

Tax Harmonization in Canada

An ADP Webcast
Thursday, May 20, 2010
12-1pm Eastern



Housekeeping Items

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- Today's webinar will last for 60 minutes, ending at 1pm Eastern time.
- You will have the opportunity to ask questions during the last 10 minutes of today's broadcast.
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- Answer 3 out of 4 polling questions

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Why Businesses Choose to Work with ADP



Today's Guest Speakers



**Charles
Maniace**

Sr. Tax Counsel



Joan Howard
Sr. Tax Counsel



Yujin Weng
Tax Counsel



Todd Nelson

*Sr. Tech
Support
Engineer*



Frank Souik

Project Manager

Agenda

- Background
- Understanding Harmonization at a Practical Level
- Impact of Harmonization on ADP Systems
- Point-of-Sale Rebates
 - British Columbia
 - Ontario
- General Invoicing Rules
- Tax Filings
- ITCs
- Transitional Rules
- Noteworthy News
 - Place of Supply Rules
 - Nova Scotia & Quebec ~ Rate Changes
 - Prince Edward Island (New) & British Columbia (Phase II) ~ E-Waste Fees
- Closing Comments
- Implications for your ERP System



Polling Question #1

- Is your business currently registered to collect the goods and service tax imposed at the federal level in Canada?
- A. Yes
- B. No
- C. Don't Know



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Background

Federal Level

Canada imposes a 5% federal level goods and service tax (GST) that functions, for the most part, like a Value Added Tax (VAT).

Provincial Level – the following rules apply TODAY:

Nova Scotia, New Brunswick, and Newfoundland and Labrador (the maritime provinces) harmonized their provincial sales tax with the GST to create a harmonized sales tax (HST) in each of these “participating provinces”.

HST in these jurisdictions generally applies to the same base of taxable goods and services as the GST, but currently at a rate of 13%, comprised of a 5% federal part (equal to the 5% GST) and an 8% provincial part.

Provinces impose a tax that operates under a typical/vanilla sales tax scheme, similar to what businesses would see in the US. Those provinces include: British Columbia; Manitoba; Ontario; Prince Edward Island (PEI); and Saskatchewan.

Quebec also imposes a sales tax; note although the tax is termed the Quebec Sales Tax (QST), the taxing scheme is harmonized for the most part with the GST. As such, QST generally applies to the same base of goods/services as the GST. The rate is currently 7.5%, calculated on the selling price (including the GST). This tax-on-tax structure also applies for PEI.

No provincial/territorial level tax is imposed in Alberta, Nunavut, Yukon, and the Northwest Territories.



Ontario & British Columbia – effective July 1, 2010

The provinces of Ontario and British Columbia (BC) have enacted legislation to implement the HST, replacing the existing provincial sales taxes and the GST imposed in those provinces. The legislation enacting this change also received royal assent at the federal level, making this change technically official.

- HST rate in Ontario will be 13%, consisting of 5% federal portion and 8% provincial component.
- HST rate in British Columbia will be 12%, consisting of 5% federal portion and 7% provincial component.
- With the addition of BC and Ontario, there will be (5) “participating provinces” imposing the HST in Canada.

As an aside, please be aware that also effective July 1, 2010, the provincial portion of HST in Nova Scotia will be 10%, resulting in an HST rate in the province of 15%.

Understanding Harmonization at a Practical Level

■ Current Provincial Sales Tax (PST) in British Columbia and Ontario

- It is a sales tax levied only on *retail* sales of tangible personal property and certain services.
- Result, tax imposed on the end consumer.
 - Ex. sales from a wholesaler to a retailer would generally be exempt from the provincial level sales tax as a sale for resale.
- Services are generally exempt from sales tax unless enumerated as taxable by law.

■ Contrast Harmonized Sales Tax (HST)

- Value Added Tax (VAT)
 - collect the GST/HST on most sales / taxable supplies made in Canada
 - pay GST/HST on most purchases made to operate a business.
- HST applies to the same base of taxable goods and services as the GST
- Most supplies of goods and services are taxable, unless specified as zero-rated or exempt by law
 - See, <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/gnrl/txbl/menu-eng.html> for more information on zero-rated and exempt supplies.
- Levied on each step of the supply chain; therefore, sales for resale also taxable
- Businesses are generally responsible for collecting and remitting GST/HST to the government
 - Businesses required to have a GST/HST registration number are called “registrants”
- Tax registrants may claim Input Tax Credits (ITCs) to recover the GST/HST they paid or owe on the purchases they use in their commercial activities
 - See, <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/itc-cti/menu-eng.html>
 - Input tax credit is available for zero-rated supplies, but not for exempt supplies



Polling Question #2

■ Are you currently using any of the following ADP Sales Tax solutions?

- A. ADP Sales Tax Service
- B. Taxware Enterprise
- C. Sales and Use Tax System
- D. None of the above
- E. Don't Know



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Impact of Harmonization on ADP Systems

General summary:

- Current sales tax schemes British Columbia & Ontario – tax applies to end consumer
v.
- GST/HST - almost everyone pays – unless 0% or exempt

System impact for by both British Columbia & Ontario harmonizing:

- Taxware Enterprise System
 - Tax type change (sales v. Input/Output VAT);
 - Tax rule/situs change – to apply new tax type rules
 - Good/service code taxability changes
 - Entity/use code changes
- Sales and Use Tax System
 - Exception file – C Version, 3.6.1 and above, programming logic change applying Harmonized Sales Tax (HST) rate
 - Product code taxability changes
 - STEP reason code changes
- TaxSolver



Point-of-Sale Rebates

- Ontario and BC will allow point-of-sale rebates for the provincial part of the HST.
 - Means an instant rebate, at the point of sale, of the provincial portion of the HST.
 - vendor can automatically credit the provincial part of the HST and only collect the 5% federal part of the HST.
 - Crediting purchasers in this manner would not affect a vendor's ability to claim input tax credits on its business inputs. The provincial portion essentially treated as a zero-rated supply.
 - No rebate at POS – purchasers may claim rebate on qualifying sales:
 - Form GST189, General Application for Rebate of GST/HST, reason code 16.
- Invoicing
 - When disclosing the HST in an invoice involving a point-of-sale rebate, the registrant supplier may show:
 - The total amount of the HST payable (or the total HST rate) with the amount of the rebate shown separately,
 - The total HST payable as an amount *net* of the provincial component of the HST, or
 - The total price of the qualifying goods that includes HST at a net rate of 5%.
- Taxware Enterprise – point-of-sale rebate reflected as 0-rated for the provincial level of the HST.
- Sales and Use Tax System— point-of-sale rebate is reflected as exemption for the provincial level.

Point-of-Sale Rebates: British Columbia

- Point-of-Sale rebate available for the following products sold in British Columbia:
 - ✓ Books (including audio books and magazines sold by subscription)
 - ✓ Children's clothing and footwear
 - ✓ Children's car seats and car booster seats
 - ✓ Diapers
 - ✓ Feminine hygiene products
 - ✓ Qualifying motor fuels

Point-of-Sale Rebates: Ontario

- Point-of-sale rebate available for the following products sold in Ontario:
 - ✓ Books (including audio books and magazines sold by subscription)
 - ✓ Print newspapers
 - ✓ Qualifying prepared food and beverages sold for CAN \$4.00 or less
 - ✓ Children's clothing and footwear
 - ✓ Children's car seats and car booster seats
 - ✓ Diapers
 - ✓ Feminine hygiene products
- Compare: Ontario; Current HST Provinces; changes for Nova Scotia

General Invoicing Rules

- Must inform buyers if GST/HST applied.
 - For taxable supplies (except zero-rated supplies), must show either:
 - The amount of the GST/HST paid or payable for the supply; or
 - The price of the supply includes the GST/HST.
 - You can use cash register receipts, invoices, or contracts to inform your customers, **or** you can post signs at your place of business.
 - If sales in a HST province **and** you choose to indicate the rate of tax on an invoice, then must show the total HST amount; do not indicate the federal and provincial parts of the HST separately.
- CRA has a number of publications addressing disclosure/invoicing requirements:
 - GST/HST Memoranda Series 15.1: General Requirements for Books and Records
 - RC4022 General Information for GST/HST Registrants
 - GST/HST Memoranda Series 13.4: Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures
- Invoicing HST for taxable transactions in British Columbia or Ontario - follow the foregoing existing rules.

Polling Question #3

- Are you currently doing business in British Columbia or Ontario ?
- A. Yes
- B. No
- C. Not yet, but planning to in the future
- D. Don't Know



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Tax Filings

■ Final PST Returns – misc. provincial specific issues

- British Columbia
 - BC Ministry plans to mail final PST returns in June 2010.
 - Taxpayers must file the June return **by July 23, 2010 even if this is not their regular tax reporting period.**
 - After June 2010, taxpayers will not be mailed another tax return by the BC Ministry.
- Ontario
 - All RST returns mailed to vendors for periods ending after March 31, 2010 will indicate AT LIMIT in the Compensation box at Line 5.
 - In order to claim compensation, vendors must first determine their total tax collectable on sales during the reporting period and then deduct from that amount the eligible compensation. The result of this calculation must then be entered on line 2 of the RST return.
 - Proposed compensation limits for the period April 1, 2010 to June 30, 2010 would be:
 - If RST charged in the return filing period is \$20 or less, claim the amount charged
 - If RST charged in the return filing period is more than \$20 and less than \$400, claim \$20
 - If RST charged in the return filing period is \$400 or more, claim 5% of the amount (**up to a maximum \$375**)
- As under the GST, no compensation to vendors for collecting the HST.



Tax Filings – cont.

■ Federal Registration & Filing Requirement

- Register for GST/HST if:
 - ✓ Provide taxable, including 0-rated, goods / services in Canada in the course of carrying on business in Canada *and*
 - ✓ Do not qualify as a small supplier because total **worldwide taxable supplies** of goods/services exceed small supplier limit of \$30K
 - In a single calendar quarter **or**
 - In four consecutive calendar quarters.
- Carrying on Business – Question of Fact – see, CRA Policy Statement P-051R2

■ More information at:

- <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rgstrng/menu-eng.html>
- Section 165 under Part IX, DIVISION II of the ETA; and, RC4022, titled General Information for GST/HST Registrants, found at: <http://www.cra-arc.gc.ca/E/pub/gp/rc4022/README.html>

■ NEXPRO / Manage Tax Obligation

Current reporting period thresholds		
Annual taxable supplies threshold	Assigned reporting periods	Optional reporting periods
\$1,500,000 or less	Annual	Monthly, Quarterly
More than \$1,500,000 up to \$6,000,000	Quarterly	Monthly
More than \$6,000,000	Monthly	Nil

Polling Question #4

- Are you currently using ADP's sales tax returns package, TaxSolver?

- A. Yes
- B. No
- C. Don't Know



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■ **TaxSolver Processing – for reporting sales on/after July 1, 2010**

- PST Forms become obsolete:
 - BC FIN 400, Social Service Tax Return
 - BC FIN 428, Return of Tax Due no Taxable Personal Property by Purchaser/Seller not registered under Social Service Tax Act
 - ON 0336Y, Registered Vendor Retail Sales Tax Return
- HST for British Columbia and Ontario to be reported one of the following:
 - CN GST426, GST/HST Return (Non-Personalized)
 - CN GST62, GST/HST Return Non-personalized
- Following Quebec's reporting requirements the HST would be reported to Quebec for all companies operating within Quebec on:
 - QC FP-500-V, GST/HST-QST Return
 - QC FPZ-34-V, GST/HST Return
 - QC FPZ-500-V, GST/HST-QST Return

Tax Filings – cont.

■ New E-Filing Rules

- For all reporting periods that end on or after **July 1, 2010**, it is proposed that, GST/HST registrants (excluding **charities**) with greater than \$1.5M in annual **taxable supplies** (including **associates**) will be required to file their GST/HST returns electronically using (1) of (4) options. Certain situations will limit registrants options.
- (4) Filing Options:
 - GST/HST NETFILE;
 - GST/HST TELEFILE;
 - GST/HST EDI filing and remitting;
 - Internet File Transfer (GIFT).
- Registrants required to recapture Input Tax Credits (ITCs) for the BC/Ontario provincial part of the HST on certain inputs must file their GST/HST returns using GST/HST NETFILE only.

■ More information

- See <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrns/rqrmnts/menu-eng.html>

Input Tax Credit (ITC)

- GST/HST Registrant can **recover GST/HST** paid/owed for consumption, use, or supply in **commercial activities**, by claiming an Input Tax Credit (ITC) on the GST/HST return.
 - **ITC not automatic** – cannot claim an ITC for:
 - √ Items such as taxable goods/services bought or imported to provide exempt goods/services;
 - √ Items acquired for personal consumption, use, or enjoyment;
 - √ Certain capital property;
 - √ Membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (unless acquired for resale in the course of business).
- **Timing**
 - Generally claimed when filing GST/HST return for the reporting period in which purchase was made.
- **Limitations / ITC Recapture** – in BC & Ontario (N/A to NB; NF/L; & NS)
 - Registrants with annual taxable supplies greater than \$10M (including associates) and certain financial institutions are restricted from claiming ITCs for the provincial part of the HST for:
 - √ 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 services) and (in Ontario only) fuel to power those vehicles; and
 - √ Food, beverages, and entertainment.



Transitional Rules

■ Supply of Goods – by way of Sale

- Consideration due or paid on or after July 1, 2010
 - HST would generally apply to the amount due, or paid without having become due, on/after July 1, 2010, to the extent the amount is for goods that are delivered, and for which ownership is transferred, to the buyer on or after July 1, 2010.
- Consideration due or paid on or after May 1, 2010 and before July 2010
 - HST would generally apply to the amount due, or paid without having become due, on/after May 1, 2010 and before July 2010, to the extent the amount is for goods that are delivered, and for which ownership is transferred, to the recipient of the supply **on or after** July 1, 2010.
 - In such circumstances, the Seller would be required to account for the BC/Ontario component of the HST in the GST/HST reporting period that includes July 1, 2010. The buyer would be able to claim any available input tax credits with respect to the BC/Ontario component of the HST in the GST/HST reporting period of the buyer that includes July 1, 2010.
 - Example: As part of a graduation gift in June, a person pays for a kayak in BC/Ontario, but the kayak will not be delivered, and ownership will not be transferred until August 2010. The HST would apply to the sale and the seller would account for the BC/Ontario component of the HST in the GST/HST reporting period that includes July 1, 2010.

Transitional Rules – cont.

- **Exchanges / Refunds** – on Purchases subjected to Provincial Sales Tax (PST), before July 2010, but returned on/after July 1, 2010 and before November 2010:
 - If the property is returned and a full refund is given, the PST would be refunded;
 - If an exchange is made resulting in neither a refund nor an additional payment, there would be no PST refund and the BC/Ontario component of the HST would not be payable;
 - If an exchange is made resulting in a partial refund, the BC/Ontario component of the HST would generally not be payable on the replacement property and the purchaser would be entitled to recover the PST applicable to the amount refunded; and
 - If an exchange is made resulting in an additional payment, no PST would apply but the HST would apply to the additional payment.
- If the PST did not apply to property that was purchased before July 1, 2010, and it is exchanged on or after July 1, 2010, the BC/Ontario component of the HST would apply to the full consideration for the replacement property.
- If property is returned on or after November 1, 2010, no PST adjustments would be available at the point of sale. However, the purchaser may make an application for a refund of PST for tax paid in error.



■ Lease of Goods

- When the lease or license period (lease interval) begins before **July 2010** and ends before **July 31, 2010**, GST and PST would apply.
- When the lease interval begins before **July 2010** and ends on or after **July 31, 2010**, GST and PST would apply to the part of a lease interval that occurs before July 2010; and, HST would apply to the part of a lease interval that occurs on or after July 1, 2010.
- Each lease payment is treated as a separate supply.

Transitional Rules – cont.

■ Services

- For any amount that becomes due or is paid without having become due on services performed during the period that includes **July 1, 2010**, and 90% or more of the service is performed before July 2010, GST and PST (to the extent applicable) would apply.
- When more than 10% of the service is performed on or after July 1, 2010:
 - And the amount becomes due or is paid without having become due on or after May 1, 2010:
 - GST and PST (to the extent applicable) would apply to any amount that relates to the portion of the service that is performed before July 2010; and
 - HST would apply to any amount that relates to the portion of the service that is performed on or after July 1, 2010.

- For more details on the transitional rules, see <http://www.cra-arc.gc.ca/tx/pstr/trnstnl/prsnl/menu-eng.html>

■ Place of Supply Rules

- New place of supply rules, May 1, 2010, published in CRA GST/HST Technical Information Bulletin B-103, at: <http://www.cra-arc.gc.ca/E/pub/gm/b-103/b-103-e.pdf>
- **Tangible Personal Property: No change**
 - RULE – supply is made in a province if the supplier delivers the property or makes it available in the province to the recipient of the supply.
- **Changes to place of supply for certain services:**
 - General Rules:
 - Rule 1: The recipient's home, business or other address that is most closely connected with the supply and that is obtained by the supplier in their normal course of business. If Rule 1 doesn't apply, use:
 - Rule 2: The supply is proposed to be deemed to be made in the participating province in which the greatest proportion of the Canadian element of the service is performed. If Rule 2 doesn't apply, use:
 - Rule 3: The participating province that has the highest rate for the provincial component of the HST where the service is performed. If Rule 3 doesn't apply, use:
 - Rule 4: If Rule 1 doesn't apply and the Canadian element of the service is performed 50% or less in the participating provinces, supply is made in a non-participating province.

■ New Place of Supply rules do NOT apply to the following service transactions:

- Personal services (excluding advisory, consulting, and professional service)
- Services in relation to tangible personal property
- Services in relation to real property
- Services relating to a location-specific event
- Services rendered in connection with litigation
- Customs brokerage services
- Repairs, maintenance, cleaning, adjustments, alterations and photographic related goods
- Services of a trustee for a trust governed by an RRSP, RRIF, RESP, TFSA, or RDSP
- Premium rate telephone services
- Computer-related services and internet access
- Air navigation services
- Passenger transportation
- Freight transportation
- Postage and mail delivery
- Telecommunications

Noteworthy News – cont.

- **Nova Scotia – July 1, 2010**
 - Scheduled to increase the provincial component from 8% to 10%, resulting in HST rate of 15%.
 - Introduce POS rebates on children's clothing, children's footwear, feminine hygiene products and diapers.
- **Quebec – January 1, 2011**
 - Proposed to increase QST from 7.5% to 8.5%.
 - January 1, 2012, increase another 1%, bringing rate to 9.5%.
 - QST will be harmonized with the HST in respect of the legislation applicable to the place of supply, and with the GST/HST in respect of the requirement to file electronic returns for reporting periods ending after June 2010.
- **Prince Edward Island – July 1, 2010**
 - Plans to collect environmental handling fees on certain categories of electronic appliances.
- **British Columbia – July 1, 2010**
 - Will launch Phase II of the environmental handling fees program, expanding to include more products.

Closing Comment

- Final Note: The Canada Revenue Agency (CRA) offers a number of informative seminars, to help ensure businesses receive the information they need for the transition to the federal administration of the harmonized sales tax in Ontario and British Columbia.
 - For more information, see the CRA link at: <http://www.cra-arc.gc.ca/vnts/hrmnztn/menu-eng.html>

Implications for your ERP System

Canadian Tax Harmonization - Oracle

- To handle the new tax harmonization in British Columbia and Ontario, the following considerations should be taken into account:
 - Release 11i for AP: the tax is booked as a single amount (GST and PST/HST/QST) for Canada, thus no change is required
 - Release R12: we are building the integration to have the individual tax levels to be recorded as individual lines
 - For more information or questions, please contact ADP technical support 781-557-2620.



Canadian Tax Harmonization – PeopleSoft

- To handle the new tax harmonization in British Columbia and Ontario, the following considerations should be taken into account:
 - Tax amount splits (state/city/GST/PST) are not captured in GL entry. Though the tax amount splits (GST or PST + HST) for Canada are captured in the tax detail table, the accounting entries are all recorded as one single GL entry.
 - Thus with this change in Canada, no real change is necessary in PeopleSoft as the tax detail table will be updated manually and the G/L postings will happen as they do today.
 - For more information or questions, please contact technical support 781-557-2620.



Canadian Tax Harmonization – SAP

- To handle the new tax harmonization in British Columbia and Ontario, the following considerations should be taken into account:
 - To facilitate this change, the associated Canadian Tax Codes need to be changed to post the HST to the VS2(purchasing) and MW2 (sales) account keys
 - The appropriate G/L Accounts need to be assigned to the aforementioned tax codes or account keys
 - The method of G/L Assignment is based on SAP configuration
 - For more information or questions, please contact technical support at 781-557-2620.



Questions & Answers



**Charles
Maniace**
Sr. Tax Counsel



Joan Howard
Sr. Tax Counsel



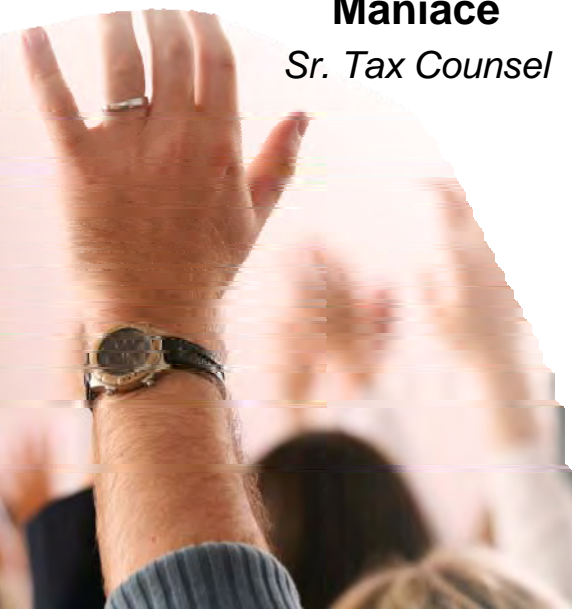
Yujin Weng
Tax Counsel



Todd Nelson
*Sr. Tech
Support
Engineer*



Frank Souik
Project Manager



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