This deeming provision removes embedded tax, since the registrant would have charged tax when the registrant initially sold the container.

There will be no transitional rule for these containers repurchased by the registrant on or after July 1, 2006. Consequently, the registrant who repurchases these containers on or after July 1, 2006 will be deemed to have paid tax equivalent to 6/106 or 14/114 of the consideration for the supply.

Services and intangibles

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12. I am an accountant issuing an invoice after July 1, 2006 for services performed before July 1, 2006. What rate of tax do I charge on these services?

Since the invoice was issued after July 1, 2006, you would charge GST at the rate of 6%, or HST at the rate of 14%.

13. I will be invoicing my client after July 1, 2006 for construction services that will be performed before and after July 1, 2006. What rate of tax will apply on this invoice for my services?

Since you will be issuing the invoice after July 1, 2006, GST at the rate of 6%, or HST at the rate of 14% will apply to the services billed on this invoice.

14. My customer made a partial payment of \$100 before July 1, 2006 for services which were performed after July 1, 2006. The total consideration for the services is \$500. The invoice for these services will be issued after July 1, 2006. What rates of tax apply?

GST at the rate of 7%, or HST at the rate of 15% will apply to the partial payment of \$100 made before July 1, 2006. GST at the rate of 6%, or HST at the rate of 14%, will apply to the remaining \$400 of consideration for these services invoiced after July 1, 2006.

15. If a person has an equal billing plan set up for a utility service which covers a period beginning before July 1, 2006, how will the supplier determine which of the payments made in 2006 should be subject to GST/HST at the reduced rates?

The supplier will collect GST 7% on payments made or becoming due before July 1, 2006, and GST at the reduced rate of 6% on payments made without becoming due on or after July 1, 2006, or as they become due on or after that date.

For utility services supplied in a participating province, the supplier will collect HST at 15% on payments made or becoming due before July 1, 2006, and HST at the reduced rate of 14% on payments made without becoming due on or after July 1, 2006, or as they become due on or after that date.

16. A person has an equal billing plan set up for a utility service that covers a period beginning before July 1, 2006. The supplier reconciles the person's actual consumption of the utility service and the consideration payable by the person against the amount of the consideration the person actually paid throughout the period. As a result of the reconciliation, the supplier issues an invoice on or after July 1, 2006 for the remaining consideration due on the utility services that the person had consumed during the period. What rate of tax applies on the amount of consideration charged on this invoice?

If, as a result of the reconciliation of the account, the supplier issues an invoice on or after July 1, 2006 for the remaining consideration payable on the utility service, the supplier will charge GST at the reduced rate of 6%, or HST at the rate of 14%.

17. A person has an equal billing plan set up for a utility service that covers a period beginning before July 1, 2006. The supplier reconciles the person's actual consumption of the utility service and the consideration payable by the person for that consumption, against the amount of the consideration the person paid throughout the period. As a result of this reconciliation, the supplier issues the person a credit note on or after July 1, 2006 for the overpayment of consideration that the person has made. What rate of tax applies to the credit given to the person on or after July 1, 2006?

If, as a result of the reconciliation of the account, the supplier issues the person a credit note on or after July 1, 2006 for the amount of consideration that the recipient overpaid the supplier, the supplier may generally credit the recipient, using the rate of GST or HST to which the original supply to which the price adjustment relates was subject. For example, a price adjustment in relation to a supply that was originally subject to GST at the rate of 7% will be subject to GST at that same rate.

18. Before July 1, 2006, we entered into a long-term fixed-price contract for services, which includes tax. Will the reduced rates of tax affect the payments we make under this contract?

Any payments made under this contract before July 1, 2006 will include GST at the rate of 7%, or HST at the rate of 15% if the place of supply for the services is in a participating province. Payments made under this contract on or after July 1, 2006 will include GST at the reduced rate of 6%, or HST at the reduced rate of 14% if the place of supply for the services is in a participating province.

19. If I prepay an amount before July 1, 2006 for a transportation service that will be provided after that date, what rate of tax applies to the prepayment amount?

A payment made before July 1, 2006 will be taxable at 7%, or 15%, even if the transportation service will be provided after that date.


20. We are selling admissions to a concert that is to be held after July 1, 2006. If customers purchase tickets before July 1, 2006 to attend this concert, what rate of tax applies to the purchase of these tickets?

GST/HST at 7% or 15% will apply to tickets purchased before July 1, 2006 for admission to a concert held on or after that date.

21. What rate of tax applies to an amount paid before July 1, 2006 for a magazine subscription if the magazines will be delivered to the customer after that date?

A payment made before July 1, 2006 for a magazine subscription will be subject to GST at 7%, or HST at 15% even though the magazines will be provided after that date.

Leases


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22. How will the reduction in the rate of GST/HST apply to leases of property?

The 6% GST will apply to a lease payment due on or after July 1, 2006, unless it was paid before that date. If the supply of the leased property is made in a participating province, the 14% HST will apply to a lease payment due on or after July 1, 2006, unless it was paid before that date.

The 7% GST, or 15% HST will apply to a lease payment due before July 1, 2006, even if it is paid after July 1, 2006.

23. I pay the rent for my office space on the 15th of every month. What rate of tax will apply to the payment made on June 15, 2006 that covers the rent for the month of June 15 to July 14, 2006?

Since the payment is due before July 1, 2006, the 7% rate of GST, or the 15% rate of HST will apply to the lease payment.


24. The lease payment for my passenger vehicle is due June 15. What rate of tax applies to this lease payment if I do not make it until after July 1, 2006?

Since the lease payment is due before July 1, 2006, GST/HST at the rate of 7% or 15% will apply to the lease payment even though you make the payment after July 1, 2006.

24.1 How will the GST rate reduction affect existing leases for vehicles?

GST/HST at the rate of 6% or 14% will apply to lease payments that become payable on or after July 1, 2006 without having been paid prior to that date, including those for leases that were in effect before the Budget announcement. As a result, all lessees of automobiles, RVs and boats should benefit from the GST reduction on the payments they make on or after July 1, 2006.

Imports


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25. What rate of tax will I pay when I import goods?

GST at the rate of 6% will apply to taxable importations of goods on or after July 1, 2006 or released from Customs control on or after that day.

In most cases, the 15% HST applies at the border to taxable importations of non-commercial goods imported by a resident of a participating province regardless of the point of entry into Canada or Customs clearance. If such non-commercial goods are imported on or after July 1, 2006, or released from Customs control on or after that day, the resident of a participating province will pay HST at the rate of 14%.

26. Will the reduced rate of tax apply to imported taxable supplies of services and intangible personal property?

GST on imported taxable supplies of services and intangible property is payable the earlier of when consideration is paid or when it becomes due. Therefore, if the earlier of the day the consideration is paid or becomes due is on or after July 1, 2006, GST at the rate of 6% will apply to the imported taxable services and intangible personal property.

Coupons, price adjustments and returned goods

27. I am a manufacturer who has been redeeming coupons from retailers in respect of taxable (other than zero-rated) supplies of property and services made by the retailers to consumers. Because the coupon entitles the consumer to a reduction of the price of the property or service equal to a fixed dollar amount and the coupon is not in respect of a zero-rated supply, I have been claiming an input tax credit (ITC) equal to the tax fraction (7/107) of the coupon value when I pay a retailer the redemption amount for the coupon. What tax fraction will I use to calculate an ITC when I redeem coupons from the retailers on or after July 1, 2006?

When a manufacturer redeems coupons that were accepted by a retailer on or after July 1, 2006, the rate of GST will be reduced from 7% to 6%, and therefore the tax fraction of the coupon value will be 6/106. Where the supply is made in a participating province on or after July 1, 2006, the tax rate will be reduced from 15% to 14% and the tax fraction will decrease from 15/115 to 14/114.

28. I am a retailer and I issue coupons that entitle a consumer to a reduction of the price on a taxable supply of property or services (other than zero-rated) equal to a fixed dollar or fixed percentage amount specified in the coupon. When I accept the coupon I treat the coupon as a partial cash payment (i.e. tax is calculated on the value of the consideration for the supply before the coupon discount). As a result I charge and collect GST at a rate of 7% of the consideration payable for the supply and then claim an ITC equal to 7/107 of the coupon value. I understand that after July 1, 2006 I will be charging and collecting GST at a rate of 6% instead of 7% and that I will be claiming an ITC equal to 6/106 of the coupon value. What happens if a reporting period straddles the July 1, 2006?

For that part of the reporting period prior to July 1, 2006, you will be required to charge and collect GST at a rate of 7% on the consideration for taxable supplies (other than zero-rated), and you will be entitled to an ITC equal to 7/107 of the coupon value for coupons that are accepted before July 1, 2006. For that part of the reporting period on or after July 1, 2006, you will be required to charge and collect GST at a rate of 6% on the consideration for taxable (other than zero-rated) supplies and you will be entitled to an ITC equal to 6/106 of the coupon value for coupons accepted on or after July 1, 2006.

If you are in a participating province, for the part of the reporting period that is prior to July 1, 2006, you will be required to charge and collect GST at a rate of 15% on the consideration for taxable (other than zero-rated) supplies, and you will be entitled to an ITC equal to 15/115 of the coupon value for coupons accepted before that date. For that part of the reporting period that is on or after July 1, 2006, you will be required to charge and collect GST at a rate of 14% on the consideration for taxable (other than zero-rated) supplies and you will be entitled to an ITC equal to 14/114 of the coupon value for coupons accepted on or after July 1, 2006.

29. I am a retailer and I issue coupons that entitle a consumer to a reduction of the price on a taxable supply (other than zero-rated) of property or services equal to a fixed dollar or fixed percentage amount specified in the coupon. When redeeming a coupon I treat the coupon as reducing the value of consideration for the supply. What happens on July 1, 2006?

In this transaction the GST/HST is calculated after the coupon value is deducted from the consideration for the supply. Before July 1, 2006 the applicable GST rate is 7% and the HST rate is 15%. If the transaction takes place on or after July 1, 2006 the GST rate will be 6% and the HST will be 14%. When you treat a non-reimbursable coupon as reducing the value of the consideration before the GST/HST is calculated, you do **not** have to deal with tax fractions.

If your reporting period straddles July 1, 2006, for that part of the reporting period prior to July 1, 2006, you will be required to charge and collect GST at a rate of 7% on the reduced consideration for taxable supplies (other than zero-rated), as you currently do. For retailers in participating provinces, the HST rate of 15% applies. For the portion of the reporting period which is on or after July 1, 2006 the GST rate of 6% or the HST rate of 14% applies.

30. I am a manufacturer who has been claiming ITCs equal to the tax fraction 7/107 of the amount of rebates I have paid to consumers who have purchased my product from retailers. After July 1, 2006, if I pay a rebate to a consumer who purchased my product before that date, what is the tax fraction that I will use to calculate an ITC in respect of the rebate?

In order to determine your ITC when you pay a rebate to a consumer, you will apply the tax fraction that reflects the rate of GST in effect at the time that tax became payable in respect of the supply of your product to the consumer. Generally, in respect of purchases occurring prior to July 1, 2006, the GST tax rate is 7% and the tax fraction is 7/107. In respect of purchases of your product by consumers occurring on and after July 1, 2006, the GST tax rate will be 6% and the tax fraction will be 6/106.

Where supplies are made in participating provinces before July 1, 2006, the HST tax rate is 15% and the tax fraction is 15/115. Where supplies are made on or after the July 1, 2006, the HST tax rate will be 14% and the HST tax fraction will be 14/114.

31. How will the reduced rates of GST and HST apply to a price adjustment, such as a volume rebate, paid on or after July 1, 2006, where the supply to which the price adjustment relates occurred before July 1, 2006?

If a supplier chooses to credit a recipient an amount of GST or HST on a price adjustment, the rate of the GST or HST that applies to the price adjustment will be the rate of tax to which the supply to which the price adjustment relates was subject. For example, a price adjustment in relation to a supply that was subject to GST at the rate of 7% will be subject to GST at that same rate.

32. A consumer purchases a good before July 1, 2006 and pays GST of 7%. After July 1, 2006, the consumer returns the good to the supplier because it is defective. The supplier gives the consumer a refund of the price of the good and the GST. What rate of GST will apply to the refund?

The supplier will refund the consumer the rate of GST that the consumer had originally paid, in this case 7%.

33. A consumer purchased a shirt in a participating province before July 1, 2006 and paid HST of 15% on the price of the shirt. After July 1, 2006, the consumer returns to the supplier and exchanges the shirt for another one. What rates of tax apply to the exchange of the shirts?

At the time of the exchange of the shirts there are two transactions occurring: the refund of the price of the shirt being returned and the purchase of the new shirt. The refund of the purchase price of the returned shirt will include the 15% HST that the consumer paid. The purchase of the new shirt will be subject to HST at the rate of 14%, since the HST is payable on the purchase price of the shirt after July 1, 2006.

Tax accounting and invoicing

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34. I use the Quick Method of Accounting to remit the GST/HST. Will the percentages that I use to remit the GST/HST change?

The Quick Method rates will be changed to reflect the reduced rates of GST and HST. The new percentages will apply for reporting periods beginning on or after July 1, 2006. For reporting periods beginning before July 1, 2006 and ending on or after that date, the existing percentages will apply for consideration that became due, or that was paid without having become due, before July 1, 2006 and the new percentages will apply for all other consideration.

The following tables reflect the current and new Quick Method remittance rates for small business.

Table 1

Remittance rates for businesses that purchase goods* for resale

	Permanent establishment in a non-participating province		Permanent establishment in a participating province	
	Current Rate	Reduced Rate	Current Rate	Reduced Rate
Supplies made in a non-participating province	2.5%	2.2%	0% (and 2.1% credit)	0% (and 2.5% credit)

Supplies made in a participating province	9.3%	9%	5%	4.7%
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*In order to use the rates in Table 1, the cost (including GST/HST) of goods (other than basic groceries and other goods for which you did not pay tax) purchased in the previous fiscal year for resale, or used in goods produced or manufactured for resale, must be at least 40% of total annual taxable supplies (including GST/HST) for that fiscal year. Businesses that have less than this percentage of taxable goods for resale use the remittance rates shown in Table 2.

Table 2

Remittance rates for businesses that provide services

	Permanent establishment in a non-participating province		Permanent establishment in a participating province	
	Current Rate	Reduced Rate	Current Rate	Reduced Rate
Supplies made in a non-participating province	5%	4.3%	3.2%	2.6
Supplies made in a participating province	11.6%	11%	10%	9.4%

35. What happens to GST-included pricing on goods such as gasoline?

Effective July 1, 2006, the tax-included pricing for goods such as gasoline, will reflect the new rate of GST at 6% and for sales of these goods made in the participating provinces, HST at 14%.

36. How do I calculate the new rates of tax on a tax-included invoice?

The invoice or receipt should show the rate of GST/HST that has been charged. The amount of the reduced rate of GST on a tax-included amount of consideration is 6/106 of the amount. To calculate the amount of consideration payable on the invoice before the GST, multiply the tax-included amount by 100/106.

The amount of the reduced rate of HST on a tax-included amount of consideration is 14/114 of the amount. To calculate the amount of consideration payable on the invoice before the HST, multiply the tax-included amount by 100/114.

37. How will I complete my GST/HST return to account for the reduced amount of GST/HST?

You will continue to report the total GST/HST collected or collectible in a reporting period, at the rates of 7%, 15%, 6%, or 14%, on line 103 of the GST/HST return. ITCs for the tax paid or payable will continue to be reported on line 106.

38. I am an annual filer for GST/HST reporting and I am required to make quarterly instalment payments. The amount required to be remitted as an instalment payment is the lesser of ¼ of the net tax for the current annual reporting period or ¼ of the net tax for the previous reporting period.

a) If I calculate my instalment payments based on the new rates and I underpay, will I be charged penalty and interest?

The provisions regarding penalty and interest will not be amended as a result of the reduction in the GST/HST rates. If the instalments as required under the ETA are underpaid, penalty and interest will be charged on the amount underpaid.

b) Is there any tolerance if I calculate my instalments incorrectly?

No, unless the reason why the instalments were underpaid falls under the CRA's administrative guidelines under fairness for cancelling penalty and interest. The CRA may waive or cancel interest or penalties when they result from things that are beyond your control, such as illness, or from an inability to pay because of financial hardship.

39. What happens to the 7/107 or 15/115 calculations I use to calculate ITCs using the Simplified

Method for Accounting for ITCs?

When you use the Simplified Method for Accounting for ITCs and you make purchases in both participating and non-participating provinces, you currently have to separate your purchases that are taxable at 7% from those taxable at 15%. To calculate your ITCs for each reporting period, you total your taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiply by 7 and divide the result by 107 for GST purchases; or
- multiply by 15 and divide the result by 115 for HST purchases.

Effective on or after July 1, 2006, when you make purchases subject to 6% GST or 14% HST, to calculate your ITCs on these purchases, you will separate your purchases that are taxable at 6% from those taxable at 14% and:

- multiply by 6 and divide the result by 106 for GST purchases; or
- multiply by 14 and divide the result by 114 for HST purchases.

You can use the Simplified Method to calculate ITCs only for purchases you use to provide taxable goods and services. If you use your purchases for personal use, or to provide both taxable and exempt goods and services, only the portion used for providing taxable goods and services can be included in the ITC calculation. If you use a purchase at least 90% to provide taxable goods and services, you can include the total purchase price in your ITC calculation.

40. For calculating the tax deemed paid or payable on reimbursements paid to employees, pursuant to section 175 of the ETA, the CRA has allowed the use of a factor of 6/106 of the reimbursed expense amount, or 14/114 of the reimbursed amount for expenses incurred in participating provinces, rather than the factors of 7/107 or 15/115. These factors recognize the fact that the expenses may include tips, gratuities and provincial sales tax, which are not subject to the GST/HST. Will there be new factors that we may use when calculating the tax deemed paid on reimbursements to employees, given that the rates of GST and HST are being reduced to 6% and 14% respectively?

Effective for reimbursements paid on or after July 1, 2006, a person will be allowed the option of multiplying the total amount reimbursed for expenses by the factor of 5/105, if 90% or more of these expenses are taxable at 6% GST, or by 13/113 if 90% or more of these expenses are taxable at 14% HST.

The calculation method chosen must be used consistently within each category of reimbursed amounts (e.g., airfare, hotel accommodation, food, beverages and entertainment) throughout the fiscal year.

More detailed information is available in GST/HST Info Sheet GI-014, ***Applying the GST/HST Rate Reduction to Allowances and Reimbursements.***

41. I wrote off an amount as a bad debt for a supply that was subject to GST at the rate of 7%. How do I account for this bad debt deduction when remitting the GST after July 1, 2006, since the debt occurred before the GST rate reduction?

For purposes of deducting an amount from your net tax remittance for the GST/HST written off as a bad debt, subsection 231(1) of the ETA sets out a formula based on the tax that was payable in respect of the supply associated with the debt that is being written off. Therefore, if the amount you wrote off related to a supply subject to 7% GST, this amount of GST would be used in the formula to calculate the amount you may deduct from your net tax remittance.

42. After July 1, 2006, my client finally paid a debt that I had previously written off. I had already deducted an amount for the HST written off with respect to this debt from my net tax remittance. How do I recover this adjustment, since the debt written off included HST at the rate of 15%?

When you recover all or part of a bad debt, subsection 231(3) of the ETA requires you to add to your net tax remittance for the reporting period in which the bad debt or part is recovered, an amount determined by a formula that includes the actual tax payable in respect of the supply to which the bad debt relates. Therefore, you would use the amount of the HST originally charged on the supply to calculate the amount you must add to your net tax remittance.

Rebates

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43. I claim an Employee and Partner GST/HST Rebate for the GST/HST paid on expenses deducted from my employment income for income tax purposes. How do I calculate the rebate where I may

be paying GST at the rate of 7% for some expenses and GST at the reduced rate of 6% for other expenses?

For any rebate for eligible expenses on which you paid GST in the 2006 calendar year, you may claim a rebate equal to 6.5/106.5 of the amount of those expenses and for those eligible expenses on which you paid HST, a rebate equal to 14.5/114.5 of the amount of those expenses.

For subsequent calendar years, the rebates will equal 6/106, and 14/114 respectively, of the amount of the eligible expenses.

44. How will the reduction in the GST rate affect the GST refund for business travellers?

A non-resident business traveller to Canada may claim a refund of the actual GST/HST paid on eligible short-term accommodation, regardless of whether the rate paid is 7%, 15%, 6% or 14%.

The non-resident business traveller may also use the quick calculation option to calculate the GST/HST refund for purchases of tour packages only. The non-resident business traveller can claim a flat rate of \$5 per room per night, up to a maximum of \$75 per individual. The non-resident business traveller can also use the quick calculation option to claim a refund of the GST/HST paid on camping accommodation that is part of a tour package. This is a flat rate of \$1 for each night the campsite was made available to an individual, up to a maximum of \$75 per individual. There are no proposed changes to the flat rates of \$5 and \$1 per night.

45. Currently, a non-resident visitor to Canada may use a streamlined method for claiming a rebate for the GST/HST paid on short-term accommodation and camping accommodation. This streamlined method sets an amount of \$5 per night for short-term accommodation and \$1 per night for camping accommodation. Will these amounts change as a result of the reduction in the GST/HST rates?

No, these amounts will not change.

Miscellaneous

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46. What are the rules for determining what rate of tax will apply to deposits or holdbacks?

The rules that normally determine when GST/HST is payable will continue to apply to determine the appropriate rate of tax. A deposit is not treated as a payment for a supply until the supplier applies it against the consideration for the supply.

For example, if a person makes a deposit of \$100 in April 2006, for a supply that is made after July 1, 2006, the \$100 will not be treated as consideration for the supply until after July 1, 2006. GST/HST at the rate of 6% or 14% will apply to the consideration for that supply.

If a holdback amount is legislatively sanctioned or provided for in a written agreement for the construction, renovation or repair of real property or a marine vessel, GST/HST calculated on the holdback amount becomes payable on the earlier of the day on which the holdback is paid or the day on which the holdback period expires. Therefore, if both of these days occur on or after July 1, 2006, GST/HST at the reduced rate of 6% or 14% will apply to the holdback amount.

47. The ETA has many provisions that deem supplies to be made, and GST/HST to be collected, or paid. How will the new rates apply to these deeming provisions?

Under the proposed rules, the rates of 6% or 14% will be used to calculate GST/HST that is deemed under the ETA to have been paid or collected on or after July 1, 2006.

For example, if, on a day after July 1, 2006, a person pays an employee a reasonable allowance for the use in Canada of a motor vehicle in relation to the person's activities, the person is deemed to have paid the tax on the date. Consequently, the person will be deemed to have paid tax at the 6% or the 14% rate.

48. Will the Government reimburse me the additional costs I incur in changing my cash registers and computer system to accommodate the proposed rate change?

No compensation will be provided to businesses for the costs of implementing the proposed rate change.

49. What happens if I do not change my cash registers or computer systems in time to charge the

new rates of tax on or after July 1, 2006?

The ETA requires that any amount collected, or charged, as or on account of tax must be remitted to the Receiver General. For example, if you collect or charge GST at the rate of 7%, when, in fact, GST at the rate of 6% should have been collected or charged, you must remit the 7% GST you collected or charged to the Receiver General.

However, if you refund or credit your customer the GST that you overcharged, and a credit note or debit note is issued containing the information required under the ETA to substantiate the refund or credit, you may deduct the amount of the refund or credit given to your customer from your net tax remittance. This refund or credit must be given within two years after the day the tax was paid, or charged.

50. Will there be any anti-avoidance legislation introduced to prevent tax benefits from related parties arranging transactions solely to take advantage of the reduced tax rates?

The proposed legislative amendments include a provision to eliminate the tax saving to any party as a result of the rate reduction in circumstances where an agreement entered into on or before May 2, 2006 between related parties is amended primarily to obtain the benefit of the tax reduction. Another provision eliminates the tax saving to any party as a result of the rate reduction in circumstances where transactions between related parties are undertaken primarily to obtain the benefit of the tax reduction.

51. How do the rate changes impact on the change-in-use rules for capital property?

The change-in-use rules for capital property deem an amount of tax to be collected, or paid, equal to the basic tax content of the property. The basic tax content of a property generally means the amount of GST/HST payable on the acquisition of the property and on any improvements to the property, less any amounts that would be reimbursed to you (such as rebates or remissions, but not ITCs). You also have to consider the fair market value of the property at that time and the original cost (including any improvements).

Therefore, the rate changes will only impact on the change-in-use rules when these amounts that you pay or that are payable on the acquisition and improvements to capital property, or for which you receive a rebate, become part of the calculation for determining the basic tax content of the capital property.

52. I am deregistering for GST and therefore the ITCs I claimed on the property I have on hand at the time I deregister must be recaptured. If I deregister after July 1, 2006, how I do ensure that these ITCs are recaptured, since the GST rate has been reduced?

When you cease to be a registrant, any property on hand that you had purchased for consumption, use or supply in your commercial activity is considered to have changed to non-commercial use. As a result, you must ensure that the ITCs previously claimed on such property are recaptured. To do so, you are treated as having disposed of each property (other than capital property) at its fair market value immediately before ceasing to be a registrant and to have collected GST/HST on that amount. The GST/HST is then remittable on your last return as a registrant.

Since you will cease to be a registrant after July 1, 2006, you will be required to remit GST at the reduced rate of 6% on the fair market value of the property (other than capital property), and if this property is located in a participating province, HST at the reduced rate of 14%.

Where the property on hand is capital property, the change-in-use rules will generally apply to deem you to have paid tax equal to the basic tax content of the property. This will apply regardless of when you deregister. The basic tax content of a property is an amount calculated using a formula that takes into account all the GST/HST you paid when you acquired the property and on any improvements on the property.

53. What rate of tax applies to progress payments made after July 1, 2006 that relate to work performed, or property delivered, before that date?

When progress payments are made under a construction contract, GST/HST is payable on the value of each payment on the earlier of the day on which it is paid and the day on which it is due. The reduced GST/HST rates of 6% and 14%, will apply to progress payments made on or after July 1, 2006 (provided that they were not due before July 1, 2006), even though these payments may relate to work performed, or property delivered, before that date.

54. I am a sole proprietor who is using my passenger vehicle less than exclusively in commercial activities. I may only claim ITCs for the GST/HST I paid when I acquired my passenger vehicle based on the capital cost allowance that I claimed on my income tax return for that vehicle. How do I do this now that the GST/HST rate has been reduced?

At the end of each taxation year you are deemed to have acquired the passenger vehicle and to have paid on that day tax in respect of the vehicle equal to an amount determined by the formula

$$A \times B$$

where "A" is the tax fraction (i.e., 7/107, 15/115 or 8/108) based on the rate of tax you paid when you acquired the vehicle, and "B" is generally the capital cost allowance deducted under the *Income Tax Act* for that taxation year in respect of the passenger vehicle.

These tax fractions will now be 6/106, 14/114, or 8/108 in respect of a passenger vehicle acquired in a taxation year that ends on or after July 1, 2006. However, if the taxation year includes that day (July 1, 2006) these tax fractions will be 6.5/106.5, 14.5/114.5, or 8/108.

55. Will the GST rate reduction affect how the security requirement for non-resident registrants is calculated?

Where the rates of tax are reduced, your net tax calculation may be affected which may, in turn, impact on your non-resident security requirements.

56. Taxi businesses that have their fares regulated by law are required to include GST/HST in their fares. Will these tax-included fares be subject to the GST/HST rate reduction?

An amount paid as a taxi fare on or after July 1, 2006 will be a tax-included amount that includes GST equal to 6/106 of the amount, or HST equal to 14/114 of the amount if the transportation is in a participating province.

57. The ETA requires registrants to pay GST/HST on certain taxable benefits provided to individuals who are employees or shareholders. For most taxable benefits, the registrant is deemed to have collected GST equal to 6/106, or HST equal to 14/114, of the value of the taxable benefit reported for income tax purposes, and if the taxable benefit is for a standby charge, on the amount of any reimbursement. For taxable benefits relating to the operating costs of a passenger vehicle, the registrant is deemed to have collected GST at a rate equal to 5%, or HST at a rate of 11%, on the value of the benefit reported for income tax purposes and on any reimbursements. Will these rates of tax change as a result of the proposed reductions in the GST and HST rates?

Registrants will be required to pay GST/HST on certain taxable benefits provided to employees and shareholders at the following rates:

1) For the 2006 taxation year of individuals, if the taxable benefit relates to the operating cost of an automobile, the registrant will be deemed to have collected GST equal to 4.5%, or HST equal to 10.5%, on the value of the benefit reported for income tax purposes and on any reimbursements. For subsequent taxation years, the rates of tax are 4% and 10%, respectively.

2) For the 2006 taxation year of individuals, if the taxable benefit relates to the standby charge of an automobile, or other taxable benefits, the registrant will be deemed to have collected GST equal to 5.5/105.5, or HST equal to 13.5/113.5, of the amount of the value of the taxable benefit reported for income tax purposes, and if the taxable benefit is for a standby charge, on the amount of any reimbursement. For subsequent taxation years, the rates of tax are 5/105 or 13/113, respectively.

58. I am an independent sales contractor selling taxable goods for a direct seller who uses the alternate collection method to account for GST/HST. What rate of tax applies when I sell these goods to consumers on or after July 1, 2006?

GST at the reduced rate of 6%, or HST at the reduced rate of 14% will apply to the goods you sell to consumers on or after July 1, 2006.

Information for Consumers

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General

1. What are the new rates of GST and HST?

The rate of the GST and the federal component of the HST will be reduced from 7% to 6%. The rate of HST will be reduced from 15% to 14%.

2. When are the new rates of GST and HST effective?

The new rates of GST and HST are effective July 1, 2006.

3. When do I pay GST/HST at the new rates?

Generally, you will pay GST/HST at the new 6% and 14% rates for purchases of taxable goods and services in the following circumstances:

- If GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, or
- If you pay GST/HST after July 1, 2006, without it having been payable before that day.

If you pay GST/HST before July 1, 2006, or if the GST/HST becomes payable before July 1, 2006, the rate of 7% GST, or 15% HST will apply.

4. When is GST/HST payable?

GST/HST on the amount payable for the purchase of a good or service is usually payable the earlier of the day payment is made and the day the supplier issues an invoice.

If there is an undue delay in issuing an invoice, GST/HST becomes payable when the invoice would have been issued if there had been no delay. In addition, if either the date of an invoice or the payment date under a written agreement is earlier than the date the invoice is issued, GST/HST becomes payable on the earlier date.

If property is supplied by way of lease, licence or similar arrangement under a written agreement, GST/HST becomes payable the earlier of the day payment is made and the day it is required to be made under the agreement.

If GST/HST is not otherwise payable by the last day of the calendar month following the calendar month in which any of the following events takes place, the GST/HST becomes payable on that day:


- In the case of a sale of tangible personal property, other than a sale referred to below, the buyer acquires ownership or possession of the property;
- In the case of a sale of tangible personal property on approval, consignment, sale-or-return basis or similar terms, the buyer acquires ownership of the property or re-supplies it to someone other than the seller; and
- In the case of a supply under a written agreement for construction, renovation, alteration or repair of real property, or of a ship or other marine vessel when the work is reasonably expected to last more than three months, the work is substantially completed.

5. How do I calculate the new rates of tax on a tax-included price?

The invoice or receipt should show the rate of GST/HST has been charged. The amount of the reduced rate of GST on a tax-included price is 6/106 of the price. To calculate the price of an item before the GST, multiply the price by 100/106.

The amount of the reduced rate of HST on a tax-included price is 14/114 of the price. To calculate the price of the item before the HST, multiply the tax-included price by 100/114.

Purchases of goods

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6. In January 2006, I purchased furniture from a store that had a sales promotion where I do not have to make any payments until January 2007. What rate of tax should apply to this purchase, since I will not receive an invoice for payment until January 2007?

If you received ownership or possession of the furniture in January 2006, the GST was considered payable at the end of February 2006. Since this date is before July 1, 2006, you would have been required to pay GST at the rate of 7%, or HST at the rate of 15% at the end of February 2006.

7. What happens if I purchase an item on or after July 1, 2006 and the supplier charged me GST at the rate of 7% instead of the 6% rate?

You may seek a refund of the overpaid tax directly from your supplier.

As an alternative, you may file for a rebate for the tax paid in error with the CRA, using form GST/HST 189, *General Application for Rebate of GST/HST*.

8. I am purchasing a refrigerator under a layaway plan. Under the written agreement, I am required to make six equal monthly payments from May 2006 to October 2006 (the payments became due during each of these months). I will only receive possession and ownership of the refrigerator after the final payment is made. What rates of tax apply to these payments?

GST at the rate of 7%, or HST at the rate of 15% will apply to the monthly payments required to be made before July 1, 2006. Payments that are required to be made on or after July 1, 2006 will be subject to GST at the rate of 6% or HST at the rate of 14%.

9. If I renew my magazine subscription before July 1, 2006 for magazines that will be delivered to me in the next year, what rate of tax applies to the amount I will pay for this subscription, if I pay it before July 1, 2006?

Payments made before July 1, 2006 for subscriptions will be subject to GST/HST at 7% or 15%, even though the magazines are to be provided after that date.

10. What happens to GST-included pricing on goods such as gasoline?

Effective July 1, 2006, the tax-included pricing for goods, such as gasoline, will reflect the new GST rate of 6% or the new HST rate of 14%.

Services and intangibles

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11. If I receive my electricity bill in a month that includes the day the proposed GST rate changes, what rate of tax will apply?

If the date of the invoice is on or after July 1, 2006, GST at the rate of 6%, or HST at the rate of 14% will be charged on that invoice.

12. If I have an equal billing plan set up for a utility service which covers a period beginning before July 1, 2006, how will the supplier determine which of the payments made in 2006 should be subject to GST at the reduced rates?

The supplier will collect GST at 7% or HST at 15% on payments made or becoming due before July 1, 2006, and GST at the reduced rate of 6% or HST at the reduced rate of 14% on payments made without becoming due on or after July 1, 2006, or as they become due on or after that date.

13. I have an equal billing plan set up for a utility service that covers a period beginning before July 1, 2006. The supplier reconciles my actual consumption of the utility service and the amount that would have been payable on that consumption against the amount I actually paid throughout the period. As a result of the reconciliation, the supplier issues an invoice on or after July 1, 2006 for the remaining amount due on the utility services that I had consumed during the period. What rate of tax applies on the amount of consideration charged on this invoice?

If, as a result of the reconciliation of the account, the supplier issues an invoice after July 1, 2006, for the remaining amount payable on the utility service, the supplier will charge GST at the reduced rate of 6%, or HST at the rate of 14% on the amount owing.

14. I have an equal billing plan set up for a utility service that covers a period beginning before July 1, 2006. The supplier reconciles my actual consumption of the utility service and the amount that would have been payable on that consumption against the amount I paid throughout the period. As a result of this reconciliation, the supplier issues me a credit note on or after July 1, 2006 for the overpayment that I made. What rate of tax applies to the credit amount given to me?

If, as a result of the reconciliation of the account, the supplier issues a credit note on or after July 1, 2006, for the amount that you overpaid the supplier, the supplier may generally credit you, using the rate of GST or HST to which the original supply to which the price adjustment relates was subject. For example, a price adjustment in relation to a supply that was originally subject to GST at the rate of 7% will be subject to GST at that same rate.

15. If the contractor I hired to renovate my kitchen finishes the renovation work before July 1, 2006, but invoices me on or after that date, what rate of tax will he charge me on these services?

Since the contractor issues the invoice on or after July 1, 2006, the contractor will charge you GST at the rate of 6% or HST at the rate of 14%.

16. A contractor whom I hired to renovate my home, will be invoicing me after July 1, 2006 for construction services that will be performed both before and after July 1, 2006. What rate of tax will apply on this invoice for his services?

Since the contractor will be issuing the invoice after July 1, 2006, GST at the rate of 6%, or HST at the rate of 14% will apply to the services billed on this invoice.

17. I was required to make a down payment of \$100 before July 1, 2006 for services that are to be performed after July 1, 2006. The total amount that I will be required to pay for these services is \$500. The invoice for these services will be issued after July 1, 2006. What rate of tax applies to these payments?

GST at the rate of 7%, or HST at the rate of 15% will apply to the down payment of \$100 made before July 1, 2006. GST at the rate of 6%, or HST at the rate of 14%, will apply to the remaining \$400 due for these services invoiced after July 1, 2006.

18. If I make a deposit of \$100 in April 2006, for a service that is to be provided after July 1, 2006, what rate of tax applies to this deposit?

A deposit is not treated as a payment for a supply of goods or services until such time as the supplier applies it against the consideration payable for the supply. Where you make a deposit of \$100 in April 2006, for a service that is to be provided after July 1, 2006, the \$100 will not be treated as payment for that service until after July 1, 2006. GST at the rate of 6%, or HST at the rate of 14% will apply to the payment for that supply.

19. Taxi businesses that have their fares regulated by law are required to include GST/HST in their fares. Will these tax-included fares be subject to the GST/HST rate reduction?

An amount paid as a taxi fare on or after July 1, 2006 will be a tax-included amount that includes GST of 6/106 of the amount, or HST of 14/114 of the amount.

20. I received an invoice from my fitness club before July 1, 2006 for renewal of my membership for the next 12 months. If I do not pay the invoice until after July 1, 2006, will the reduced rate of tax apply?

If the GST/HST becomes payable before July 1, 2006, the rate of 7% GST, or 15% HST will apply. Since the invoice was issued before July 1, 2006, the GST/HST became payable at that time at the rate of 7% or 15%. You will still be required to pay tax at the 7% rate, or the 15% rate, if you pay the invoice after July 1, 2006.

21. If I purchase tickets before July 1, 2006 to attend a concert that is to be held after July 1, 2006, what rate of tax will apply to the purchase of these tickets?

GST/HST at 7% or 15% will apply to tickets purchased before July 1, 2006 for admission to a concert held on or after that date.

Leases

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22. The lease payment for my car is due June 15, but I do not pay it until after July 1, 2006. What rate of tax applies to this lease payment?

Since the lease payment is due before July 1, 2006, GST at the rate of 7% or HST at the rate of 15% will apply to the lease payment, even though you make the payment after July 1, 2006.

22.1 How will the GST rate reduction affect existing leases for vehicles?

GST/HST at the rate of 6% or 14% will apply to lease payments that become payable on or after July 1, 2006 without having been paid prior to that date, including those for leases that were in effect before the Budget announcement. As a result, all lessees of automobiles, RVs and boats should benefit from the GST

reduction on the payments they make on or after July 1, 2006.

Imports

23. What rate of tax will I pay when I import goods?

GST at the rate of 6% will apply to taxable importations of goods imported on or after July 1, 2006 or released from customs control on or after that day.

In most cases, the 15% HST applies at the border to taxable importations of non-commercial goods imported by a resident of a participating province regardless of the point of entry into Canada or customs clearance. If these non-commercial goods are imported on or after July 1, 2006, or released from customs control on or after that day, the resident of a participating province will pay HST at the rate of 14%.

Real Property

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General

1. Does the new rate of tax (GST at 6% or HST at 14%) apply to real property purchased before July 1, 2006?

The new rate of tax (GST at 6% or HST at 14%) applies to a taxable purchase of real property where both ownership and possession are transferred on or after July 1, 2006. There is an exception to this general rule for the purchase of a new or substantially renovated residential complex. If either ownership or possession of the real property is transferred before July 1, 2006, GST at 7% or HST at 15% will apply.

2. Does the GST rate change affect the rate of HST payable in respect of a supply of real property made in a participating province?

The federal portion of the HST will be reduced from 7% to 6%. The 8% rate for the provincial component of the HST will not be affected. As such, a taxable supply of real property (other than a new residential complex where a written agreement of purchase and sale was entered into on or before May 2, 2006) made in a participating province, where ownership and possession of the property are transferred on or after July 1, 2006, will be subject to HST at a rate of 14%.

3. A GST/HST registrant purchases a commercial building that is fully leased to retail tenants. The registrant entered into the agreement of purchase and sale prior to May 2, 2006, and will receive ownership and possession after July 1, 2006. At what tax rate is the registrant required to report and pay the tax payable on the acquisition?

The taxable supply of the commercial building is subject to GST at 6% (or HST at 14%) where ownership and possession are transferred after July 1, 2006. The exception to the general rule is only applicable to the purchase of a new or substantially renovated residential complex and not to commercial real property.


4. A GST/HST registrant purchases a residential apartment building that is already fully occupied and leased to tenants on a long-term basis. Is the registrant required to pay GST/HST if they take possession and ownership of the property after July 1, 2006?

No, the supply of the residential apartment building is exempt pursuant to Part I of Schedule V to the ETA. There are no changes where the supply of the real property is exempt.

5. A GST/HST registrant paid the GST that was payable at the rate of 7% on the purchase of a commercial building. If the return for the reporting period in which tax becomes payable is due after July 1, 2006, can the registrant still claim an ITC at the 7% rate or are they restricted to 6%?

Since tax was payable at the rate of 7%, the registrant may claim an ITC for the GST paid provided that the conditions for claiming the ITC are met. If the commercial building was located in a participating province and HST was payable at 15%, the registrant would claim an ITC for the tax payable at 15%.

Exception – new housing

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6. Does the new rate of tax (GST at 6% or HST at 14%) apply to a new or substantially renovated residential complex purchased before May 2, 2006?

Where a written agreement of purchase and sale was entered into on or before May 2, 2006, and both ownership and possession are transferred on or after July 1, 2006, the GST at 7% or HST at 15% will apply. However, in these circumstances, a Transitional Rebate will be available to the purchaser to account for the rate reduction. If either ownership or possession is transferred before July 1, 2006, regardless of when the written agreement of purchase and sale was entered into, the GST at 7% or HST at 15% will apply and the purchaser will not be entitled to claim a Transitional Rebate.

6.1. After entering into a written agreement of purchase and sale before May 2, 2006, for a residential complex, the purchaser requests that additional upgrades be made to the complex. Does the new rate of tax (GST at 6% or HST at 14%) apply to the additional amount payable for the upgrades?

Upgrades to a residential complex will generally result in modifications to the existing agreement such that the upgrades form part of the agreement for the purchase and sale of the complex. In such a case, the tax rate applicable to the purchase of the complex will prevail. Since a written agreement of purchase and sale was entered into on or before May 2, 2006, the GST at 7% or HST at 15% will apply on the total amount payable for the complex, including the amount payable for the upgrades. However, if both ownership and possession of the complex are transferred on or after July 1, 2006, a Transitional Rebate will be available to the purchaser to account for the rate reduction based on the total amount payable for the complex, including the amount payable for the upgrades. If either ownership or possession is transferred before July 1, 2006, regardless of when the agreement was entered into, the GST at 7% or HST at 15% will apply and the purchaser will not be entitled to claim a Transitional Rebate.

6.2. A written purchase and sale agreement entered into on April 10, 2006, for a new residential complex, provides for standard kitchen cabinets and the purchaser negotiates with the builder for an upgrade to deluxe cabinets on May 16, 2006. Does the new rate of tax apply to the additional amount payable for the upgrade?

The additional amount that the builder charges for the upgrade will be an additional amount payable for the residential complex. The purchaser is not considered to have entered into a new agreement as a result of the upgrade and there is no impact on the application of the transitional rules. Since the agreement was entered into on or before May 2, 2006, if both ownership and possession are transferred on or after July 1, 2006, GST/HST will apply at the rate of 7% or 15% on the total amount payable for the residential complex, including the upgrade. In this case, the purchaser may claim a GST/HST Transitional Rebate. When determining the amount of the rebate, the total amount paid for the complex includes the additional amount paid for the upgrade. A GST/HST Transitional Rebate is not available if ownership or possession is transferred on or before July 1, 2006 and GST/HST will apply at the rate of 7% or 15%.

7. Does the new rate of tax (GST at 6% or HST at 14%) apply to new or substantially renovated housing purchased after May 2, 2006?

Where an agreement of purchase and sale is entered into after May 2, 2006, the new rate of tax (GST at 6% or HST at 14%) will apply provided both ownership and possession are transferred on or after July 1, 2006. If either ownership or possession is transferred before July 1, 2006, the GST at 7% or HST at 15% will apply and the purchaser will not be entitled to claim a Transitional Rebate.

8. A purchaser entered into a written agreement of purchase and sale in November 2005, to purchase a new residential complex, but does not take possession and title of the complex until after July 1, 2006. What rate of tax is applicable?

The purchase of a new residential complex under a written agreement of purchase and sale entered into on or before May 2, 2006 is subject to the GST at 7% or HST at 15% if both ownership and possession of the complex are transferred on or after July 1, 2006. However, in these circumstances, the purchaser of the residential complex will be entitled to claim a Transitional Rebate to account for the rate reduction.

9. A purchaser of a new residential complex will receive title to the complex before July 1, 2006, but will not have possession until after July 1, 2006. What rate of GST/HST is applicable?

GST at 7% (or HST at 15%) applies since ownership of the residential complex will be transferred before July 1, 2006, even though possession will be transferred after July 1, 2006. In this case, the purchaser will not be entitled to claim a Transitional Rebate since ownership will be transferred before July 1, 2006.

10. A person will obtain possession, under an agreement of purchase and sale, of a new condominium unit before July 1, 2006, but the closing date of the sale will not occur until after July 1, 2006. What rate of GST/HST is applicable?

GST at 7% (or HST at 15%) applies since possession of the residential complex will be transferred before July 1, 2006, even though title will be transferred after July 1, 2006. In this case, the purchaser will not be entitled to claim a Transitional Rebate since possession will be transferred before July 1, 2006.

10.1. What happens if the purchaser of a new residential complex replaces a previous purchaser in the agreement of purchase and sale?

It must be determined whether the agreement has been modified, varied or otherwise materially altered to the extent that a new agreement is entered into and, as a result, whether novation has occurred. If novation has occurred, the application of the transitional rule for sales of new housing will be based on the date the new agreement is entered into, as well as the dates that possession and ownership are transferred under that new agreement. Reference should be made to the draft policy statement released on June 27, 2005, entitled **Agreements and Novation**. If novation has not occurred, the application of the transitional rule will be based on the date that the agreement was entered into as well as the dates that ownership and possession are transferred under that agreement. Generally, however, a change in the purchaser (i.e., the person liable to pay for the supply) would result in a novation, i.e., a new agreement.

10.2. A written purchase and sale agreement is entered into on April 19, 2006 for a new residential complex where possession and ownership will be transferred on June 25, 2006. The purchaser and builder renegotiate the terms of the agreement and enter into a new agreement on May 5, 2006. Ownership and possession under the new agreement will be transferred on July 5, 2006. Does the new rate of tax (GST at 6% or HST at 14%) apply to this transaction?

Where the builder and purchaser renegotiate the terms of agreement to purchase a new residential complex and enter into a new agreement of purchase and sale, the transitional rule will apply to the new agreement. Since the new agreement is entered into after May 2, 2006, and possession and ownership, under the new agreement, are transferred on or after July 1, 2006, the GST will apply at 6% (or the HST at 14%). The purchaser is not entitled to claim a GST/HST Transitional Rebate in this situation.

Transitional rebate [Top of page](#)**11. How does a person claim a Transitional Rebate?**

To claim a Transitional Rebate, a person must complete an application form and file it with the CRA. If a new housing rebate is available in respect of the purchase, the individual who claimed the new housing rebate is the individual who claims the Transitional Rebate.

When the application form becomes available you will be able to obtain it on the CRA Web site or by calling 1-800-959-2221.

12. An individual is not entitled to claim a new housing rebate for their house because the purchase price of the house is \$500,000. Can the individual claim a Transitional Rebate?

Yes. The Transitional Rebate is not conditional on receiving a new housing rebate, nor is it subject to any maximum purchase or fair market value amount.

13. Are there any restrictions on the type of property for which a Transitional Rebate may be claimed?

The Transitional Rebate may only be claimed in respect of a taxable purchase of a new or substantially renovated residential complex, and may include a deemed supply under section 191 of the ETA. A Transitional Rebate is not available in respect of an owner-built house.

14. An individual and their spouse purchase a new residential complex under a written agreement signed before May 2, 2006 and ownership and possession are transferred after July 1, 2006. The total consideration payable for the complex is \$300,000. The individual claimed the new housing rebate. Are they entitled to the Transitional Rebate and if so can the spouse file the claim?

Yes, the Transitional Rebate is available for the purchase of a new residential complex under a written agreement entered into on or before May 2, 2006, where both the transfer of ownership and possession of the complex occur on or after July 1, 2006.

Where a Transitional Rebate is available and a new housing rebate is also available, the individual claiming the new housing rebate claims the Transitional Rebate.

15. An individual claimed a new housing rebate of \$8,750 for a new residential complex that they purchased for \$350,000. They are entitled to a Transitional Rebate as the complex was purchased under a written agreement signed before May 2, 2006, and ownership and possession will be transferred after July 1, 2006. What effect will the new housing rebate claim of \$8,750 have on their Transitional Rebate?

The Transitional Rebate reflects the reduction in the tax rate (GST to 6% and HST to 14%) net of any adjustments for any corresponding rebate (e.g., a new housing rebate).

Where a new housing rebate is also available, the following formula will apply to determine the Transitional Rebate:

$$A \times [0.01 - \frac{(B/A)}{7}]$$

Where

A = Total consideration paid for the residential complex

B = Total amount of any available rebate such as the new housing rebate

In the example above, the Transitional Rebate would be equal to \$2,240, as follows:

$$\begin{aligned} & \$350,000 \times [0.01 - \frac{(\$8,750/\$350,000)}{7}] \\ &= \$350,000 \times [0.01 - \frac{0.025}{7}] \\ &= \$350,000 \times [0.01 - 0.0036] \\ &= \$2,240 \end{aligned}$$

16. Is the Transitional Rebate only available to individuals?

No, any person purchasing a new or substantially renovated residential complex may be eligible to claim a Transitional Rebate unless the person was entitled to claim an ITC in respect of the purchase. The amount of the Transitional Rebate takes into account any rebate that the person may be entitled to claim (e.g., a new housing rebate or public service bodies rebate).

16.1 Can the transitional rebates available for purchasers of new housing be assigned or transferred to a builder?

No, there is no provision to assign, to the builder or to any other person, the transitional rebate available to purchasers of new housing. The purchaser must complete a separate application for the transitional rebate and submit it to the Summerside Tax Centre. Where the purchaser qualifies for a transitional rebate, payment of the transitional rebate will be made by the CRA to the purchaser only.

It should be noted that, while new housing rebates also cannot be assigned to the builder or any other person, the *Excise Tax Act* includes mechanisms to allow builders to pay or credit the amount of certain new housing rebates to a purchaser and to deduct the amount paid or credited in determining the builder's net tax, where certain conditions are met such as when the duly completed rebate application signed by the purchaser has been transmitted to the Minister of National Revenue. However, such mechanisms are not available for the transitional rebate. As a result, it is not possible for a builder to pay or credit an amount for the transitional rebate to the purchaser.

17. A person claimed a full ITC on the purchase of a new residential complex as it is used exclusively in commercial activities. Is the person able to claim a Transitional Rebate?

No, where an ITC is available in respect of the purchase of a residential complex, a Transitional Rebate is not available.

GST/HST new housing rebates

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18. Will there be any changes to the rules for claiming a new housing rebate for builder-built housing?

There will be a reduction of the maximum rebate amount from \$8,750 to \$7,560 to account for the reduction in the GST rate.

19. An individual purchases a newly constructed house from a builder for use as the individual's primary place of residence. The purchase price is \$320,000 plus GST, and the new housing rebate is not paid or credited to the individual by the builder. Is the purchaser eligible for a GST new housing rebate? If so, what is the amount of the rebate?

Individuals who purchase a house for use as their primary place of residence will continue to be entitled to a new housing rebate for part of the GST (or the federal component of the HST) that they pay on their purchase. Where the GST is payable at 7%, the maximum rebate amount is equal to the lesser of 36% of the GST paid and \$8,750. Where GST is payable at 6%, the maximum rebate amount is equal to the lesser of 36% of the GST paid and \$7,560.

Therefore, in this example, if ownership or possession of the house is transferred before July 1, 2006, such that GST is payable at the rate of 7%, the amount of the rebate would be equal to \$8,064 (i.e., the lesser of \$8,750 and 36% of the tax payable on the purchase of the house).

If ownership and possession are transferred on or after July 1, 2006, and GST is payable at the rate of 6%, the amount of the rebate would be \$6,912 (i.e., the lesser of \$7,560 and 36% of the 6% tax payable on the purchase price of \$320,000).

20. Will the GST/HST rate reduction have any effect on the new housing rebate in respect of the provincial component of the HST available for a residential complex that is for use in Nova Scotia?

There will be no changes to the housing rebate in respect of the provincial component of the HST for a residential complex that is for use in Nova Scotia.

21. Will there be any changes to the rules for claiming a rebate for owner-built housing?

There will be a reduction of the maximum rebate amount from \$8,750 to \$7,560. In the case of owner-built homes where the owner incurs eligible expenses that are subject to GST at 7% and 6% (or HST at 15% and 14%), the claimant will be required to determine the extent to which tax was paid at 7% (or 15%) to determine the maximum rebate amount that is available. If all or substantially all of the tax was paid at the lower rate (6% GST or 14% HST), the maximum rebate amount will be \$7,560.

22. An individual is building a new house. Do they have to keep track of the invoices for which they pay 7% GST (or 15% HST) and those for which they pay 6% GST (or 14% HST)? How do they calculate the maximum new housing rebate for which they are eligible?

Yes, they must keep track of all invoices for purchases that are taxed at the higher rate (7% GST or 15% HST) and the lower rate (6% GST or 14% HST). The maximum new housing rebate will be determined on a proportional basis. The maximum rebate amount is equal to \$7,560 plus the extent (expressed as a percentage) to which tax was paid at 7% multiplied by \$1,260. If all or substantially all of the tax was paid at the lower rate (6% GST or 14% HST), the maximum rebate amount will be \$7,560.

For example if 60% of the individual's tax paid was at the rate of 7%, the maximum rebate amount will be:

$$\begin{aligned}
 &= \$7,560 + (60\% \times \$1,260) \\
 &= \$7,560 + \$756 \\
 &= \$8,316
 \end{aligned}$$


23. What effect will the GST rate reduction have on the cooperative housing rebate?

The maximum amount of a cooperative housing rebate will be reduced from the lesser of \$8,750 and 2.34% of the total consideration payable to the lesser of \$7,560 and 2.04% of the total consideration payable for a share of or interest in the corporation, complex or unit. The thresholds for the total consideration will be reduced from \$481,500 to \$477,000 and the amount at which the phase-out applies will be reduced from \$374,500 to \$371,000.

24. Will the GST/HST rate reduction have any effect on the new residential rental property rebate?

As with the new housing rebate, there will be a reduction of the maximum rebate amount from \$8,750 to \$7,560.

Leases

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25. A person enters into a commercial lease with their landlord on March 1, 2006. The lease payments are subject to tax and are due on the first of each month. What effect will the GST/HST rate reduction have on the monthly rental payments?

GST/HST becomes payable on a supply of real property by way of lease, licence or similar arrangement on the earlier of when the payment is made and when the payment is required to be made under the agreement for the supply. Therefore, where lease payments are due on the first of each month, GST at 6% (or HST at 14%) will apply to a lease payment due on or after July 1, 2006, unless the payment was made earlier. The GST at 7% (or HST at 15%) will apply to lease payments that become due before July 1, 2006, or that are paid before July 1, 2006 without having become due.

26. Before July 1, 2006, a corporation makes prepaid lease payments for their Halifax offices until the end of 2006. At what rate is HST applicable to the lease payments?

HST becomes payable on a supply of real property by way of lease on the earlier of the day the payment is made and the day the payment is required to be made under the agreement. Since the pre-payments for the lease were made before July 1, 2006, HST at the rate of 15% applies to these payments.

27. What rate of GST/HST will apply to lease payments due before July 1, 2006, which are paid after July 1, 2006?

Even if paid after July 1, 2006, 7% GST (or 15% HST) will apply to all lease payments that become due before July 1, 2006.

Services and real property

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28. An individual purchases a parcel of land prior to May 2, 2006. After May 2, 2006, the individual enters into an agreement for the construction of a house that is to be used as that individual's primary place of residence once it is completed. The individual makes progress payments to the company constructing the house. The house is completed after July 1, 2006. What rate of tax applies to the progress payments? What effect will the change in the GST/HST rate have for payments made after July 1, 2006 in respect of services performed before that date?

For progress payments made under a construction contract, the tax is payable on the value of each payment on the earlier of the day on which the payment is made and the day on which the payment becomes due. Therefore, all progress payments that are payable on or after July 1, 2006, and that are not paid before July 1, 2006, are subject to tax at the new rate (GST at 6% or HST at 14%). Progress payments that are made or that become payable before July 1, 2006 are subject to GST at 7% or HST at 15%. The rate of tax is dependent on when the tax is paid or becomes payable rather than when the services are performed.

29. Before July 1, 2006, a corporation enters into a long-term fixed price contract, including GST/HST, with a registrant for the maintenance and renovation of several buildings owned by the corporation before July 1, 2006. What effect will the GST/HST rate change have on these contracts?

All payments made or that become due before July 1, 2006 would be subject to GST at 7% (or HST at 15% for a supply in a participating province), whereas all payments that become due on or after July 1, 2006, and that are not paid before July 1, 2006, would be subject to GST at 6% (or HST at 14%).

30. What rate of GST/HST applies to services, such as legal services, or sales commissions, that are in respect of supplies of real property?

The rate of tax in respect of a supply of a service in relation to real property is dependent on when the tax becomes payable or is paid. Where tax becomes payable, or is paid without having become payable, before July 1, 2006, GST at 7% or HST at 15% will apply. Where tax becomes payable or is paid on or after July 1, 2006 without having been payable before that date, tax at the new rate (GST at 6% or HST at 14%) will apply.

Generally, tax payable in respect of a supply of a service is payable on the earlier of when payment is made and when the consideration for the supply becomes due. The consideration for a supply generally becomes due when the supplier issues an invoice in respect of the supply. If there is an undue delay in issuing an invoice, tax becomes payable on the day the invoice would have been issued had there been no delay.

31. An individual purchases a residential complex and takes ownership and possession of the complex before July 1, 2006. The individual's lawyer issues an invoice to the individual for services rendered in relation to the purchase of the complex after July 1, 2006. What rate of tax applies to the

legal services provided?

In the absence of any other factors (e.g., an undue delay in issuing the invoice), the tax becomes payable when the lawyer issues the invoice or at the time payment was made if that time is earlier than the time of issuing the invoice. Given that the invoice was issued after July 1, 2006, the lawyer will charge tax at the new rate (GST at 6% or HST at 14%).

Public service bodies

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32. How will the change affect public service bodies that are deemed to have made and received a supply of real property as a result of the revocation of an election made under section 211 of the ETA?

Public service bodies that are deemed to have made and received a supply of real property as a result of revoking an election made under section 211 will be deemed to have paid and collected tax equal to the basic tax content of the property, rather than tax calculated on its fair market value. The deemed tax collected upon revocation of the election will no longer qualify for the public service bodies rebate since the basic tax content is an amount that takes rebates into account.

This change will apply in respect of GST/HST deemed to have been paid and collected on or after May 2, 2006.

First Nations taxes**1. I am an Indian residing on an Indian reserve where I own and operate a gas station as a proprietor. I charge my customers the community improvement fee imposed by the Indian band, which is a First Nation Tax (FNT) that replaces the GST on sales of fuel on the reserve. Will the rate of tax that I charge to my customers be affected by the reduction of the rate of GST?**

Yes, since the rate of the FNT follows the rate of GST, the rate of FNT on the three products to which it applies (fuel, alcoholic beverages and tobacco products) will be reduced to 6%. As a result, on or after July 1, 2006, you will charge 6% FNT to all of your customers purchasing fuel on reserve, and your suppliers who deliver fuel to you on reserve will charge 6% FNT to you. You will continue to complete the form GST499.

2. I am a First Nations individual residing on an Indian reserve where FNT is imposed by my Indian band on certain products. Will the reduction of the rate of GST mean that the rate of FNT we pay will be reduced as well?

Yes, the rate of FNT will be reduced to 6%.

3. I am a First Nations person residing on Settlement Lands of a self-governing First Nation in the Yukon that imposes a First Nation Goods and Services Tax (FNGST) on supplies acquired on its lands. I own and operate a convenience store that is located on these lands. Will the rate of tax that I charge to my customers be affected by the reduction of the rate of GST?

Yes, the rate for the FNT follows the rate of GST. As a result, on July 1, 2006, the rate of FNGST will be reduced to 6%. You will charge 6% FNGST to your customers, and your suppliers delivering to you on the Settlement Lands will charge 6% FNGST to you.

4. I reside on the Settlement Lands of a self-governing First Nation in the Yukon that has imposed FNGST on its lands. Will the reduction of the rate of GST mean that I will pay a reduced rate of FNGST?

Yes, on July 1, 2006, the rate of FNGST will be reduced to 6%, for everyone acquiring taxable property and services on the Settlement Lands.


5. I am the comptroller for a large automotive fuel refiner and supplier. We deliver fuel to gas stations on Indian reserves and, in the Yukon, on Settlement Lands of self-governing First Nations. FNT has been imposed on a number of the Indian reserves that we deliver fuel to. In Yukon, there are gas stations that we deliver to that collect FNGST for the First Nation. Will the reduction of the rate of GST affect our administration of the FNT and the FNGST?

Yes, since the rate of the FNT and FNGST follows the rate of GST, the rate of both FNT and FNGST will be reduced to 6% on July 1, 2006.

As a result, the only change will be that you will charge 6% FNT or FNGST to your clients as applicable on or after July 1, 2006.



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TAB 2

Excise and GST/HST News

No. 60

Spring 2006

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Budget 2006

The *Federal Budget* tabled by the Minister of Finance on May 2, 2006 included several proposed measures relating to the goods and services tax and the harmonized sales tax (GST/HST), excise tax, excise duty and the air travellers security charge. Following the Budget, Bill C-13, the *Budget Implementation Act, 2006* was introduced in the House of Commons and received second reading on May 19, 2006.

The following is a brief synopsis of these proposed measures. For more detailed information please refer to the Department of Finance Web site dedicated to the federal budget at this address: www.fin.gc.ca

GST/HST reduced rate

General

Effective July 1, 2006, the rate of GST will be reduced from 7% to 6% and the rate of HST will be reduced from 15% to 14%.

Generally, the new rates apply to the supply of taxable goods and services in the following manner:

- If GST/HST becomes payable on or after July 1, 2006 without having been paid before that day, the 6% GST rate or the 14% HST rate will apply.
- If GST/HST is paid on or after July 1, 2006 without having become payable before that day, the 6% GST rate, or the 14% HST rate will apply.
- If GST/HST becomes payable or is paid before July 1, 2006, the 7% GST rate or the 15% HST rate will apply.

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La version française de ce bulletin est intitulée
Nouvelles de l'accise et de la TPS/TVH.



Canada Revenue
Agency

Agence du revenu
du Canada

Canada

The HST applies only to supplies made in or imported into the participating provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador. The GST applies to supplies made in the rest of Canada.

In addition to the general rule, certain types of transactions (i.e., sales of real property, deemed supplies, imported goods and imported taxable services and intangibles) will have specific transitional rules. There is also an anti-avoidance provision implemented to maintain the integrity of the GST/HST system through the transition period. These rules are discussed in more detail in *Annex 3: Tax Measures: Supplementary Information and Notices of Ways and Means Motion* on the Department of Finance Budget 2006 Web site.

GST/HST Transitional Rebate for new or substantially renovated houses

Where an agreement, in writing, for the purchase and sale of a newly constructed or substantially renovated house was entered into on or before May 2, 2006, and both ownership and possession are transferred on or after July 1, 2006, GST at 7% or HST at 15% will apply. However, a GST/HST Transitional Rebate will be available for purchasers of such housing to account for the rate reduction. Only in certain cases where a builder sells new or substantially renovated housing on leased land would the builder be entitled to claim a GST/HST Transitional Rebate.

If either ownership or possession of a new or substantially renovated house is transferred before July 1, 2006, regardless of when the agreement of purchase and sale was entered into, the GST at 7% or the HST at 15% will apply and the purchaser will not be entitled to claim a GST/HST Transitional Rebate.

The GST/HST Transitional Rebate available to a purchaser cannot be paid or credited by the builder. The purchaser must complete a rebate application and submit it to the Summerside Tax Centre. When the application form is available, you will be able to obtain it from the CRA Web site.

People selling new homes, such as builders, should make their clients aware of this transitional rebate.

For more information on the GST/HST rate reduction, please refer to the Questions and Answers which were created to assist you in understanding how the GST/HST rebate reduction will apply. As well, three new GST/HST Info Sheets have been published: GI-013, *Reduction in the Rate of the GST/HST*, GI-014, *Applying the GST/HST Rate Reduction to Allowances and Reimbursements*, and GI-015, *GST/HST Rate Reduction and Purchasers of New Housing*. You may also call the GST/HST rate reduction information line at 1-866-959-7797 from 8:15 a.m. to 8:00 p.m.

Air Travellers Security Charge rates

As a result of the proposed GST/HST rate reduction, the Air Travellers Security Charge (ATSC) rates will be adjusted. These ATSC rates will apply to air transportation services purchased on or after July 1, 2006, that include a chargeable emplanement on or after July 1, 2006.

For specific details regarding the rate reductions, please refer to ET/SL Notice 59, *Notice to all Air Carriers: Rate Reductions for the Air Travellers Security Charge*.

Elimination of tax on jewellery products

The excise tax on the following products is eliminated, effective May 2, 2006.

- clocks with a duty paid value or sale price of \$50 or more;
- articles made in whole or in part of natural shells or semi-precious stones;
- jewellery, including diamonds and other precious or semi-precious stones, for personal use or adornment of the person; and
- goldsmiths' and silversmiths' products.

All licensed manufacturers and licensed wholesalers of jewellery will be provided with further information at a later date regarding the cancellation of their excise tax licences.

For specific details regarding this rate elimination, please refer to ET/SL Notice 60, *Notice to all Importers and Licensed Jewellery Manufacturers and Wholesalers under the Excise Tax Act, Elimination of the Excise Tax on Jewellery Products*.

Alcohol and tobacco duties

The federal budget proposes to increase excise duties on spirits, beer and wine and tobacco products. To view a table showing the federal excise duty increases that will apply beginning July 1, 2006, please see Excise Duty Notice EDN9, *Excise Duty Rate Changes – July 1, 2006*.

Tobacco products inventory tax

The federal budget proposes to apply a tax on inventories of tobacco products held on July 1, 2006. Please see Excise Duty Notice EDN 10, *Tobacco Products Inventory Tax* for more information.

Excise duty on wine

The federal budget proposes to exempt from duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100 % Canadian-grown agricultural products.

The proposed relief will apply to all goods falling within the definition of wine in the Act (including ciders, wine coolers, fruit wines and sake) made from 100 % Canadian-grown agricultural products. The relief will be available to wine licensees operating in Canada. This measure will apply to wine packaged on or after July 1, 2006.

For more information please see Excise Duty Notice EDN11, *Excise Duty Exemption on 100% Canadian Wine*.

Excise duty on beer – small and mid-sized brewers

The federal budget proposes that reduced rates of excise duty apply to licensed Canadian brewers who have produced and packaged no more than 300,000 hectolitres (hl) of beer in the previous calendar year and do not exceed that limit in the current calendar year.

For 2006, licensed Canadian brewers will be eligible for relief only in respect of beer they package on or after July 1, 2006. To qualify for the reduced rates in 2006, these producers must have produced and packaged no more than 300,000 hl in 2005 and not exceed that level in all of 2006.

For more information please see Excise Duty Notice EDBN6, *Excise Duty Rate Changes on Beer Produced by Small and Mid-Sized Brewers*.

Standardized accounting

Standardized accounting aims to simplify tax compliance, primarily for business persons, by harmonizing various administrative, interest and penalty provisions across federal tax statutes. The goal of this initiative is an integrated set of rules for the payment of tax, calculation of interest, and penalties that simplifies the tax system for both business and the CRA and ultimately leads to increased efficiency and cost savings.

The first series of standardized accounting measures, which harmonized a number of administrative and enforcement provisions under the *Excise Tax Act* (non-GST), the *Excise Act, 2001*, and the *Income Tax Act*, became law effective July 1, 2003.

The federal budget proposes measures that harmonize a number of other administrative, interest and penalty provisions, primarily as they relate to the GST portion of the *Excise Tax Act*, but also affecting the *Excise Tax Act* (non-GST), *Excise Act, 2001*, *Income Tax Act*, and the *Air Travellers Security Charge Act*. These measures will apply based on an implementation date that is the later of April 1, 2007 and the date that the proposed legislation receives Royal Assent.

For specific coming-into-force provisions please see *Annex 3: Tax Measures: Supplementary Information and Notices of Ways and Means Motion* on the Department of Finance Budget 2006 Web site.

GST/HST Web Registry

The *Excise Tax Act* has recently been amended to enable the creation of a GST/HST Web Registry.

The registry can be used to verify the GST/HST registration of a person. This is important for GST/HST registrants since they are required to ensure that they claim input tax credits only where the GST/HST has been charged by suppliers who are registered for GST/HST purposes.

In the past, registrants needing this kind of information had to contact the CRA by telephone. Now, registrants and other members of the public can access the registry themselves to verify a supplier's GST/HST registration on-line. This will streamline the process by ensuring that a supplier's registration information is readily available. The registry has been designed so that a supplier's registration status may be verified for a specific invoice date.

Registrants whose business or trading names appear on their invoices should verify that these same names are displayed on their GST/HST statements and returns from the CRA. Any names that are not on file at CRA cannot be verified through the registry. If you are unsure whether these names have been provided to the CRA, contact Business Enquiries at 1-800-959-5525.

To access this registry please go to www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html

Excise duty licences other than beer

All licences issued under the *Excise Act, 2001* (i.e., issued to spirits licensees, tobacco licensees, tobacco dealers, wine licensees, licensed users, excise warehouse licensees, special excise warehouse licensees and duty free shop licensees) expire after a maximum of two years if not renewed. As well, in certain cases, a licence may be suspended or cancelled prior to its normal expiry date.

For certain transactions to be in compliance with the *Excise Act, 2001* (the Act), one or both parties to the transaction must have the appropriate licence or registration.

For example:

- A licensed tobacco dealer sells raw leaf tobacco to another company to be processed into cut filler for the company's own production of cigarettes. Because of limitations under the Act as to who may possess raw leaf tobacco, the licensed tobacco dealer must be certain that the party to whom it sells raw leaf tobacco is a tobacco licensee under the Act. The tobacco licensee should also be certain that the tobacco dealer from whom it makes the purchase is licensed under the Act to sell raw leaf tobacco.
- A spirits licensee has produced bulk spirits that it ships to another party to have them packaged and subsequently returned to place in the licensee's own excise warehouse on an excise duty deferred basis. Both parties must have spirits licences under the Act in order to engage in the production or packaging of spirits and to possess bulk spirits. The second party must also be certain that the licensee to whom it is returning the packaged spirits for storage also has an excise warehouse licence entitling it to receive the packaged spirits and store them on a duty deferred basis.
- A spirits licensee wishes to sell and ship specially denatured alcohol (SDA) to a person who claims to be an SDA registrant. The spirits licensee, who is entitled to possess SDA, must be certain that the party to whom it sells and ships the SDA is indeed an SDA registrant.

To confirm whether a person with whom you are dealing has the proper licence or registration, call the nearest Regional Excise Duty Office. These offices are listed in Excise Duty Memorandum 1.1.2, *Regional Excise Duty Offices*.

A person who wishes to renew their licence must submit, at least 30 days before the expiry date, a completed application form L63, *Licence and Registration Application Excise Act, 2001*, to any CRA tax services office. The person should indicate in the appropriate box on the form that the application relates to the renewal of an existing licence. A person who wishes to apply for a registration should use form L63 as well.

For more information on how to apply for or renew an excise duty licence please see Excise Duty Memorandum 2.2.1, *Obtaining and Renewing a Licence*.

Third party authorization – keep your BN account up to date

It is important for you to keep your Business Number (BN) account up to date when it comes to information regarding authorized third parties. Authorized third parties often call the CRA looking for specific information to complete a tax return or to change account information such as the address, telephone and contact information. If the name of the party contacting the CRA is not on file, we cannot respond to the request.

To avoid disappointment and delays in responding to your account enquiry, please mail a completed and signed RC59, *Business Consent Form* to the CRA whenever there is a change or addition to your third party information. This form can be downloaded from the CRA Web site.

Processing the form or letter usually takes five to 10 business days from the day received.

Simplified method for calculating input tax credits

The simplified method for calculating input tax credits (ITCs) is an alternative way of calculating the input tax credit portion of your GST/HST return.

You can use this method if you meet all of the following requirements:

- You are a GST/HST registrant.
- You are **not** a listed financial institution.
- You and your associates have annual worldwide revenues from taxable supplies of goods and services totalling \$500,000 or less both in your immediately preceding fiscal year and the preceding fiscal quarters in the current fiscal year. This limit does not include goodwill, zero-rated financial services, or sales of capital real property.
- Your taxable purchases in Canada must also not exceed \$2 million in the immediately preceding fiscal year. The \$2 million purchase limit does not include zero-rated purchases, but does include purchases imported into Canada or brought into a participating province. If you are a public service body, you must be able to reasonably expect that your taxable purchases in the current fiscal year will not be more than \$2 million.

If you qualify, you can begin using the simplified method for calculating ITCs at the beginning of any reporting period in a fiscal year. It is not necessary to file a separate form with us to use the simplified method but you do have to use it consistently for one year if you continue to qualify.

With the simplified method for calculating ITCs, you don't have to separate the amount of GST/HST payable on each invoice. Instead, you only need to add the total amount of your taxable purchases other than zero-rated purchases, including GST or HST, other taxes and duties imposed on imported goods, non-recoverable provincial sales tax (PST), tips, and penalty and interest charges on late payments. If you make purchases in both participating and non-participating provinces, you will need to separate your purchases that are taxable at 7% from the purchases that are taxable at 15%.

To calculate your ITC you simply multiply your total taxable (other than zero-rated) purchases by 7/107 for GST purchases and 15/115 for HST purchases.

If you make purchases in both participating and non-participating provinces, you currently have to separate your purchases that are taxable at 7% from those taxable at 15%. To calculate your ITCs for each reporting period, you total your taxable purchases (other than zero-rated purchases), including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiply by 7 and divide the result by 107 for GST purchases; or
- multiply by 15 and divide the result by 115 for HST purchases.

Effective on or after July 1, 2006, when you make purchases subject to 6% GST or 14% HST, to calculate your ITCs on these purchases, you will separate your purchases that are taxable at 6% from those taxable at 14% and:

- multiply by 6 and divide the result by 106 for GST purchases; or
- multiply by 14 and divide the result by 114 for HST purchases.

You can use the simplified method to calculate ITCs only for purchases you use to make taxable supplies of goods and services. If you use your purchases for personal use, or to make both taxable and exempt supplies of goods and services, only the portion used for making taxable supplies of goods and services can be included in the ITC calculation. However, if you use a purchase at least 90% to make taxable supplies of goods and services, you can include the total purchase in your ITC calculation. You will also have to keep the usual documents to support your input tax credit claims for audit purposes.

For more information and examples of how to calculate your ITCs using on the simplified method, please refer to the CRA guide RC4022, *General Information for GST/HST Registrants*.

What's new in publications

All GST/HST forms and guides affected by the federal budget will be updated and available on the CRA Web site by July 1, 2006. In addition, two new forms for claiming the GST/HST Transitional Rebate for new or substantially renovated houses, and one new form for claiming the new housing rebate for owner-built homes will be available.

The CRA will soon make available to retailers, on request, information about the reduced rates for GST/HST and new stickers that show the new rate for each tax. The stickers can be displayed in places of business. Retailers will be able to order these items online at www.cra.gc.ca or by calling 1-800-959-2221. More information will be provided on the CRA Web site closer to the July 1, 2006 implementation date for the new rates.

GST/HST Pamphlets/Guides

RC4405 GST/HST Rulings - Experts in GST/HST Legislation

GST/HST Forms

RC145 Request to Close Business Number Accounts

GST/HST Info Sheets

- GI-013 Reduction in the Rate of the GST/HST
GI-014 Applying the GST/HST Rate Reduction to Allowances and Reimbursements
GI-015 GST/HST Rate Reduction and Purchasers of New Housing

GST/HST Technical Information Bulletins

- B-093 Application of the GST/HST to Cemetery Products and Services

Excise Duty Notices

- EDBN4 Amendment to the Payment Schedule for Brewers
EDBN5 K50B Filing and Payment Schedules for Brewers (2006-2007)
EDBN6 Excise Duty Rate Changes on Beer Produced by Small and Mid-Sized Brewers
EDN 9 Excise Duty Rate Changes—July 1, 2006
EDN10 Tobacco Products Inventory Tax
EDN11 Excise Duty Exemption on 100% Canadian Wine
EDN12 Regulations Amending the Denatured and Specially Denatured Alcohol Regulations

Excise Duty Memoranda

- EDM1-1-5 Instrument Certification

Excise Taxes and Special Levies Notices

- ETSL56 Notice to all Tax Practitioners and Licensed Manufacturers, Wholesalers, and Filers of End-user Refunds under the Excise Tax Act
ETSL57 Application of the Excise Tax on Air Conditioners in Unsalvageable or Scrap Vehicles
ETSL58 Notice to all Tax Practitioners and Licensed Manufacturers, Wholesalers and Filers of End-user Refunds under the Excise Tax Act
ETSL59 Notice to all Air Carriers: Rate Reductions for the Air Travellers Security Charge
ETSL60 Notice to all Importers and Licensed Jewellery Manufacturers and Wholesalers under the Excise Tax Act - Elimination of the Excise Tax on Jewellery Products

Excise Forms

- B241 Excise Tax Return - Broker
B270 Excise duty return – Non-Licensee
E680 Notice of Objection - Excise Act, 2001

All GST/HST, Excise Duty, and Excise Taxes and Special Levies publications can be found on the CRA Web site at: www.cra-arc.gc.ca/tax/technical/menu-e.html

Prescribed rates of interest

The prescribed annual rate of interest in effect from April 1, 2006 to June 30, 2006, with respect to the GST/HST and the air travellers security charge (ATSC) is set at 3.6099% . Interest and penalty compound daily. To calculate interest, divide the annual rate by 365 (366 in a leap year) and apply it daily to the previous day's compound balance.

The prescribed annual rate of interest in effect from April 1, 2006 to June 30, 2006, with respect to amounts of income tax, excise tax and excise duty (except excise duty on beer) payable to the Minister (i.e., arrears and instalment payments) is established at 8%. The prescribed interest rate on amounts owed by the Minister (i.e., refunds) is established at 6%. These rates compound daily.

The prescribed annual rate of interest respecting excise duty on beer accounts is set at 6% for the period April 1, 2006 to June 30, 2006. Penalty compounds monthly and interest compounds daily.

Period	GST/HST ATSC (per annum)		Income Tax, Excise Tax, Excise Duty (wine, spirits, tobacco)		Excise Duty (beer)	
	Interest	Penalty	Refund Interest	Arrears and Instalment Interest	Interest	Penalty
2006						
April 1 – June 30	3.6099 %	6.0 %	6.0%	8.0 %	6.0 %	6.0 %
January 1 – March 31	2.4333 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %

Prescribed interest rates are adjusted every calendar quarter.

Rates of interest for previous periods are available on the CRA Web site.

GST/HST Enquiries

To make enquiries regarding your GST/HST account, call Business Enquiries at 1-800-959-5525

To make enquiries regarding the status of specific GST/HST domestic rebate claims, call
1-800-565-9353

To make enquiries regarding the status of visitor rebate claims, call 1-800-668-4748

To obtain copies of forms and publications, call 1-800-959-2221

To order your replacement GST/HST stickers, call 1-800-959-2221.

If you are in Quebec please call the following toll-free number:
1-800-567-4692 (Revenu Québec)

The *Excise and GST/HST News* is published quarterly and highlights recent developments in the administration of the goods and services tax (GST) and harmonized sales tax (HST) as well as excise taxes and duties. This publication is provided for information purposes only and does not replace the law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Revenue Agency (CRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *Excise and GST/HST News*, Legislative Policy and Regulatory Affairs Branch, CRA, Ottawa, Ontario K1A 0L5. ISSN 1183-689X

TAB 3

GST/HST Info Sheet

Reduction in the Rate of the GST/HST

May 2006

This info sheet explains how the proposed reduction in the rate of the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to transactions that straddle July 1, 2006, the date that the reduced rates come into effect.

Effective July 1, 2006, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

In this info sheet, “taxable” means subject to the GST/HST at the rates of 7% and 15%, or at the reduced rates of 6% and 14%.

The HST applies only to supplies made in or imported into a participating province (i.e., Nova Scotia, New Brunswick, and Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

Note: This info sheet does not apply to real property transactions. For information on how the GST/HST rate reduction applies to real property transactions, see the Questions and Answers on the CRA Web site. The CRA is also preparing an info sheet, *GST/HST Rate Reduction and Purchasers of New Housing*, and a technical information bulletin, *GST/HST Rate Reduction and Real Property Transactions* to address the effect of the rate reduction on real property transactions.

General transitional rule

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% GST or 14% HST will apply.
- If the GST/HST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% GST or 14% HST will apply.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the rate of 7% GST or 15% HST will continue to apply.

GI-013

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La version française de ce document est intitulée *Réduction du taux de la TPS/TVH*.

Canada

When the GST/HST is payable

The GST/HST on the consideration for a taxable supply is usually payable the earlier of the day payment is made and the day the supplier issues an invoice. If there is an undue delay in issuing an invoice, the GST/HST becomes payable when the invoice would have been issued if there had been no delay. In addition, if either the date of an invoice or the payment date under a written agreement is earlier than the day the invoice is issued, the GST/HST becomes payable on the earlier date.

A business invoiced a customer before July 1, 2006, for the sale of goods in Ontario. The customer paid the invoice after July 1, 2006. Since the GST became payable on the date of the invoice, which was before July 1, 2006, the business would charge the customer the GST at the rate of 7%.

A business will be invoicing its client after July 1, 2006, for construction services that will be performed before and after July 1, 2006, in Nova Scotia. The client has not paid the business before invoicing. Since the business will be issuing the invoice after July 1, 2006, the HST at the rate of 14% will apply to the services billed on this invoice.

An engineer will be issuing an invoice after July 1, 2006, for services performed in Manitoba before July 1, 2006. The client has not paid the engineer before invoicing. Since the engineer will issue the invoice after July 1, 2006, the engineer would charge the GST at the rate of 6% on these services.

Leases

For a supply of property by way of lease, licence or similar arrangement, the GST/HST becomes payable the earlier of the day payment is made and the day it is required to be made under the agreement for that supply.

A sales person leases an automobile in New Brunswick and the lease is payable on the 15th of every month. The lease payment due on June 15, 2006, covers the period from June 15 to July 14, 2006. The sales person does not make this lease payment until July 3, 2006. In this case, the lease payment is subject to the HST at the rate of 15% since the payment is due before July 1, 2006.

Completed supplies

If the GST/HST is not otherwise payable by the last day of the calendar month after the calendar month in which any of the following events takes place, it becomes payable on that day:

- in the case of a sale of goods, other than the sales referred to below, the buyer acquires ownership or possession of the property;
- in the case of a sale of goods on approval, consignment, sale-or-return basis or similar terms, the buyer acquires ownership of the property or re-supplies it to someone other than the seller; and
- in the case of a supply under a written agreement for construction, renovation, alteration or repair of real property, or a ship or other marine vessel when the work is reasonably expected to last more than three months, the work is substantially completed.

The GST/HST will be payable at 6% or 14% if it becomes payable under these rules on or after July 1, 2006.

In April 2006, a business had a sales promotion where customers purchased furniture without having to make payments until 2007. The customers took possession of their furniture in April 2006, but will not receive an invoice for payment until April 2007.

If the customers took possession of the furniture in April 2006 under a written agreement entered into at that time, the GST/HST was considered payable the last day of May 2006. Since this date was before July 1, 2006, the GST at the rate of 7% or the HST at the rate of 15% applied to the sale of the furniture at that time.

Other provisions for determining when tax is payable – deposits and holdbacks

The rules that normally determine when the GST/HST is payable will continue to apply to determine the appropriate rate of tax. A deposit is not treated as a payment for a supply until such time as the supplier applies it against the amount payable for the supply.

In April 2006, a person gave a deposit of \$100 for the services of an artist. The artist invoices the person after July 1, 2006 for her services. The GST or HST will not apply to the \$100 deposit until such time as the artist applies it against the amount payable for her services. Since this occurs after July 1, 2006, the GST at the rate of 6%, or the HST at the rate of 14%, will apply at that time on the amount payable for the services.

If a holdback amount is legislatively sanctioned or provided for in a written agreement for the construction, renovation or repair of real property or a marine vessel, the GST/HST calculated on the holdback amount becomes payable on the earlier of the day on which the holdback is paid or the day on which the holdback period expires. Therefore, if both of these days occur on or after July 1, 2006, the GST/HST at 6% or 14% will apply to the holdback amount.

Other transitional provisions

Deemed supplies

Current legislation deems the GST/HST to have been paid, or collected, in certain circumstances. Under the proposed legislative amendments, the rate of 6% or 14% will be used to determine the GST/HST that is deemed to have been paid, or collected, on or after July 1, 2006.

If, on September 15, 2006, you pay an employee a reasonable allowance for the use in Canada of a motor vehicle in relation to your activities, you are deemed to have paid the tax on that date. Since this date is after July 1, 2006, you will be deemed to have paid tax at the reduced rate of 6% or 14%.

Price adjustments

If a supplier chooses to credit a recipient an amount of the GST or HST on a price adjustment (e.g., a volume rebate) the rate of the GST or HST that applies to the price adjustment will be the rate of tax that applied to the supply to which the price adjustment relates. For example, a price adjustment in relation to a supply that was subject to the GST at the rate of 7% will be subject to the GST at that same rate.

The GST/HST Info Sheet, *GST/HST Rate Reduction – Application to Price Adjustments, Adjustments for GST/HST Overcharged and Returned Goods* will

provide more information on how the rate change affects price adjustments and returned goods. This info sheet will be available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

Special transitional provisions and rates

Taxable benefits

A registrant is required to pay the GST/HST on certain taxable benefits provided to individuals who are employees or shareholders. Currently, for most taxable benefits, the registrant is deemed to have collected the GST equal to 6/106, or the HST equal to 14/114, of the value of the taxable benefit reported for income tax purposes, and if the taxable benefit is for a standby charge, on the amount of any reimbursement. For taxable benefits relating to the operating costs of a passenger vehicle, the registrant is deemed to have collected the GST at a rate equal to 5%, or the HST at a rate of 11%, on the value of the benefit reported for income tax purposes and on any reimbursements. Registrants will now be required to pay the GST/HST at the following rates on these taxable benefits.

- For the 2006 taxation year of individuals, if the taxable benefit relates to the operating cost of an automobile, the registrant will be deemed to have collected the GST equal to 4.5%, or the HST equal to 10.5%, on the value of the benefit reported for income tax purposes and on any reimbursements. For subsequent taxation years, the rates of tax will be 4% and 10%, respectively.
- For the 2006 taxation year of individuals, if the taxable benefit relates to the standby charge of an automobile or other taxable benefits, the registrant will be deemed to have collected the GST equal to 5.5/105.5, or the HST equal to 13.5/113.5, of the amount of the value of the taxable benefit reported for income tax purposes, and if the taxable benefit is for a standby charge, on the amount of any reimbursement. For subsequent taxation years, the rates of tax are 5/105 or 13/113, respectively.

~~Purchase of a passenger vehicle by a sole proprietor or partnership~~

A sole proprietor or partnership that uses a passenger vehicle less than exclusively in commercial activities may only claim input tax credits (ITCs) for the GST/HST paid on the purchase of the vehicle based on the capital cost allowance that is claimed for that vehicle in the income tax return.

At the end of each taxation year, the sole proprietor or partnership is deemed to have acquired the passenger vehicle and to have paid on that day tax in respect of the vehicle equal to an amount determined by the formula

$$A \times B$$

where

A is the tax fraction (i.e., 7/107, 15/115 or 8/108) based on the rate of tax paid when the vehicle was acquired, and

B is generally the capital cost allowance deducted under the *Income Tax Act* for that taxation year in respect of the passenger vehicle.

These tax fractions will now be 6/106, 14/114, or 8/108 in respect of a passenger vehicle acquired in a taxation year that ends on or after July 1, 2006. However, if the taxation year includes that day (July 1, 2006) these tax fractions will be 6.5/106.5, 14.5/114.5, or 8/108.

~~Employee and Partner GST/HST Rebate~~

An employee or partner may in certain circumstances, claim an Employee and Partner GST/HST Rebate for the GST/HST paid on eligible expenses deducted from employment income for income tax purposes. For any rebate for eligible expenses on which the GST is paid in the 2006 calendar year, a rebate can be claimed equal to 6.5/106.5 of the amount of those expenses and for those eligible expenses on which the HST is paid, a rebate equal to 14.5/114.5 of the amount of those expenses.

For subsequent calendar years, the rebates will equal 6/106 and 14/114 respectively, of the amount of the eligible expenses.

Imports

The GST at the rate of 6% will apply to taxable importations of goods imported on or after July 1, 2006, or released from customs control on or after that day.

In most cases, the 15% HST applies at the border to taxable importations of non-commercial goods imported by a resident of a participating province regardless of the point of entry into Canada or customs clearance. If these non-commercial goods are imported on or after July 1, 2006, or released from customs control on or after that day, the resident of a participating province will pay the HST at the rate of 14%.

The GST on imported taxable supplies of services and intangible property is payable the earlier of when consideration for these supplies is paid or when it becomes due. The GST at the reduced rate of 6% applies to the GST that is paid or becomes payable on or after July 1, 2006. Therefore, if the earlier of the day the consideration is paid or becomes due on the imported taxable supplies of services and intangible personal property is on or after July 1, 2006, the GST at the rate of 6% will apply to the imported taxable services and intangible personal property.

~~Streamlined Methods of Accounting~~

The specified percentages for small businesses that have elected to account for the GST/HST using the Quick Method of Accounting, or for public service bodies that have elected to account for the GST/HST using the Special Quick Method of Accounting, will be changed to reflect the reduced rates of the GST and HST. These new percentages will apply for reporting periods beginning on or after July 1, 2006. For reporting periods beginning before July 1, 2006, and ending on or after that day, the existing percentages will apply for consideration that became due, or that was paid without having become due, before July 1, 2006, and the new percentages will apply for all other consideration.

The GST/HST Info Sheet, *GST/HST Rate Reduction – Application to Streamlined Methods of Accounting*, will provide a listing of the proposed new percentages for remitting the GST/HST using the Quick Method of Accounting. This info sheet will be available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html. A listing of the proposed new percentages for public service bodies remitting the GST/HST using the Special Quick Method of Accounting may be found in the budget papers in the Department of Finance Web site.

Simplified Method for Accounting for ITCs

Businesses that use the Simplified Method for Accounting for ITCs (Simplified Method) and that make purchases in both participating and non-participating provinces currently have to separate their purchases that are taxable at 7% from those that are taxable at 15%. The businesses calculate their ITCs for each reporting period by totalling taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiplying by 7 and dividing the result by 107 for GST purchases; or
- multiplying by 15 and dividing the result by 115 for HST purchases.

Effective on or after July 1, 2006, the purchases that are taxable at 6% will be separated from those taxable at 14% and

- multiplied by 6 and divided by 106 for GST purchases; or
- multiplied by 14 and divided by 114 for HST purchases

The Simplified Method is used to calculate ITCs for purchases used to provide taxable goods and services. For purchases related to personal use, or to provide both taxable and exempt goods and services, only the portion used for providing taxable goods and services can be included in the ITC calculation. If a purchase is used at least 90% to provide taxable goods and services, the total purchase price can be included in the ITC calculation.

Anti-avoidance transactions

The proposed legislative amendments include a provision to eliminate the tax saving to any party as a result of the rate reduction in circumstances where an agreement entered into on or before May 2, 2006, between related parties is amended primarily to obtain the benefit of the tax reduction. Another provision eliminates the tax saving to any party as a result of the rate reduction in circumstances where transactions between related parties are undertaken primarily to obtain the benefit of the tax reduction.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

This info sheet reflects changes to the Act announced by the Minister of Finance on May 2, 2006, and included in Bill C-13, the *Budget Implementation Act, 2006*, which received first reading on May 11, 2006. Any commentary in this info sheet should not be taken as a statement by the CRA that these amendments will be enacted in their current form.

If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

TAB 4

GST/HST Info Sheet

Applying the GST/HST Rate Reduction to Allowances and Reimbursements

May 2006

This info sheet explains how the proposed reduction in the rate of the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to amounts as allowances or reimbursements for transactions that straddle the date the reduced rates come into effect, which is July 1, 2006.

In this info sheet, “taxable” means subject to the GST/HST at the rates of 7% and 15%, or at the reduced rates of 6% and 14%. “Participating province” refers to the provinces of Nova Scotia, New Brunswick, and Newfoundland and Labrador.

The HST applies only to supplies made in or imported into a participating province. The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

Note: The CRA has introduced new factors of 5/105 and 13/113, which may be used by registrants to calculate deemed tax paid in respect of reimbursements paid on or after July 1, 2006. See page 4 of this info sheet.

Background

Effective July 1, 2006, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

General transitional rule

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% GST or 14% HST will apply.
- If the GST/HST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% GST or 14% HST will apply.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the rate of 7% GST or 15% HST will continue to apply.

GI-014

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La version française de ce document est intitulée -
Application du taux réduit de la TPS/TVH aux indemnités et aux remboursements.

Canada

Transitional provisions for deemed supplies

Current legislation deems the GST/HST to have been paid, or collected, in certain circumstances. Under the proposed legislative amendments, the rates of 6% and 14% will be used to determine the GST/HST that is deemed to have been paid or collected, on or after July 1, 2006.

The current legislation concerning allowances and reimbursements paid by employers to employees, by partnerships to partners, or by public institutions and charities to their volunteers deems the GST/HST to be paid by these persons at specific times. As long as all the criteria outlined below are met, and as long as these allowances or reimbursements do not result in taxable benefits to the individuals receiving them, the person who pays these allowances or reimbursements is deemed to have paid the GST/HST, and may be entitled to claim an input tax credit (ITC) or rebate for the deemed tax paid.

Whether the reduced rates of tax apply to these allowances and reimbursements depend on the date the allowance or reimbursement is paid.

Allowances

A person is deemed to have paid the GST/HST on an allowance paid to:

- an employee of the person,
- where the person is a partnership, a member of the partnership, or
- where the person is a charity or public institution, a volunteer who gives services to the charity or public institution,

as long as the conditions listed below are met.

1. The allowance is used to pay for supplies of property or services all or substantially all (90% or more) of which are taxable supplies, and are acquired in Canada by the employee, partner, or volunteer in relation to the activities engaged in by the person.
2. The allowance is deductible in computing the income of the person paying the allowance for

purposes of the *Income Tax Act*, or would be deductible if the person were a taxpayer under that Act and the activity was a business (note that the full amount of the allowance does not have to be deductible for income tax purposes, but some of the amount must be deductible).

3. If the allowance is for the use in Canada of a motor vehicle in relation to the activities of the person, it must be considered to be a reasonable allowance for income tax purposes.

When these conditions are met, the person paying the allowance is considered to have received the property or services, and any consumption or use of the property or services by the employee, partner or volunteer is considered to be consumption or use only by the person. In addition, the person is considered to have paid, at the time the allowance is paid to the employee, partner, or volunteer, the GST/HST in respect of the property or services.

The GST/HST deemed to have been paid on the allowance is calculated by the formula

$$A \times B$$

where

A is the amount of the allowance and

B is

- for an allowance paid before July 1, 2006:
 - (i) 15/115, where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in participating provinces, and
 - (ii) in any other case, 7/107.
- for an allowance paid on or after July 1, 2006:
 - (iii) 14/114, where 90% or more of the supplies for which the allowance is paid were made in participating provinces, or if the allowance is paid for the use of a motor vehicle in the participating provinces, and
 - (iv) in any other case, 6/106.

On June 29, 2006, an employer pays an allowance to an employee to attend a business meeting that is to be held in Vancouver, British Columbia, from July 12 to July 15, 2006. The allowance is intended to cover supplies of property or services of which 90% or more are taxable, and that are acquired in Canada.

Since the employer pays the allowance to the employee before July 1, 2006, to cover the taxable supplies of property or services made in a non-participating province, the employer is deemed to have paid tax equal to 7/107 of the amount of the allowance.

On September 15, 2006, a partnership pays a partner a reasonable allowance to cover motor vehicle travel within Nova Scotia. As the partnership pays this allowance after July 1, 2006, for travel within a participating province, the partnership is deemed to have paid tax equal to 14/114 of the amount of the allowance.

Reimbursements

A person is deemed to have paid the GST/HST on a reimbursement paid to:

- an employee of the person,
- where the person is a partnership, a member of the partnership, or
- where the person is a charity or public institution, a volunteer who gives services to the charity or public institution,

as long as the conditions listed below are met.

1. The employee, partner or volunteer must have paid the GST/HST on the taxable property or services acquired, imported, or brought into a participating province.
2. The employee, partner or volunteer must have consumed or used the property or services in relation to the activities of the person.

When these criteria are met, the person is deemed to receive a supply of the property or service, and to have consumed or used the property or service. The person is also deemed, on the day the reimbursement is paid, to have paid tax in respect of the supply of the property or service.

The deemed tax paid on the reimbursement is equal to the amount determined by the formula

$$A \times B$$

where

A is the tax paid by the employee, partner or volunteer in respect of that person's acquisition, importation or bringing into a participating province of the property or service; and

B is the lesser of

- (i) the percentage of the cost to the employee, partner or volunteer of the property or service that is reimbursed, and
- (ii) the extent (expressed as a percentage) to which the property or service was acquired, imported or brought into the province, as the case may be, by the employee, partner or volunteer for consumption or use in relation to the activities of the employer, partnership, charity or public institution.

Registrants may choose one of the following two methods to calculate the deemed tax paid in relation to reimbursements for expenses incurred in Canada:

- use a factor of 6/106 or 14/114 of the total amount reimbursed, or
- use the exact calculation method as shown above.

Documentary requirements

Registrants who use the factor of 6/106 or 14/114 for reimbursements are exempt from the general documentary and information requirements for claiming ITCs if they maintain books and records (including all documentation currently required to substantiate such deductions under the *Income Tax Act*) that contain the following information:

- the name and GST/HST registration number of the registrant who paid the reimbursement;
- the name of the employee, partner or volunteer who received a reimbursement;
- the total amount of the reimbursement paid to each employee, partner or volunteer;

Applying the GST/HST Rate Reduction to Allowances and Reimbursements

- the total GST or HST deemed to have been paid for the reimbursement (6/106 or 14/114 of the total amount);
- the reporting period in which the reimbursement was made; and
- the nature of the supply or expense.

Effective for reimbursements paid on or after July 1, 2006 a registrant will be allowed the option of multiplying the total amount reimbursed for expenses by the factor of 5/105, if 90% or more of these expenses are taxable at 6% GST, or by the factor of 13/113, if 90% or more of these expenses are taxable at 14% HST.

The calculation method chosen must be used consistently within each category of reimbursed amounts (e.g., airfare, hotel accommodation, food, beverages, and entertainment) throughout the fiscal year.

On September 15, 2006, an employer reimburses a sales employee \$74.40 for the cost of meals (including taxes and tips) incurred during a one-day trip exclusively in relation to the employer's activities. The employee paid \$3.60 GST on the cost of the meals. The employer is deemed to have paid \$3.60 GST ($\$3.60 \times 100\%$) on the reimbursed amount, since the employer is using the exact calculation method.

On September 15, 2006, an employer reimburses a sales employee \$74.40 for the cost of meals (including taxes and tips) incurred during a one-day trip exclusively in relation to the employer's activities. The employer consistently used the factor of 6/106 to determine the deemed tax paid on meal reimbursements paid to its employees before July 1, 2006. Since the employer reimburses the employee after July 1, 2006, it may use the factor 5/105 to determine the deemed tax paid. Consequently, the employer is deemed to have paid \$3.54 GST ($5/105 \times \74.40) on the reimbursed amount.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

This info sheet reflects changes to the Act announced by the Minister of Finance on May 2, 2006, and included in Bill C-13, the *Budget Implementation Act, 2006*, which received first reading on May 11, 2006. Any commentary in this info sheet should not be taken as a statement by the CRA that these amendments will be enacted in their current form.

If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

TAB 5

GST/HST Info Sheet

GST/HST Rate Reduction and Purchasers of New Housing

May 2006

This info sheet explains the transitional rules for the GST/HST rate reduction that apply to purchases of new housing in Canada. It also explains when a person may claim a GST/HST transitional rebate on the purchase of a new house and the procedure for obtaining the rebate.

In this document, a “house” includes a single family home, a semi-detached house, a duplex, a townhouse, a residential condominium unit, a mobile or modular home and a floating home. Where this document refers to an agreement entered into before May 3, 2006, the agreement must be evidenced in writing. A purchaser of a new house is required to have evidence in writing of the purchase agreement in order to claim a GST/HST transitional rebate.

The HST applies only to supplies made in or imported into a participating province (Nova Scotia, New Brunswick or Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

If your house is located in Nova Scotia, you may be entitled to claim the Nova Scotia new housing rebate

for a part of the provincial portion of the HST. This rebate is in addition to the new housing rebate for a part of the federal portion of the HST and the GST/HST transitional rebate. Note: the calculation for the GST/HST transitional rebate does not take into account the Nova Scotia new housing rebate since it only relates to the federal part of the HST. For more information on the GST/HST new housing rebates, including the Nova Scotia rebate, refer to the guide *RC4028, GST/HST New Housing Rebate*.

Application of GST/HST – general rule

Effective July 1, 2006, under proposed legislation, the GST rate will be reduced from 7% to 6%, and the HST rate from 15% to 14%.

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable after June 30, 2006 without having been paid before that day, GST/HST applies at the rate of 6% or 14%.
- If the GST/HST is paid after June 30, 2006 without having become payable before that day, GST/HST applies at the rate of 6% or 14%.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the GST/HST will apply at the rate of 7% or 15%.

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La version française de ce document est intitulée -
*Application du taux réduit de la TPS/TVH aux acheteurs de
habitations neuves.*

Canada

GST/HST Rate Reduction and Purchasers of New Housing

There are special transitional rules for real property transactions, particularly sales of new housing, and including deemed sales. In addition, a GST/HST transitional rebate may be available to take into account the GST/HST rate reduction where the agreement for the purchase of a new house was entered into before May 3, 2006. This rebate is explained later in this info sheet.

Application of GST/HST to purchases of new housing

In general, GST/HST at the rate of 6% or 14% will apply to a taxable purchase of real property where both ownership and possession are transferred after June 30, 2006. Special transitional rules apply to purchases of new housing that straddle the July 1, 2006 effective date.

Agreement of purchase and sale entered into before May 3, 2006

If you entered into an agreement before May 3, 2006, for the purchase of a new house, GST/HST will apply at the rate of 7% or 15%. However, you may be entitled to a GST/HST transitional rebate if you paid GST/HST at 7% or 15% and both ownership and possession of the house are transferred to you after June 30, 2006.

Ownership or possession transferred before July 1, 2006 – GST/HST applies at 7% or 15%

You entered into an agreement before May 3, 2006, for the purchase of a new house. The closing date for the purchase is July 15, 2006. You make arrangements with the builder to take possession of the house on June 10, 2006, but ownership of the house does not transfer to you until July 15, 2006. Since you take possession of the house before July 1, 2006, GST/HST will apply at the rate of 7% or 15%. You are not entitled to a GST/HST transitional rebate under these circumstances.

Both ownership and possession transferred after June 30, 2006 – GST/HST applies at 7% or 15% and GST/HST transitional rebate

You entered into an agreement before May 3, 2006, for the purchase of a new house. The closing date for the purchase is July 20, 2006. Ownership of the house transfers to you on the date of closing. You also take

possession of the house on that date. Since the agreement was entered into before May 3, 2006, GST/HST will apply at the rate of 7% or 15%. However, since both ownership and possession are transferred after June 30, 2006, you may claim a GST/HST transitional rebate.

Agreement of purchase and sale entered into after May 2, 2006

If you enter into an agreement after May 2, 2006, for the purchase of a new house, the GST/HST rate that applies on the purchase will depend on when ownership and possession are transferred. Note: a GST/HST transitional rebate is not available for agreements entered into after May 2, 2006.

Ownership or possession transferred before July 1, 2006 – GST/HST applies at 7% or 15%

You enter into an agreement after May 2, 2006, for the purchase of a new house. The closing date for the purchase is June 25, 2006. Ownership of the house transfers to you on June 25, 2006. Since ownership of the house is transferred to you before July 1, 2006, GST/HST will apply at the rate of 7% or 15%. If either ownership or possession is transferred before July 1, 2006, GST/HST will apply at the rate of 7% or 15% and a GST/HST transitional rebate is not available.

Both ownership and possession transferred after June 30, 2006 – GST/HST applies at 6% or 14%

You enter into an agreement after May 2, 2006, for the purchase of a new house. The closing date for the purchase is August 30, 2006. Ownership and possession of the house transfer to you on August 30, 2006. Since both ownership and possession are transferred after June 30, 2006, and the agreement was entered into after May 2, 2006, GST/HST will apply at the rate of 6% or 14%.

Changes to an agreement of purchase and sale

Generally, changes to an agreement to provide for upgrades will not have an impact on these transitional rules.

For example, if your agreement provides for standard kitchen cabinets and you ask the builder to upgrade to deluxe cabinets, the additional amount that the builder charges for the upgrade will be an additional amount payable for the house. You are not considered to have entered into a new agreement as a result of such a change and there would be no impact on the application of the transitional rules. If the agreement was entered into before May 3, 2006, and both ownership and possession are transferred to you after June 30, 2006, GST/HST will apply at the rate of 7% or 15% on the total amount payable for the house, including the upgrade. In this case, you would claim a GST/HST transitional rebate. When determining the amount of the rebate, the total amount paid for the house includes the additional amount paid for the upgrade.

However, where an existing agreement is modified, varied or otherwise materially altered to such an extent that it is considered to be a new agreement, the application of the transitional rules will be based on the date that the new agreement is entered into, as well as the dates that possession and ownership are transferred under that new agreement. Reference should be made to the draft policy statement entitled, Agreements and Novation, released on June 27, 2005.

If you and a builder renegotiate the terms of an agreement that was entered into before May 3, 2006, for the purchase of a new house, and enter into a new agreement after May 2, 2006, the transitional rules will apply based on the new agreement. For example, if you entered into an agreement before May 3, 2006, to purchase a new house and you and the builder renegotiate the terms of the agreement on June 1, 2006, and enter into a new agreement on that day, the GST/HST will apply at the rate of 6% or 14% if both ownership and possession, under the new agreement, are transferred to you after June 30, 2006. Furthermore, you will not be entitled to claim the GST/HST transitional rebate.

GST/HST transitional rebate

Any person, including an individual, a non-profit organization or a corporation, who purchases a new house in Canada, may be eligible to claim a

GST/HST transitional rebate. If you are entitled to claim the transitional rebate, a builder cannot pay or credit an amount to you for this rebate. You have to send an application for the transitional rebate directly to us and we will pay the rebate amount to you.

Generally, the GST/HST transitional rebate provides for a rebate to a purchaser of new housing to account for the 1% reduction in the GST/HST rate in certain circumstances where tax was paid at the rate of 7% or 15%. The transitional rebate is only available if you take ownership and possession of your new house after June 30, 2006, but paid GST/HST at the rate of 7% or 15% because you entered into an agreement of purchase and sale before May 3, 2006.

The GST/HST transitional rebate is not available if you are entitled to claim an input tax credit (ITC) in respect of the purchase of the new house.

The GST/HST transitional rebate is available for most purchases of new housing, regardless of the purchase price. The transitional rebate is not conditional on a purchaser's entitlement to other GST/HST new housing rebates. However, where a purchaser is entitled to another GST/HST rebate, the transitional rebate will take into account that other rebate (e.g., GST/HST new housing rebate or GST/HST new residential rental property rebate).

Mr. and Mrs. Green buy a new house from a builder for \$344,784 (consideration is \$330,000, GST is \$23,100 and the GST/HST new housing rebate is \$8,316). The agreement of purchase and sale is signed on April 28, 2006. Both ownership and possession will transfer to Mr. and Mrs. Green on August 1, 2006. Since the house is purchased for use as their primary place of residence, the purchasers will be eligible to claim a GST/HST new housing rebate of \$8,316¹ provided all of the other conditions for claiming the new housing rebate are met. The purchasers and builder agree to have the

¹ The GST/HST new housing rebate is 36% of the GST paid (or the federal part of the HST paid). The maximum rebate available is \$8,750 under 7% GST (15% HST) and \$7,560 under 6% GST (14% HST). The rebate is phased-out for houses priced between \$350,000 and \$450,000. The GST/HST transitional rebate is the only rebate available for houses priced at \$450,000 and above.

GST/HST Rate Reduction and Purchasers of New Housing

builder credit the amount of the GST/HST new housing rebate to the purchasers at the time of purchase.

Since the agreement of purchase and sale was signed before May 3, 2006, and both ownership and possession are transferred after June 30, 2006, GST on the purchase will apply at the rate of 7%. However, the purchasers will also be entitled to claim a GST/HST transitional rebate. The amount of the transitional rebate will be adjusted to take into account the GST/HST new housing rebate of \$8,316, which was credited by the builder at the time of the purchase. Mr. and Mrs. Green will be entitled to claim a transitional rebate of \$2,112 based on the following formula:

$$A \times [0.01 - ((B \div A) + 7)]$$

Where

A = Consideration paid for the house (\$330,000)

B = Amount of the GST/HST new housing rebate (\$8,316)

The GST/HST transitional rebate available to Mr. and Mrs. Green is equal to \$2,112, as follows:

$$\begin{aligned} & \$330,000 \times [0.01 - ((\$8,316 \div \$330,000) + 7)] \\ & = \$330,000 \times [0.01 - (0.0252 + 7)] \\ & = \$330,000 \times [0.01 - 0.0036] \\ & = \$2,112 \end{aligned}$$

Ms White buys a new luxury condominium from a builder for \$575,000 (consideration is \$500,000, HST is \$75,000). The agreement of purchase and sale was signed on April 3, 2006. The closing date for the purchase of the condominium is October 2, 2006. Both ownership and possession will transfer to Ms White on October 2, 2006.

Since the agreement of purchase and sale was signed before May 3, 2006, HST on the purchase will apply at the rate of 15%. However, since both ownership and possession are transferred after June 30, 2006, Ms White will be entitled to claim a GST/HST transitional rebate. Because the purchase price of the condominium is more than \$450,000, Ms White is not entitled to claim a GST/HST new housing rebate. Ms White will be entitled to claim a transitional rebate of \$5,000, based on the following formula:

$$A \times 1\%$$

Where

A = Consideration paid for the condominium (\$500,000)

The GST/HST transitional rebate available to Ms White is equal to \$5,000, as follows:

$$\begin{aligned} & \$500,000 \times 1\% \\ & = \$5,000 \end{aligned}$$

If you purchased a house or a unit in a multiple unit residential complex where the builder sells you the building, or part of the building, and leases you the land (or assigns a lease of the land) on which the house or unit is situated, you may also be eligible to claim a GST/HST transitional rebate. You would qualify for the rebate if you entered into the agreement before May 3, 2006, for the purchase of the house and lease of the land, possession is given to you after June 30, 2006, and the builder had to self-assess GST/HST at 7% or 15%. In the case of a purchase of a unit in a multiple unit residential complex and lease of land, you would qualify for the rebate if the builder had to self-assess GST/HST at 7% or 15% and possession of a unit in the complex was given to you after June 30, 2006.

Application for the GST/HST transitional rebate

To claim a GST/HST transitional rebate, you have to complete application Form GST193, *GST/HST Transitional Rebate Application for Purchasers of New Housing*, and file it with us. A copy of the application form will be available on our Web site or may be obtained by calling 1-800-959-2221.

Unlike the GST/HST new housing rebate, which can be paid or credited to a purchaser of a new house by the builder at the time of purchase, a purchaser has to file the application for the GST/HST transitional rebate directly with us and we will pay the transitional rebate amount to the purchaser. The builder cannot pay or credit this rebate.

If a GST/HST new housing rebate is available for the purchase of a house, the same individual who claimed the GST/HST new housing rebate (i.e., the individual who signed the application) has to claim the GST/HST transitional rebate and send it to us. If you and your spouse purchased a new house and your spouse claimed the GST/HST new housing

rebate, only your spouse can claim the GST/HST transitional rebate.

You cannot claim the GST/HST transitional rebate until you meet all of the conditions. For example, you must have paid all of the GST/HST payable on the purchase of the house. A rebate application cannot be filed before July 1, 2006, since ownership and possession must be transferred after June 30, 2006, to be eligible to claim the GST/HST transitional rebate. You have to file the rebate application with us within two years after the day that ownership of the house is transferred to you. You also have to attach a copy of the purchase and sale agreement and a copy the GST/HST new housing rebate that you claimed. If the builder paid or credited you the new housing rebate, you may ask the builder for a copy of the rebate application if you do not have a copy.

This info sheet explains the most common GST/HST transitional rebates available. Other transitional rebates are available in certain circumstances. For example, a cooperative housing corporation (co-op) that purchases a residential complex may be entitled to claim a transitional rebate. If eligible, the co-op would complete

application Form GST193, follow the instructions to calculate the transitional rebate amount using the appropriate formula, and file it with us.

In limited circumstances, a builder may be entitled to claim a GST/HST transitional rebate in respect of the land part of the property where the builder sells a house and leases the land. In this case, the builder has to complete application Form GST192, *GST/HST Transitional Rebate Application for Builders of New Housing on Leased Land*, and file it with us.

There are also variations to the formula for calculating the GST/HST transitional rebate for certain purchases such as the purchase of a house by a public service body (PSB) that is entitled to claim a PSB GST/HST rebate. The amount of the GST/HST transitional rebate will take into account the amount of the PSB rebate.

For more information on the GST/HST transitional rebate please call 1-800-959-8287.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

This info sheet reflects changes to the Act announced by the Minister of Finance on May 2, 2006, and included in Bill C-13, the *Budget Implementation Act, 2006*, which received second reading on May 19, 2006. Any commentary in this info sheet should not be taken as a statement by the CRA that these amendments will be enacted in their current form.

If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

TAB 6

GST/HST Info Sheet

Applying the GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements

June 2006

Effective July 1, 2006, the rates of the goods and services tax/harmonized sales tax (GST/HST) will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

This info sheet explains how to determine the rate of the GST/HST that applies to products or services sold under prepaid funeral and cemetery arrangements and to taxable interment rights.

In this info sheet, “arrangement” means a prepaid funeral or cemetery arrangement. “Operator” means the operator of a funeral home and/or cemetery.

The HST applies only to supplies made in or imported into a participating province (i.e., Nova Scotia, New Brunswick, and Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

GI-016

La version française de ce document est intitulée *Application du taux réduit de la TPS/TVH aux arrangements de services funéraires payés d'avance et aux accords de prévoyance pour biens ou services de cimetière*.

This info sheet provides general information on the application of the GST/HST to arrangements. Operators can get additional information by referring to the GST/HST Technical Information Bulletins listed below:

- B-091 – Timing of the Application of the GST/HST to Prepaid Funeral Arrangements
- B-093 – Application of the GST/HST to Cemetery Products and Services

The GST/HST becomes due when amounts are withdrawn from trust (“new rules”)

Amounts in trust

Operators do not account for the GST/HST when contributions under an arrangement are placed in trust. Operators account for the GST/HST on all amounts withdrawn from trust when these amounts are distributed to the operator. The contributions made under an arrangement are based on an estimate of the amount that will be payable for the products or services and the GST/HST that will eventually apply.

Where these rules apply to an arrangement entered into between May 3, 2006, and June 30, 2006, operators may use the rate of 6% or 14% to estimate the GST/HST that will apply. For arrangements entered into on or after July 1, 2006, operators should use the rate of 6% or 14% to estimate the GST/HST that will eventually apply.

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ABC Funeral Home (ABC) entered into an arrangement on May 10, 2006, with Mrs. D to provide funeral services on her death. The services will be provided in a non-participating province. ABC will hold all of the contributions in trust for Mrs. D. ABC may estimate the eventual GST that will apply at the rate of 6%.

Where all of the contributions under an arrangement are payable and paid before July 1, 2006, operators need not adjust the estimate of the GST/HST that will eventually apply, even if the purchaser asks for a refund. Generally, any excess amounts remaining in trust are disbursed to the purchaser or to the person's estate.

However, where some of the contributions under the arrangement are payable on or after July 1, 2006, operators should adjust the rates used to estimate the GST/HST included in those contributions payable and paid on or after July 1, 2006, to 6% or 14%.

If an operator does not adjust the estimate of the GST/HST included in contributions payable and paid before July 1, 2006, the purchaser cannot recover the amount from the CRA because the amount paid to the operator is not tax, but rather an estimate of the GST/HST that will eventually apply.

Similarly, where an operator does adjust the estimate of the GST/HST included in contributions payable and paid before July 1, 2006, and refunds that part of the contributions to the purchaser, the operator cannot recover the amount refunded from the CRA since the amount refunded was not tax, but rather an estimate of the GST/HST that will eventually apply.

~~Amounts not in trust~~

Any contributions paid or payable under an arrangement before July 1, 2006, and not placed in trust (e.g., administrative fees) are subject to the GST/HST at the rate of 7% or 15%. Similarly, any amounts that are withdrawn from trust before July 1, 2006, are subject to GST/HST at the rate of 7% or 15%.

Conversely, any contributions payable under an arrangement on or after July 1, 2006, which were

not paid before July 1, 2006, and which were not placed in trust are subject to the GST/HST at the rate of 6% or 14%. Similarly, any amounts withdrawn from trust on or after July 1, 2006, are subject to the GST/HST at the rate of 6% or 14%.

XYZ Cemeteries (XYZ) entered into an arrangement with Mr. W to provide cemetery products and services on his death. The products and services will be provided in a participating province.

Under the arrangement, Mr. W paid an initial amount on May 1, 2006, and the first quarterly instalment on July 1, 2006. XYZ withheld \$10 from each payment as an administrative fee.

The HST at the rate of 15% applies to the administrative fee paid before July 1, 2006. The HST at the rate of 14% applies to the administrative fee paid on July 1, 2006, and to all subsequent administrative fees.

The GST/HST was charged and accounted for when the arrangement was entered into ("old rules")

Some operators charged an amount as GST/HST when the contributions were paid or payable under the arrangement, even where the contributions were placed in trust. These operators accounted for the amount charged as GST/HST in their net tax calculation for the period in which the contributions were paid or payable, whichever was earlier.

Where this was the case, operators cannot adjust the amounts charged as GST/HST for the contributions under the arrangement that were payable and paid before July 1, 2006. Operators cannot adjust these amounts even if the products or services are provided on or after July 1, 2006.

Where any of the contributions under the arrangement are payable on or after July 1, 2006, and not paid before that date, the operator charges an amount as GST/HST at the rate of 6% or 14%.

EFG Funeral Home (EFG) entered into an arrangement with Mrs. H to provide funeral services on her death. The services will be provided in a non-participating province. Mrs. H made all the required payments before July 1, 2006. EFG charges an amount as GST on each payment. The GST at the rate of 7% applies to these payments.

TUV Cemeteries (TUV) entered into an arrangement with Mr. S to provide cemetery products and services on his death. The products and services will be provided in a non-participating province.

Under the arrangement, Mr. S pays an initial amount and quarterly instalments. The final instalment is payable and paid on July 13, 2006.

TUV charges an amount as GST at the rate of 7% for the payments payable and paid before July 1, 2006. TUV charges the GST at the rate of 6% on the final instalment payable and paid on July 13, 2006.

Adding products or services

When an arrangement is amended to add products or services, the rate to be charged as GST/HST depends on the date when the consideration charged for the products or services is paid or becomes due. Where the contributions for the products or services are paid before July 1, 2006, the operator charges an amount as GST/HST at the rate of 7% or 15%. Where the contributions for the products or services become due on or after July 1, 2006, the operator charges an amount as GST/HST at the rate of 6% or 14%, provided the amount was not paid before July 1, 2006.

PQR Cemeteries (PQR) entered into an arrangement with Mr. N to provide cemetery products and services on his death. The products and services will be provided in a participating province.

PQR charged Mr. N an amount as HST at the rate of 15% when the payments were payable and paid under the arrangement. All the required payments under the arrangement were paid before July 1, 2006, and PQR has accounted for these amounts in its net tax calculation.

On August 1, 2006, Mr. N asked PQR to add a service to the arrangement. The rate of 14% applies to the amount charged as HST for the additional service.

Cancelling products or services

Sometimes arrangements are amended to cancel products or services that were to have been provided. Where an amount was charged and accounted for as GST/HST at the rate of 7% or 15% by the operator, the amount can be refunded to the customer and a deduction taken from the operator's net tax calculation, provided the usual requirements are met (i.e., that an acceptable credit/debit note is issued within the applicable time limits).

IJK Cemeteries (IJK) entered into an arrangement with Mrs. L to provide cemetery products and services on her death. The products and services will be provided in a non-participating province.

IJK charged Mrs. L an amount as GST at the rate of 7% on each payment under the arrangement. All the required payments were paid before July 1, 2006, and IJK has accounted for these amounts in its net tax calculation.

On August 14, 2006, Mrs. L asked IJK to cancel one of the services included in the arrangement. IJK refunds the cost of the service to Mrs. L, plus the amount she paid as GST at the rate of 7%.

IJK may take a deduction for the amount refunded as GST, provided an acceptable credit/debit note is issued within the appropriate time limit.

Further information will be available in the GST/HST Info Sheet, *GST/HST Rate Reduction – Application to Price Adjustments, Adjustments for the GST/HST Overcharged and Returned Goods*.

Cancelling arrangements

Sometimes an arrangement is cancelled before the products or services are provided. Normally, the operator charges a cancellation fee that is withdrawn from trust.

In these situations, the operator must account for the GST/HST on a tax-included basis with respect to the amount charged as a cancellation fee. Any cancellation fees withdrawn from trust before July 1, 2006, are GST/HST included at 7/107 or 15/115.

Conversely, any cancellation fees withdrawn from trust on or after July 1, 2006, are GST/HST included at 6/106 or 14/114.

Transitional measures

Some operators were unable to comply with the “new rules” by the dates established by the CRA. In these cases the operators were able to use transitional rules.

Under the transitional rules, the operators must:

- charge an amount as GST/HST when the contributions are paid or payable under the arrangement, whichever is earlier, and must

account for these amounts in their net tax calculations;

- charge and account for the GST/HST on the amount equal to any interest that accumulates in the trust when the amount is withdrawn from trust and disbursed to the operator; and
- account for the GST/HST on any increase in the amount payable to the operator for the products or services supplied, if applicable.

Where these rules apply, operators must charge an amount as GST/HST at the rate of 7% or 15% on any contributions paid or payable before July 1, 2006. Where the contributions are payable on or after July 1, 2006, the operator must charge an amount as GST/HST at the rate of 6% or 14%, provided that the amount was not paid before July 1, 2006.

Operators will charge and account for the GST/HST on the amount equal to any interest that accumulates in the trust and that is withdrawn from trust on or after July 1, 2006, at the rate of 6% or 14%.

Finally, where products or services are provided on or after July 1, 2006, the operator multiplies the new amount payable by the rate of 6% or 14% and subtracts the original amount charged as GST/HST for the products or services and accounts for the difference.

Grandfathered arrangements

Written arrangements entered into before September 1990 are not subject to the GST/HST. Similarly, arrangements entered into before April 1, 1997, in a participating province are not subject to the provincial component of the HST, but are subject to the GST if entered into after August 1990. The CRA refers to these arrangements as grandfathered arrangements.

Arrangements that were grandfathered during the period when the rates of the GST/HST were 7% and 15% will continue to be grandfathered under the new reduced rates, provided the conditions for grandfathering the arrangement are still valid.

LMN Funeral Homes (LMN) entered into an arrangement on January 3, 1997, with Mr. K to provide cemetery products and services on his death. The products and services will be provided in a participating province.

Under the arrangement, Mr. K paid an initial amount and quarterly instalments with the last instalment paid on July 1, 2000.

Mr. K dies on August 1, 2006, and LMN supplies the products and services as set out in the arrangement. However, at the request of Mr. K's family, LMN supplies an additional service.

Since the arrangement was entered into before April 1, 1997, but after August 1990, the contributions were subject to HST at the rate of 15%. The supply of the additional service made after Mr. K's death is not part of the arrangement and is subject to the HST at the rate of 14%.

Taxable interment rights

The GST/HST becomes payable on interment rights supplied by way of lease, licence or similar arrangement on the earlier of the day the payment is made and the day the payment becomes due. Where the lease, licence or similar arrangement for the interment rights is under a written agreement that provides for a series of payments, a payment is considered to become due on the day it is required to be paid under the agreement. The GST/HST is payable on the value of each payment on the earlier of the day on which the payment is paid and the day on which the payment becomes due. Therefore, any payment for interment rights that is paid or becomes due before July 1, 2006, is subject to the GST/HST at the rate of 7% or 15%.

Where a payment becomes due on or after July 1, 2006, and has not been paid before that date, the rate of the GST/HST to be charged is 6% or 14%.

If you did not have to charge tax when you provided interment rights before the announcement about the rate reduction, you still do not have to charge tax when you provide these rights.

QRS Funeral Home (QRS) entered into a written agreement on January 4, 2006, with Mrs. U for the supply of interment rights by way of lease, licence or similar arrangement. The interment rights will be supplied in a non-participating province.

Applying the GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements

Mrs. U made an initial payment and paid a quarterly instalment on April 1, 2006. According to the agreement, her next quarterly instalment is payable and will be paid on July 1, 2006.

The GST at the rate of 7% applied to the initial payment and the first quarterly instalment paid on April 1, 2006.

The GST at the rate of 6% applies to the second instalment payable and paid on July 1, 2006.

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If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

TAB 7

GST/HST Info Sheet

GST/HST Rate Reduction — Streamlined Methods of Accounting for Small Businesses

June 2006

This info sheet explains how the rate reduction in the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to the streamlined methods of accounting for GST/HST for transactions that straddle the date the reduced rates come into effect.

Background information on the GST/HST rate reduction

Effective July 1, 2006, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

In this info sheet, “taxable” means subject to the GST/HST at the rates of 7% and 15%, or at the reduced rates of 6% and 14%.

The HST applies only to supplies made in or imported into a participating province (i.e., Nova Scotia, New Brunswick, and Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any CRA tax services

office.

General transitional rule

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% GST or 14% HST will apply.
- If the GST/HST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% GST or 14% HST will apply.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the rate of 7% GST or 15% HST will continue to apply.

Quick Method of Accounting

The Quick Method of Accounting (the Quick Method) is a simplified accounting option available to help small businesses calculate their net tax for GST/HST purposes.

To calculate the amount of GST/HST to be remitted, the business multiplies the amount of its GST/HST-included revenue from taxable supplies for the reporting period by the applicable Quick Method remittance rate, or rates.

GI-017

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La version française de ce document est intitulée *Réduction du taux de la TPS/TVH – Méthodes de comptabilité abrégée pour les petites entreprises*.

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If you need more information or wish to use the Quick Method, refer to pamphlet RC4058, *Quick Method of Accounting for GST/HST*.

Quick Method of Accounting transitional provisions for the remittance of GST/HST

The specified percentages to remit GST/HST using the Quick Method have been changed to reflect the reduced rates of GST and HST. These new percentages will apply for reporting periods beginning on or after July 1, 2006. For reporting periods beginning before July 1, 2006, and ending on or after that day, the existing percentages will apply for consideration that became due, or that was paid without having become due, before July 1, 2006, and the new percentages will apply for all other consideration.

We define “consideration” for a supply of a good or a service as any amount payable by law for that supply. Generally, consideration becomes due on the date you issue an invoice or the date specified in an agreement, whichever comes first. Consideration for leases of property under an agreement in writing becomes due on the day the recipient is required to pay the amount to the supplier under that agreement.

Remittance rates for small businesses

The following tables reflect the Quick Method remittance rates that apply to small businesses before and after the new rates of GST/HST come into effect.

Table 1 – Remittance rates for businesses that purchase goods* for resale (retailers and wholesalers)

Permanent establishment in a non-participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	2.5%	2.2%
• in a participating province	9.3%	9%
Permanent establishment in a participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	0% (and 2.1% credit)	0% (and 2.5% credit)
• in a participating province	5%	4.7%

* In order to use the rates in Table 1, the cost (including GST/HST) of goods (other than basic groceries and other goods for which you did not pay tax) purchased in the previous fiscal year for resale, or used in goods produced or manufactured for resale, must be at least 40% of total annual taxable supplies (including GST/HST) for that fiscal year. Businesses that have less than this percentage of taxable goods for resale use the remittance rates shown in Table 2.

Table 2 – Remittance rates for service businesses

Permanent establishment in a non-participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	5%	4.3%
• in a participating province	11.6%	11%
Permanent establishment in a participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	3.2%	2.6%
• in a participating province	10%	9.4%

If your organization is a qualifying non-profit organization, municipality, university, public college, school authority, or a hospital authority, and uses the Special Quick Method of Accounting, refer to the budget papers in the Department of Finance Web site at www.fin.gc.ca/budget06/bp/bpa3ae.htm for the revised remittance rates that apply for your organization.

The Simplified Method for Accounting for ITCs

Businesses that use the Simplified Method for Accounting for ITCs (Simplified Method) and that make purchases in both participating and non-participating provinces currently have to separate their purchases that are taxable at 7% from those that are taxable at 15%. The businesses calculate their ITCs for each reporting period by totalling taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiplying by 7 and dividing the result by 107 for GST purchases; or
- multiplying by 15 and dividing the result by 115 for HST purchases.

Effective on or after July 1, 2006, the purchases that are taxable at 6% will be separated from those taxable at 14% and

- multiplied by 6 and divided by 106 for GST purchases; or
- multiplied by 14 and divided by 114 for HST purchases

The Simplified Method is used to calculate ITCs for purchases used to provide taxable goods and services. For purchases related to personal use, or to provide both taxable and exempt goods and services, only the portion used for providing taxable goods and services can be included in the ITC calculation. If a purchase is used at least 90% to provide taxable goods and services, the total purchase price can be included in the ITC calculation.

You can find more information and instructions on how to use this method in the guide RC 4022, *General Information for GST/HST Registrants* or by linking to the Simplified Method of Accounting for ITCs topic on the CRA Web site.

GST/HST Rate Reduction — Streamlined Methods of Accounting for Small Businesses

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

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If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

TAB 8

GST/HST Info Sheet

GST/HST Rate Reduction – Application to Price Adjustments, Adjustments for GST/HST Overcharged, and Returned Goods

June 2006

This info sheet explains how the rate reduction in the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to adjustments of GST/HST for transactions that straddle the date the reduced rates come into effect.

Background information on the GST/HST rate reduction

Effective July 1, 2006, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

In this info sheet, “taxable” means subject to the GST/HST at the rates of 7% and 15%, or at the reduced rates of 6% and 14%.

The HST applies only to supplies made in or imported into a participating province (i.e., Nova Scotia, New Brunswick, and Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

GI-018

La version française de ce document est intitulée *Application du taux réduit de la TPS/TVH aux rajustements de prix et de la TPS/TVH facturée en trop et aux produits retournés.*

General transitional rule

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% GST or 14% HST will apply.
- If the GST/HST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% GST or 14% HST will apply.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the rate of 7% GST or 15% HST will continue to apply.

Price adjustments

Where you pay or credit an amount to a customer for a price adjustment, such as a volume rebate, you may choose to pay or credit the GST/HST to the customer. If you pay or credit an amount to your customer for a price adjustment after July 1, 2006, the rate of the GST or HST that applies to the amount of the price adjustment will be the same rate that applied to original supply. For example, if the price adjustment relates to a supply that was subject to the GST at the rate of 7%, the rate of GST that applies to the price adjustment will also be 7%.

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GST/HST Rate Reduction – Application to Price Adjustments, Adjustments for GST/HST Overcharged, and Returned Goods

In August 2006, a wholesaler pays a volume rebate to a customer who purchased goods from the wholesaler for the period from July 1, 2005 to June 30, 2006. Since the wholesaler is able to document that these purchases were all subject to GST at the rate of 7%, the wholesaler may credit the customer GST on the volume rebate at the rate of 7%.

A person subscribes to an equal billing plan for a utility service that covers a period beginning before July 1, 2006. At the end of the period, the supplier reconciles the person's actual consumption of the utility service and the consideration payable by the person for that consumption, against the amount of the consideration the person actually paid throughout the period. If, as a result of the reconciliation of the account, the supplier issues the person a credit note on or after July 1, 2006, for the amount of consideration that the person overpaid the supplier, the supplier may credit tax to the person, using the rate of GST or HST that applied to the original supply to which the price adjustment relates. For example, a price adjustment in relation to a supply that was originally subject to GST at the rate of 7% will be subject to GST at that same rate.

Where a price adjustment involves issuing an invoice for an additional amount payable, the rate of tax applicable will be determined under the general transitional rules. For example, if the additional amount becomes payable after July 1, 2006, you would collect GST at 6%, or HST at 14% if the supply is made in a participating province, on the additional amount invoiced to your customer.

A person subscribes to an equal billing plan for a utility service. The billing plan covers a period beginning before July 1, 2006. At the end of the period, the supplier reconciles the person's actual consumption of the utility service and the consideration payable by the person for that consumption against the amount of the consideration the person actually paid throughout the period. As a result of the reconciliation, the supplier issues an invoice on or after July 1, 2006, for the remaining consideration due on the utility services that the person consumed during the period. The supplier will charge GST at the reduced rate of 6%, or HST at the rate of 14%, if the supply is made in a participating province, on the amount of the consideration owing.

Adjustments for GST/HST overcharged or collected in error

Any amount collected as or on account of tax must be accounted for in a registrant's net tax calculation, and any positive amount of net tax must be remitted to the Receiver General. For example, if you collected GST at the rate of 7% for a supply that was subject to the GST at the rate of 6%, you must include the 7% GST you collected in your net tax calculation.

However, if you refund or credit your customer the GST that you overcharged your customer, and a credit note or debit note is issued containing the information required to substantiate the refund or credit, you may deduct the amount of the refund or credit given to your customer from your net tax remittance. This refund or credit must be given within two years after the day the tax was paid, or charged.

Returned goods

Where a customer returns goods purchased from you for a refund on or after July 1, 2006, you may also refund the GST or HST at the rate of tax the customer originally paid for those goods. For example, if your customer paid GST at 7% when they purchased the goods, you may refund the tax at the same rate.

A consumer purchases a stereo on June 21, 2006, and pays GST of 7%. After July 1, 2006, the consumer returns the stereo to the supplier because it is defective. The supplier gives the consumer a refund of the amount paid for the stereo and the GST. The supplier will refund the consumer the rate of GST that the consumer had originally paid, in this case 7%.

A consumer purchased a dress in a participating province on June 28, 2006, and paid HST of 15% on the price of the dress. After July 1, 2006, the consumer returns to the supplier and exchanges the dress for another one. At the time the dresses are exchanged, there are two transactions occurring: the refund of the amount paid for the dress being returned and the purchase of the new dress. The refund of the amount originally paid for returned dress will include a refund of the 15% HST that the consumer paid. The purchase of the new dress will be subject to HST at the reduced rate of 14% because the tax is payable on the purchase price of the dress after July 1, 2006.

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