

# 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.

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**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.

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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%.

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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.

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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.

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**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.

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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.

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**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.

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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.

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**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](http://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](http://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](http://www.cra-arc.gc.ca/tax/technical/gsthst-e.html).