

## **Harmonized Sales Tax for British Columbia**

Legislation has been proposed to harmonize the B.C. Social Services Tax (PST) with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST) as of July 1, 2010. The HST in British Columbia would be 12%, consisting of the 5% federal portion and a 7% provincial portion.

Many goods and services purchased by public service bodies presently not subject to PST will be subject to the new HST, resulting in a cost increase (7% in B.C.), less any proposed new partial rebate that applies. For example, the following expenses currently taxed at only 5% GST (no PST) will be subject to 12% HST: commercial real property rentals and leases, internet and web hosting services, professional and consulting services and advertising services.

### **Current Registrants**

Organizations that are currently registered for GST will start collecting 12% HST in lieu of GST on sales of taxable goods and services as of July 1, 2010. Your existing GST number will remain the same for HST purposes.

### **Rebates for Charities and Non-Profit Organizations**

Currently, charities and qualifying not-for-profit organizations are eligible to receive a rebate of 50% of any GST paid that is not eligible for Input Tax Credits. Eligible hospitals, schools, colleges and municipalities receive rebates ranging from 67% to 100% of the federal GST paid.

A partial rebate of the *provincial portion* of the HST is proposed for charities and qualifying not-for-profit organizations that are currently eligible for GST rebates. The partial rebates will be

- Charities and qualifying non-profit organizations: 57%
- Hospital and health authorities: 58%
- Eligible facility operators and external suppliers: 58%
- Eligible universities and public colleges: 75%
- Municipalities: 75%
- Eligible schools: 87%

The rebates will be administered by the Canada Revenue Agency in a consistent manner with current GST rebate practices.

## **Transitional Rules**

Generally, HST will apply to the sale of taxable goods and services if the goods are delivered and ownership is transferred on or after July 1, 2010. A full analysis of the various transitional rules on the implementation of HST is beyond the scope of this article; however we have outlined some key transitional rules below:

### **1. Prepayments on Goods or Services**

The transitional rules for *prepayments* on goods where ownership will be transferred or services rendered on or after July 1, 2010 fall into three categories:

- Prepayments becoming due or made prior to October 14, 2009 – HST is not applicable;
- Prepayments becoming due or made between October 14, 2009 and May 1, 2010 – HST will not be charged by the vendor, but may be subject to self-assessment by certain businesses; and
- Prepayments becoming due or made on or after May 1, 2010 – HST is applicable.

The self-assessment requirement for prepayments made between October 14, 2009 and May 1, 2010 is applicable for businesses where the goods or services acquired are not used exclusively in its commercial activities or the goods are subject to a restriction on the ITCs. The business would be able to claim ITCs on the self-assessment if they are not subject to any restrictions.

### **2. Services**

In most cases, when the performance of services straddles the July 1, 2010 transition date, HST will apply to the portion of the services performed on or after July 1, 2010. For example, for a 2-month service contract where 50% of the service is performed in June 2010 and 50% is performed in July 2010, HST will apply on the 50% relating to July. HST will not apply if the service is substantially all (90% or more) performed prior to July 1, 2010.

### **3. Leases**

Similar to services, HST will be applicable to the time interval of the lease that relates to the period on or after July 1, 2010. For example, for a 6-month lease interval from May to October, HST will apply to the 4-month portion from July to October.

HST will not apply if the lease interval begins before July 1, 2010 and ends on or before July 31, 2010.