

Taxation Bulletin

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Fasken Martineau DuMoulin LLP

BC Joins Ontario in Eliminating PST: Harmonizing with Federal GST

The BC government announced on July 23, 2009 that it will harmonize its provincial sales tax (PST) with the federal goods and services tax (GST) effective July 1, 2010.

Earlier this spring, Ontario announced that it would be doing the same, effective July 1, 2010.

(Nova Scotia, New Brunswick, and Newfoundland & Labrador harmonized their provincial sales tax regimes with the federal GST in 1997.)

The harmonized sales tax (HST) rate in BC will be 12%. The HST rate in Ontario will be 13%, the same as the three Atlantic Canada HST provinces.

Any enterprise that carries on business anywhere in Canada or that is registered for GST purposes should take note. Because GST/HST is Canadian federal legislation, it will mean any business that is registered for GST purposes, regardless of where they are located, will be obligated to charge and collect HST at these new rates on goods and services sold to customers in these HST provinces. The HST will be reported and remitted on your ordinary GST returns.

Like Ontario, BC will not impose the 7% provincial component of the 12% HST on:

- Books
- Children's sized clothing & footwear
- Children's car seats & car booster seats
- Diapers
- Feminine hygiene products

BC will also not impose the 7% provincial component of the 12% HST on:

- Gasoline & diesel fuel for motor vehicles

New Residential Homes: Like Ontario, BC will provide a new housing rebate of a portion of the 7% provincial component of the HST to ensure that newly-constructed homes bear the same amount of sales tax as they do under the current PST system. The rebate will be fully available on newly-built homes sold for \$400,000 or less. Newly-built homes above \$400,000 will receive a flat rebate of about \$20,000.

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Restricted Input Tax Credits for Large Businesses: Like Ontario, BC intends to temporarily restrict the ability of large businesses (those with GST-taxable revenues in excess of \$10 million) to claim input tax credits (ITCs) in respect of the 7% provincial component of the HST on certain business inputs. Details were not available at the time of writing, but it is anticipated the restrictions will be similar to Ontario. Ontario announced for the first five years following harmonization, large businesses and financial institutions would not be able to claim ITCs on

- energy, except where purchased by farms or used to produce goods for sale;
- telecommunication services other than internet access or toll-free numbers;
- road vehicles weighing less than 3,000 kilograms (and parts and certain services) and fuel to power those vehicles; and
- food, beverages and entertainment.

(NOTE: BC will not be imposing the 7% HST on gasoline and diesel used in motor vehicles.)

It is anticipated that further details regarding sales tax harmonization, both in British

Columbia and Ontario, will be forthcoming early in the fall of 2009. It is recommended, however, the businesses start planning now for the IT and system changes that will be required by the end of the second quarter of 2010.

If you have any questions regarding BC or Ontario sales tax harmonization, or if you have concerns regarding harmonization that you wish to bring to the government's attention, please contact:

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