

Another year of change for HST/GST in Canada

There are a lot of changes that are on the way with regards to the Harmonized Sales Tax (HST) and the Goods and Services Tax (GST). **Are you prepared for the changes?**

- Ontario and British Columbia are moving to the Harmonized Sales Tax system on July 1, 2010,
- Nova Scotia is revising the sales tax rate from 13% to 15% effective July 1, 2010, and
- New place of supply rules are taking effect on May 1, 2010.

What do the new changes mean to you?

All these new changes relate to the same two basic questions.

- What sales tax rate are we charging to our clients/customers?
- What sales tax rate must we pay in relation to our suppliers/vendors?

One would normally think that these are very simple questions but, in light of all the pending changes, these questions can become very difficult to answer under certain circumstances.

For example, your company designs websites and your client resides in Ontario, but all your work is performed in Nova Scotia. What rate do you charge? The options available are: GST at 5%, HST at 15% or HST at 13%. What questions should you ask yourself to determine what is the appropriate sales tax rate to charge your client?

- How much of the service was performed prior to July 1, 2010?
- When will the service be completed?
- How long will it take you to perform the service?
- Where will the service be performed?
- What is the address of your client?

Let's assume that the service of developing the website takes two weeks and is completed on July 3rd, 2010. The service of creating the website was completed by you and your staff entirely in Nova Scotia with the exception of two trips to your client's place of business to review the website design. Your client's place of business is Sudbury, Ontario.

First you must determine which Province of taxation you must deal with, Nova Scotia or Ontario? Under the new place of supply rules which come into effect on May 1, 2010, the general rule requires you to charge the sales tax rate that is applicable in the Province where your client's business operates. If there are multiple locations, it would be the Province of the business address that is most closely connected with the supply of service.

Given that your client has one single location in Ontario, you would be subject to charging the sales tax rate applicable to Ontario. Given the harmonization of Ontario's sales tax on July 1, 2010, which rate would you charge to your client, 5 per cent or 13 per cent?

Some situations require a detailed analysis to properly determine the applicable sales tax rate to be applied.

If 90 per cent or more of the service was performed prior to July 1, 2010, then you would charge your client 5 per cent. If 90 per cent or more of the service was performed subsequent to June 30, 2010, you would charge your client 13 per cent. If 60 per cent of the service was performed prior to July 1, 2010 and 40 per cent of the service was performed subsequent to June 30, 2010, then GST of 5 per cent applies to 60% and HST of 13% applies to 40 per cent.

In our example, we will assume that 90% of the service is performed prior to July 1, 2010. Therefore, after a detailed analysis of the service you are providing, we determined that your invoice would reflect Ontario's GST rate of 5 per cent.

As you can see from this example, some situations require a detailed analysis to properly determine the applicable sales tax rate to be applied.

These changes mean that you must not assume that every client under every situation would be subject to the same applicable sales tax rate. This assumption would undoubtedly result in overcharging or undercharging some of your clients. Overcharging your clients may result in a competitive disadvantage while undercharging may result in potential liability if faced with a Canada Revenue Agency audit.

What should you do to be ready?

This is sometimes an obvious statement, but planning is the key to being ready. Here are the things that you should do to plan for the changes:

- Review your business operations to determine what type of good or service you are providing;
- Review and understand the implications of the new rules;
- Review your accounting and point of sales systems to ensure they are capable of dealing with the different tax rates;
- Contact suppliers and customers to inform them of the changes if you believe it might have an impact on your business relationship;
- Revise your budgeting projections to appropriately reflect the potential sales tax rates:

▪ Nova Scotia	15%
▪ Ontario, New Brunswick & Newfoundland	13%
▪ British Columbia	12%
▪ Rest of country	5%
- Review long-term contracts or contracts that straddle the implementation dates;
- Review employee taxable benefits to ensure using correct rate;
- Ensure employees are aware of changes.

After you have completed your review of your business operations, you should document a plan of action to ensure that you are ready to deal with the situations that might arise given the pending GST/HST changes.

Major aspects of changes

Transitional rules

The introduction of the HST in Ontario and British Columbia and the increase in the HST rate in Nova Scotia has resulted in many transitional rules to deal with the charging of the appropriate sales tax rate for goods and services that straddle the implementation date of July 1, 2010.

Place of supply rules

Most of the proposed changes for the place of supply rules relate to services and intangible personal property (e.g. copyrights, tickets to events, on-line digital music, software licenses).

With regards to services, the main differences between the current and the proposed rules (effective May 1st, 2010) is the elimination of the place of negotiation as a criterion in determining the place of supply. There will be a greater emphasis placed on the location of the person receiving the supply.

The new place of supply rules regarding intangible personal property will still largely depend on where the intangible personal property can be used. However, the location of the person receiving the property will also be a factor in some cases.

How can Collins Barrow help?

Your Collins Barrow advisor can help you review your current business operations and assist you with developing a detailed plan to ensure proper transition to the new rules. We can help you with managing your tax compliance obligations along with ensuring refund opportunities are recognized.

About Collins Barrow

Collins Barrow is committed to the highest level of integrity, quality and professionalism and provides clients with solutions in the area of Audit, Tax and Transaction Services.

Collins Barrow is Canada's largest association of Chartered Accounting firms and the eighth largest group of chartered accountants in Canada. Known as Canada's mid-market alternative for audit, tax and advisory solutions, we have developed a reputation for being a real choice for quality and value added financial advice due to the depth and breadth of in-house skills, customized offerings, commitment to excellence in customer service and our global reach. Our unmatched service and deep financial offerings make Collins Barrow the right choice for maximizing shareholder value.

We serve companies at all stages of their development from large publicly traded companies to emerging and owner managed businesses. Our clients come from a cross section of industries including: Private Equity, Manufacturing, Industrial, Wholesale, Retail and Distribution, Professional Services, Financial Services, Real Estate and Land Development, Hospitality and Entertainment, Technology and Communications, Energy and Mining, Biotech and Not for Profit. Our understanding and firsthand experience in the trends that are impacting these industries continues to prove that our professionals are well positioned to offer valued and effective solutions.

Our global reach extends beyond the more than 40 offices in Canada into 110 countries worldwide through Baker Tilly International, the eighth largest accountancy and business advisory network in the world. Together, we offer clients an established platform and access to the highest quality resources for audit, tax and transaction support in the global market place.

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For more detailed information on the implications of the Harmonization of the PST with the GST for your business, contact a partner at your local Collins Barrow office or visit us at www.collinsbarrow.com.

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