

## Ontario and British Columbia: Transition to the Harmonized Sales Tax – Services

The Government of Ontario and the Government of British Columbia have each proposed a harmonized sales tax (HST) that would come into effect on July 1, 2010.

The HST rate in Ontario will be 13% of which 5% will represent the federal part and 8% the provincial part.

The Government of British Columbia has proposed that the HST rate would be 12% of which 5% would represent the federal part and 7% the provincial part.

This info sheet reflects proposed tax changes announced in:

- the 2009 Ontario Budget and in the Information Notice No. 3, *General Transitional Rules for Ontario HST*, released by the Government of Ontario on October 14, 2009; and
- the News Release issued by the Government of British Columbia on July 23, 2009, and the Tax Information Notice – HST Notice #1, *General Transitional Rules for British Columbia HST*, released by the Government of British Columbia on October 14, 2009.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet explains whether the Goods and Services Tax (GST) or the Harmonized Sales Tax (HST) applies to services performed during the period that includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia.

In this info sheet, all suppliers referred to in the examples are GST/HST registrants and the supplies are taxable. In this info sheet, “taxable” means subject to the 5% GST or to the HST rate in effect in a particular province.

This info sheet does not apply to services performed on a continuous basis by means of wire, cable, satellite or other telecommunication facility, such as

cable television, satellite television or cellular phone services. Also, it does not apply to services supplied under a budget payment arrangement. For more information, refer to *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements* (to be published soon).

**Note:** The information provided in this info sheet does not apply to certain property and services. For more information, refer to the following publications:

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Freight Transportation Services* (GI-053);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Passenger Transportation Services* (GI-054);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Transportation Passes* (GI-055);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Prepaid Funeral and Cemetery Arrangements and Interment Rights* (to be published soon).

### Introduction

To determine whether GST or HST applies to services performed during the period that includes July 1, 2010, suppliers must consider:

- when the service is performed;
- when an amount for the service becomes due; and
- whether an amount is paid without having become due.

Refer to Appendix A for a chart that illustrates the general transitional rules for services performed during the period that includes July 1, 2010.

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Refer to Appendix B for information on when an amount becomes due and when an amount is paid without having become due.

*When 90% or more of the service is performed before July 2010*

When 90% or more of the service is performed before July 2010, only the GST applies to any amount that becomes due or is paid without having become due for the service. Suppliers account for the GST in their GST/HST returns according to the normal rules.

#### **Example 1**

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A couple hires a painter to paint their house. The service is performed from June 2 to June 25, 2010 and costs \$2,000. The painter invoices the total amount on July 2, 2010.

Because all of the service is performed before July 2010, the painter charges the GST and accounts for the tax in its GST/HST return for the reporting period that includes July 2, 2010.

#### **Example 2**

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A plumber is hired to perform a service from June 25 to July 2, 2010. He determines that 93% of the service is performed before July 2010. On July 3, 2010, he issues an invoice for \$800. Because 90% or more of the service is performed before July 2010, the plumber only charges the GST and accounts for the tax in its GST/HST return for the reporting period that includes July 3, 2010.

*When more than 10% of the service is performed on or after July 1, 2010*

The following rules apply when more than 10% of a service is performed on or after July 1, 2010:

- Regardless of when the service is performed, GST applies to any amount that becomes due or is paid without having become due on or before October 14, 2009.
- Regardless of when the service is performed, GST applies to any amount that becomes due or is paid without having become due after October 14, 2009 and before May 2010. However, certain purchasers have to self-assess the provincial part of the HST. For more information, refer to “Self-assessment of provincial part of the HST” in this info sheet.
- When an amount becomes due or is paid without having become due on or after May 1, 2010:

- GST applies to any amount that relates to the portion of the service performed before July 2010; and
- HST applies to any amount that relates to the portion of the service performed on or after July 1, 2010.

Accounting for the GST/HST charged on services

The previous rules explained whether GST or HST applies to a service. The following rules explain who accounts for the tax and when it should be accounted for.

*When an amount becomes due or is paid after October 14, 2009 and before May 2010*

When an amount becomes due or is paid without having become due after October 14, 2009 and before May 2010, the supplier charges the purchaser the GST and accounts for the tax in its GST/HST return according to the normal rules. Certain purchasers have to self-assess the provincial part of the HST. For more information, refer to “Self-assessment of provincial part of the HST” in this info sheet.

#### **Example 3**

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In April 2010 a consultant enters into an agreement with a non-profit organization for a service to be performed in August 2010 for the amount of \$10,000. The consultant issues two invoices: one dated April 10, 2010 for the amount of \$2,000 and one dated August 10, 2010 for the amount of \$8,000.

For the amount that becomes due on April 10, 2010, the consultant only charges the GST and accounts for the GST in its GST/HST return for the reporting period that includes April 10, 2010. The organization may have to self-assess the provincial part of the HST (for more information, see “Self-assessment of provincial part of the HST” in this info sheet).

For the amount that becomes due on August 10, 2010, the consultant charges the HST and accounts for the HST in its GST/HST return for the reporting period that includes August 10, 2010.

*When an amount becomes due or is paid on or after May 1, 2010 and before July 2010*

When GST applies to a service or a portion of a service, the supplier accounts for the GST in its GST/HST return according to the normal rules.

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When HST applies to a service or a portion of a service, the supplier accounts for:

- the 5% federal part of the HST in its GST/HST return according to the normal rules; and
- the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010. The purchaser, if a registrant, would be able to claim any eligible input tax credit in its GST/HST return for the reporting period that includes July 1, 2010.

#### Example 4

A business hires a consultant to perform a service in August 2010. The service costs \$3,000. The business pays \$1,000 on June 25, 2010 and \$2,000 on August 13, 2010. HST applies to both amounts because all of the service is performed on or after July 1, 2010.

For the amount paid in June, the consultant accounts for:

- the 5% federal part of the HST in its GST/HST return for the reporting period that includes June 25, 2010; and
- the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010.

For the amount paid in August, the consultant accounts for the HST in its GST/HST return for the reporting period that includes August 13, 2010.

#### Example 5

A non-profit organization runs a week-long overnight children's camp from June 28, 2010 to July 4, 2010. The organization charges \$300 and the full amount becomes due on May 15, 2010.

The non-profit organization charges the GST on the portion of the service performed in June (3 days) and the HST on the portion of the service performed in July (4 days). Therefore, the organization charges the GST on \$128.57 ( $\$300 \times 3/7$ ) and the HST on \$171.43 ( $\$300 \times 4/7$ ).

The organization accounts for:

- the GST charged on the portion of the service performed in June and the 5% federal part of the HST charged on the portion of the service performed in July in its GST/HST return for the reporting period that includes May 15, 2010; and
- the provincial part of the HST charged on the portion of the service performed in July in its GST/HST return for the reporting period that includes July 1, 2010.

**Note:** To determine whether children's camp fees are subject to GST/HST or are exempt, refer to Info Sheet, *Children's Camps Operated by Public Sector Bodies* (GI-037).

*When an amount becomes due or is paid on or after July 1, 2010*

When an amount becomes due or is paid without having become due on or after July 1, 2010, the supplier accounts for the GST and/or the HST in its GST/HST return according to the normal rules.

#### Example 6

A professional charges \$2,000 for a service performed from June 20, 2010 to July 31, 2010. The professional determines that 40% of the service is performed in June and 60% in July. On August 6, 2010, the professional issues an invoice for the total amount.

The professional charges the GST on the portion of the service performed in June and the HST on the portion of the service performed in July. Therefore, the professional charges the GST on \$800 ( $\$2,000 \times 40\%$ ) and the HST on \$1,200 ( $\$2,000 \times 60\%$ ). The professional accounts for the GST and the HST in its GST/HST return for the reporting period that includes August 6, 2010.

#### Combination of property and services

The following rule applies to any combination of property or services supplied together as a single supply where one of the items is property that would not be subject to HST if it were supplied separately.

In this case, the property is considered to have been sold separately from the other items but only for the purposes of determining whether GST or HST applies during the period that includes July 1, 2010.

For information on the general transitional rules for sales of goods in Ontario and British Columbia during the period that includes July 1, 2010, refer to *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods* (to be published soon).

#### Example 7

In June 2010 a supplier sells restaurant equipment to a client and installation of the equipment is part of the supply. The equipment is delivered to the client on June 30, 2010 and installed on July 2, 2010.

GST applies to the portion of the amount attributable to the equipment because it is delivered and ownership is transferred to the client before July 2010. However, HST applies to the portion of the amount attributable to the installation service since the service is performed on July 2, 2010 (i.e., on or after July 1, 2010).

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### Example 8

On June 26, 2010, a vendor sells an off-the-shelf computer software package. Training is provided to the client's employees in July 2010 as part of the supply.

GST applies to the portion of the amount attributable to the software package because ownership is transferred to the client before July 2010. However, HST applies to the portion of the amount attributable to the training service since the service is performed on or after July 1, 2010.

### Self-assessment of provincial part of the HST

Certain non-consumers have to self-assess the provincial part of the HST when they purchase a service to be performed on or after July 1, 2010 and an amount for the service becomes due or is paid without having become due after October 14, 2009 and before May 2010.

**Note:** A consumer is an individual who acquires the service for the individual's personal consumption or use, or for the personal consumption or use of another individual.

Therefore, this rule applies to a person that is a sole proprietor, a business, an organization, a public service body, or any other entity.

A non-consumer that purchases a service must self-assess the provincial part of the HST if the non-consumer:

- does not purchase the service for consumption, use, or supply exclusively in its commercial activity;
- is using a simplified accounting method to calculate its net tax;
- is purchasing a service that is subject to input tax credit recapture;

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 office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

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 1-800-567-4692. You may also visit their Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthsttech](http://www.cra.gc.ca/gsthsttech).

- is a charity that uses the net tax calculation for charities; or
- is a selected listed financial institution.

The non-consumer accounts for the provincial part of HST either:

- on line 405 of its GST/HST return for the reporting period that includes July 1, 2010 if the due date for that return is before November 2010; or
- in any other case, by completing Form GST489, *Return for Self-Assessment for the Provincial Part of Harmonized Sales Tax (HST)* and paying that amount before November 2010.

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### Example 9

In April 2010 a consultant enters into an agreement with a non-profit organization for a service to be performed in August 2010 for the amount of \$10,000. The consultant issues two invoices: one dated April 10, 2010 for the amount of \$2,000 and one dated August 10, 2010 for the amount of \$8,000. The organization is a GST/HST registrant. However, the service will not be used exclusively in its commercial activities.

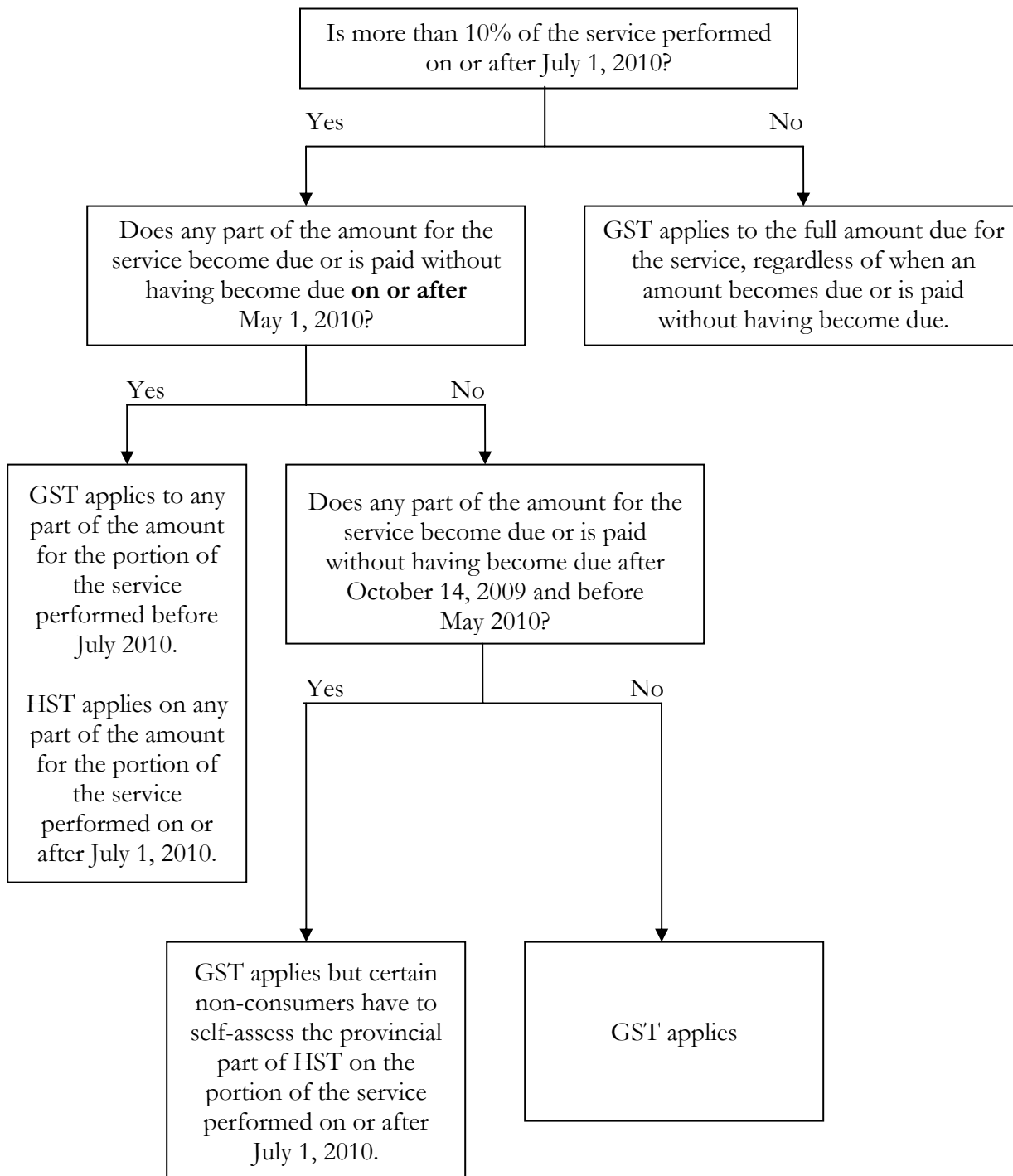
GST applies to the amount that becomes due on April 10, 2010. Therefore, the consultant charges and accounts for the GST in its GST/HST return that includes April 10, 2010. In addition, the non-profit organization has to self-assess the provincial part of the HST on the amount of \$2,000 because:

- it is not a consumer;
- the service is performed on or after July 1, 2010;
- the amount is paid after October 14, 2009 and before May 2010; and
- the service is not used exclusively in the organization's commercial activities.

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Appendix A – Transitional rules for services

The following illustrates the general transitional rules for services performed during the period that includes July 1, 2010.



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## Appendix B –When an amount becomes due or is paid without having become due

The following rules explain when an amount becomes due and when an amount is paid without having become due. These rules apply to services and supplies of tangible and intangible personal property.

### *Amount becomes due*

An amount for a supply becomes due on the earliest of the following days:

- the date of an invoice for that amount for the supply;
- the day the supplier first issues that invoice for the amount;
- if there is an undue delay in issuing that invoice, the day the supplier would have issued the invoice; and
- the day the client is required to pay that amount under a written agreement.

For information on what is a written agreement for GST/HST purposes, refer to GST Memorandum 300-6-4, *Agreements in Writing*.

### **Example 1**

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A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount on April 30. The supplier issues an invoice dated April 15.

The amount becomes due on April 15 because it is the earliest of the date of the invoice, the day the invoice was issued, and the day the client is required to pay an amount under a written agreement.

### *Amount is paid without having become due*

An amount is paid without having become due when a client pays an amount for a supply:

- before the date of an invoice, or before a supplier issues, or would have issued, the invoice; or
- before the client is required to pay the amount under a written agreement and no invoice has been issued.

### **Example 2**

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A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount due on April 30. No invoice is issued. The client pays the amount due on April 15. In this case, April 30 is the day the amount becomes due and April 15 is the day the amount is paid without having become due.

### *More than one invoice or payment*

Sometimes, more than one amount becomes due or is paid without having become due. This could happen when, for example, a supplier issues more than one invoice or when the client is required to make more than one payment under a written agreement. In this case, for each amount, the supplier must determine whether GST or HST applies. The supplier cannot, for example, just apply the HST on the final amount or on the total amount payable for the supply.

### **Example 3**

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A supplier enters into a written agreement with a client for a supply. Under the agreement, the client is required to make two payments. The supplier has to consider each payment separately to determine whether GST or HST applies to the amount paid.