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Harmonized Sale Tax

As a business owner you are required to stay up to date with a changing business environment whether it is changes to your product or services, changes in the market place or, in this case, changes in the tax system. The purpose of this letter is to give you an overview of some of the issues that surround the upcoming transition from Provincial Sale Tax (PST) to the Harmonized Sales Tax (HST), so that you feel more prepared to deal with this upcoming change.

For many businesses the move to HST will be an easy one and will help to reduce the time and effort of collecting and remitting two different taxes. If you are currently collecting GST on the product or service that you sell, then starting July 1 you will be required to collect 12% HST instead of 5% GST. The HST will be remitted on the same form that you currently use to remit your GST. If you are required to collect PST on the product or service that you sell, starting July 1 that will end. Your final PST report for June 2010 will need to be filed by July 23, 2010.

If you are a GST registrant, at the present time you are able to claim back the GST you pay on purchases for your business. After July 1 you will be able to claim back the HST you paid on all purchases for your business. For many businesses this will be a cost savings as some of the business purchases you have made in the past had PST on them. This PST was not able to be claimed back and was simply a cost of doing business. Let's take the example of a \$100 purchase at Staples. Right now you would end up paying \$112 with \$5 of that GST that could be claimed back on your next GST report. Under the HST system you would still pay the \$112 but would be able to claim back \$12 on your next HST report.

As with any change in the tax system, there are some areas that will require special attention. We have identified four areas that may affect your business or organization which will require some special attention as the HST comes into effect. If any of these areas affect your business or organization we would be pleased to meet with you to discuss these and how best for you to account and report the HST. Please contact our office to set up an appointment with one of our professional staff.

1. **Delayed Delivery of Goods and Services** - in the regular course of business there may be times when the goods or services you sell are invoiced and paid for well ahead of the delivery of the item. If this is the case there are special HST rules that cover these transactions and actually can require a business to collect HST prior to July 1.
2. **Restricted Input Tax Credits** - large businesses with gross sales in excess of 10 million are not permitted to claim back the Provincial portion of the HST (the 7%) on certain purchases. These "Restricted Input Tax Credits" (RITC's) are only on a handful of items but the reporting on them will require some careful attention. These special rules extend to associated groups of companies where

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the group has more than the 10 million dollar limit. The restrictions are on Energy, telephone, meals and in some cases vehicles.

3. Construction - Does HST apply to the house that I'm building? To answer that question with confidence depends on a number of different factors such as; when was the agreement to build the house entered into, when will the house be completed. We would be pleased to discuss your situation with you. In addition, any homes (house, townhouse or condo) that were built under the GST system but will be sold under the HST are affected by some special "transitional" rules, including a possible PST rebate. These rules work to deal with the fact that PST was paid on the many costs that went into the construction of the house and more tax (HST) will be paid when the house is sold. Again, each situation is specific and we would be pleased to talk about yours.
4. Charities - When the HST rules get down to charities the "harmonized" label falls apart. Although we are moving to a 12% harmonized tax, behind the scene there are two sides to the tax 5% federal and 7% provincial. Charities that apply for the not-for-profit rebate will be required to track these two sides of the HST separately. The rebate rate for the federal (5%) portion of the HST will stay at 50% whereas the rebate for the provincial (7%) portion of the HST has a different rebate rate. In most cases it is 57%.

For many businesses the move to HST will be quite straight forward. For others there will be some challenges to overcome. We would be happy to help in any way that we can to make the transition for your business or organization as easy as possible. Please don't hesitate to contact us.

Sincerely,

Friesen Pankratz & Associates LLP