



## Applying the 2008 GST/HST Rate Reduction to Price Adjustments, Adjustments for GST/HST Overcharged, and Returned Goods

On October 30, 2007, the Government of Canada announced in its Economic Statement that it proposes to reduce the GST rate by one percentage point from 6% to 5%, effective January 1, 2008. To facilitate the transition to the lower rate, the Economic Statement also proposes transitional rules for determining the GST/HST rates applicable to transactions that straddle the January 1, 2008 implementation date.

This info sheet reflects the proposed amendments to the *Excise Tax Act*. Any commentary in this publication should not be taken as a statement by the Canada Revenue Agency (CRA) that these amendments will be enacted in their current form.

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 January 1, 2008, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 6% to 5%. The rate of the HST will be reduced from 14% to 13%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-28, *Budget and Economic Statement Implementation Act, 2007*).

In this info sheet, “taxable” means subject to the GST/HST at the rates of 6% and 14%, or at the reduced rates of 5% and 13%.

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 GST/HSTechnical Information Bulletin B-078, *Place of Supply Rules under the HST*.

### 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 January 1, 2008, without having been paid before that day, the rate of 5% GST or 13% HST will apply;
- if the GST/HST is paid on or after January 1, 2008, without having become payable before that day, the rate of 5% GST or 13% HST will apply.

If the GST/HST becomes payable, or is paid without having become payable, in 2007, the rate of 6% GST or 14% 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 on or after January 1, 2008, the rate of the GST or HST that applies to the amount of the price adjustment will be the same rate that applied to the original supply. For example, if the price adjustment relates to a supply that was subject to the GST at the rate of 6%, the rate of GST that applies to the price adjustment will also be 6%.

La version française du présent document est intitulée *Application du taux réduit de la TPS/TVH (2008) aux rajustements de prix et de la TPS/TVH facturée en trop et aux produits retournés*.



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### Example 1

In August 2007, a wholesaler pays a volume rebate to a customer who purchased goods from the wholesaler for the period from July 1, 2006 to June 30, 2007. Since the wholesaler is able to document that these purchases were all subject to GST at the rate of 6%, the wholesaler may credit the customer GST on the volume rebate at the rate of 6%.

### Example 2

A person subscribes to an equal billing plan for a utility that covers a period beginning before January 1, 2008. At the end of the period, the supplier reconciles the person's actual consumption of the utility 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 January 1, 2008, 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 6% 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 January 1, 2008, you would collect GST at 5%, or HST at 13% if the supply is made in a participating province, on the additional amount invoiced to your customer.

### Example

A person subscribes to an equal billing plan for a utility. The billing plan covers a period beginning before January 1, 2008. At the end of the period, the supplier reconciles the person's actual consumption of the utility 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 January 1, 2008, 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 5%, or HST at the rate of 13%, 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 6% for a supply that was subject to the GST at the rate of 5%, you must include the 6% 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 January 1, 2008, 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 6% when they purchased the goods, you may refund the tax at the same rate.

### Example 1

A consumer purchases a stereo on December 21, 2007, and pays GST of 6%. In January 2008, 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 6%.

### Example 2

A consumer purchased a dress in a participating province on December 28, 2007, and paid HST of 14% on the price of the dress. In January 2008, 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 14% HST that the consumer paid. The purchase of the new dress will be subject to HST at the reduced rate of 13% because the tax is payable on the purchase price of the dress on or after January 1, 2008.

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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.

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

All GST/HST publications are available on the CRA Web site at [www.cra-arc.gc.ca/gsthstech](http://www.cra-arc.gc.ca/gsthstech).