

**COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT**

**BETWEEN**

**THE GOVERNMENT OF CANADA**

**AND**

**THE GOVERNMENT OF PRINCE EDWARD ISLAND**

# **Comprehensive Integrated Tax Coordination Agreement**

**BETWEEN:**

**The Government of Canada** (referred to in this Agreement as "Canada"), as represented by the Minister of Finance of Canada,

**AND:**

**The Government of Prince Edward Island** (referred to in this Agreement as the "Province"), as represented by the Minister of Finance, Energy and Municipal Affairs,

**TOGETHER** referred to in this Agreement as the "Parties".

**WHEREAS:**

- I. This Agreement reflects the strong commitment by the Parties to work collaboratively in order to build a stronger economic foundation;
- II. The Parties agree that federal and provincial sales taxes should be subject to a single administration;
- III. The Parties wish to build upon the existing sales tax harmonization framework;
- IV. An integrated sales tax system is economically efficient and enhances the collection of revenues while reducing administrative duplication and costs, simplifying compliance and promoting federal-provincial fiscal co-operation and harmonization;
- V. The Parties recognize the needs of governments to maintain a tax system that is responsive to the citizens and the business community, that reflects both Parties' interests and that preserves the accountability of the federal and provincial Ministers of Finance;
- VI. The Parties acknowledge and recognize the objective of maintaining a broad harmonized tax base; and
- VII. The Parties recognize the importance of working collaboratively in exercising the flexibilities under this Agreement in a manner that is consistent with the sales tax harmonization framework.

**NOW, THEREFORE,** the Parties agree as follows:

# Part I

## Interpretation

1. In this Agreement,

"Agreement" means this comprehensive integrated tax coordination agreement, entered into by Canada with the Province under Part III.1 of the Federal-Provincial Fiscal Arrangements Act and section 10 of the *Executive Council Act* R.S.P.E.I. 1988, Cap. E-12, including all Annexes attached to it, and all instruments amending or restating it, or any successor agreement to it;

"business day" means a day that is neither a Saturday nor a day defined as a holiday within the preamble to the definition of that word in subsection 35(1) of the *Interpretation Act*, R.S.C. 1985, c. I-21, as amended from time to time;

"CVAT" means the federal component of tax payable under Part IX of the Excise Tax Act that applies in a province irrespective of whether the province is a participating province;

"Excise Tax Act" means the *Excise Tax Act*, R.S.C. 1985, c. E-15, as amended from time to time;

"Federal-Provincial Fiscal Arrangements Act" means the *Federal-Provincial Fiscal Arrangements Act*, R.S.C. 1985, c. F-8, as amended from time to time;

"harmonized sales taxes" means the CVAT and the PVAT in respect of each participating province;

"harmonized sales tax rate", at any time in respect of a participating province, means the aggregate of the tax rates, at that time, under the CVAT and the PVAT in respect of the participating province;

"Implementation Date" of the PVAT in respect of the Province means the date on which the PVAT in respect of the Province is implemented;

"non-participating province" means any province other than a participating province;

"participating province", at any time, means a province that has entered into a comprehensive integrated tax coordination agreement with Canada under Part III.1 of the Federal-Provincial Fiscal Arrangements Act and that, at that time, is defined as such a province under section 123 of the Excise Tax Act;

"Provincial Sales Tax" of the Province means a retail sales tax that applies to a broad base of property or services, or a similar transaction tax that applies to a broad base of property or services, in respect of the Province;

"PVAT", in respect of a participating province, means the provincial component of tax payable under Part IX of the Excise Tax Act that is imposed, in addition to the CVAT, in respect of the participating province; and



"PVAT Rate", at any time in respect of a participating province, means the tax rate for, or in relation to, the participating province that is applicable, at that time, to determine and calculate the PVAT in respect of the participating province.

**2. In this Agreement,**

- (a) unless otherwise specified, words or expressions used in this Agreement have the same meaning as in Part IX of the Excise Tax Act, except that a reference to the term "Canada" or to the term "Province" shall be read as a reference to the relevant "Party" of this Agreement where the context so requires;
- (b) where a reference in this Agreement to "the definitions mutually agreed upon between the Parties" or a similar phrase appears, the Parties agree, for the purpose of establishing a mutual agreement in respect of such definitions, to:
  - (i) act reasonably;
  - (ii) work together collaboratively;
  - (iii) consider whether the definition can be accommodated under the revenue allocation mechanism set forth in Annex "A", while maintaining the integrity of that mechanism; and
  - (iv) take into consideration the capacity of the Minister of National Revenue to administer and enforce such definitions and the capacity of businesses to comply with such definitions; and
- (c) for the purpose of clause 20, a Remission Order implemented by Canada that grants the remission of both CVAT and PVAT in respect of the Province on a broad-based category, described in the Remission Order, of transactions or events is to be considered a proposed tax base change in respect of CVAT.

**3. The following are the Annexes that are attached to, and that form an integral part of, this Agreement:**

- Annex "A" - Revenue Allocation
- Annex "B" - Provincial Flexibility in respect of Rebates
- Annex "C" - Transitional Measures in respect of the Province

## **Part II**

### **Implementation**

**4. Subject to the requisite legislative approvals, the Parties agree:**

- (a) to work collaboratively and in a timely manner towards the imposition of the PVAT in respect of the Province;



- (b) that Canada will make best efforts to introduce, on or before January 1, 2013, the necessary legislative amendments to give effect to the Agreement;
- (c) that the PVAT in respect of the Province will be implemented on April 1, 2013; and
- (d) that the systems necessary for the Minister of National Revenue to effectively administer and enforce the PVAT in respect of the Province, and the systems necessary for the collection contemplated by clause 30 at Canadian international borders by the Canada Border Services Agency, will be in place as of the Implementation Date.

## **Part III**

### **Tax Policy**

5. The Parties agree that a Tax Policy Review Committee, consisting of representatives from Canada and each participating province, will review issues related to the legislation governing the harmonized sales taxes, including the common tax base, tax rates and common tax structure, and will provide timely advice, as appropriate, to the relevant federal and provincial Ministers of Finance.
6. The Minister of Finance of Canada and the Ministers of Finance of each participating province will each appoint an individual to act, and serve from time to time, as that party's representative on the Tax Policy Review Committee.
7. Canada will chair the meetings of any committee, sub-committee or working group referred to in this Agreement.
8. Meetings of the Tax Policy Review Committee will be held as and when agreed upon by consensus between Canada and the participating provinces from time to time. Unless otherwise agreed upon between Canada and the participating provinces, the Tax Policy Review Committee will meet at least once in each twelve-month period.
9. Canada and the participating provinces will each communicate, as appropriate, the results of the deliberations of the Tax Policy Review Committee to the relevant federal and provincial Deputy Ministers of Finance.
10. The Tax Policy Review Committee may, in its discretion, establish special working groups to consider issues or matters related to the purposes of the Committee as set forth under clause 5.
11. The Parties agree that a sub-committee of the Tax Policy Review Committee (referred to as the "Revenue Allocation Sub-Committee"), consisting of representatives from Canada and each participating province, will monitor the ongoing application of the revenue allocation mechanism set forth in Annex "A" to ensure that this mechanism is functioning in the interests of the Parties and the other participating provinces and to determine whether changes to this mechanism are necessary from time to time. Canada and each participating province will appoint an individual to act, and serve from time to time, as that party's representative on the Revenue Allocation Sub-Committee. Meetings of the Revenue Allocation Sub-Committee will be held as and when agreed upon by consensus of the representatives of the Tax Policy Review

Committee. Unless otherwise agreed upon by the representatives of the Tax Policy Review Committee, the Revenue Allocation Sub-Committee will meet at least once in each twelve-month period.

12. If the Tax Policy Review Committee cannot reach consensus in respect of an issue under its review, the issue will be referred to the Deputy Minister of Finance of Canada and of each participating province.

13. If an issue referred to the Deputy Ministers described in clause 12 remains unresolved, the issue will be referred to the dispute resolution process set forth in the applicable provisions of Part XIV.

14. Canada and the participating provinces will, in the 2015 calendar year and once in each five-year period following that calendar year, review the harmonized sales tax system as well as its operation and administration with a view to improving that system. Subject to mutual agreement between Canada and the participating provinces, the timing of such review may be varied.

## **Part IV**

### **Provincial Tax Rate**

15. The Parties agree that the PVAT Rate in respect of the Province will be 9% as of the Implementation Date.

16. The PVAT Rate in respect of the Province may be increased, or decreased, in accordance with the provisions of this Agreement after a minimum period of two years from the Implementation Date. Following that two-year period, any change in the PVAT Rate in respect of the Province, as permitted under the provisions of this Agreement, will not occur more often than once in any twelve-month period.

## **Part V**

### **Harmonized Tax Base**

17. The Province agrees that the tax base for the PVAT in respect of the Province must remain common with the tax base for the CVAT in order to maintain a harmonized tax base between the CVAT and the PVAT in respect of the Province.

18. Canada may propose any tax base change in respect of CVAT and the Province agrees to be bound by all tax base changes that are implemented in respect of CVAT.

19. The Parties acknowledge that the provisions in clauses 17 and 18 of the Agreement will operate in a manner consistent with the Province's flexibility under the provisions of Annex "B".

20. Notwithstanding clause 18, if, during the term of this Agreement, a tax base change in respect of CVAT that is proposed by Canada (referred to as the "Proposed CVAT Base Change") would have the effect (taking into account PVAT rebated, refunded or remitted) of



reducing by more than one percent the total of the net aggregate PVAT revenues (determined in accordance with Annex "A") and ITC recapture revenues (determined in accordance with the relevant provisions in Annex "C" under the heading, "Revenues and Expenses related to Transitional Measures") that would, in the absence of the Proposed CVAT Base Change, accrue to the Province for the calendar year in which the Proposed CVAT Base Change is proposed to be implemented (estimated by Finance (Canada), in consultation with the Province, at the time the change is proposed, using the latest available data and on the assumption that the change would have been in place at the beginning of the calendar year), Canada may fully implement the Proposed CVAT Base Change:

- (a) with prior written agreement from the Province; or
- (b) by fully compensating the Province under this clause, upon completion of each calendar year that the Proposed CVAT Base Change remains in effect, for the revenue loss of the Province solely attributable to the Proposed CVAT Base Change for that calendar year, provided that such compensation, if any, is subject to a reconciliation and adjustment process as well as a payments schedule similar to those set out under Annex "A" in respect of the revenue allocation.

For greater certainty, the provisions of this clause above do not apply in respect of a proposed amendment to federal legislation or regulations, or in respect of a Remission Order referred to under paragraph 2(c), if:

- (c) the amendment is proposed or the Remission Order is implemented as a consequence of changes in circumstances affecting the harmonized sales taxes and for the purpose of maintaining:
  - (i) the tax policy, or
  - (ii) the application or administration of the harmonized sales taxes that would exist in the absence of those changes; and
- (d) the proposed amendment or the Remission Order prevents or redresses an increase in the tax base.

## **Part VI**

### **Provincial Revenues**

21. The revenues in respect of the Province will consist of PVAT revenues in respect of the Province, determined in accordance with Annex "A", and any applicable transitional revenues provided for in Part XVII.



## **Part VII**

### **Inter-Provincial Supplies**

22. Subject to the requisite legislative approvals, the relevant legislation will specify that
- (a) the PVAT in respect of the Province applies to supplies made in the Province and does not apply to supplies made outside the Province, as determined by the place of supply rules under Part IX of the Excise Tax Act; and
  - (b) a registrant that is outside the Province is required to collect the PVAT in respect of the Province in respect of taxable supplies made in the Province, as determined in accordance with paragraph (a).

## **Part VIII**

### **Imposition of Tax at Canadian International Borders**

23. In this Part, unless otherwise defined for the purposes of Part IX of the Excise Tax Act, the term "non-commercial imported goods" means imported goods, other than goods imported into Canada for sale or for any commercial, industrial, occupational, institutional or other like use.
24. Unless otherwise provided in this Part, the importation into Canada of non-commercial imported goods by, or for, a consumer that is a resident (including a "seasonal resident" as defined for the purposes of the *Seasonal Residents' Remission Order, 1991*) of the Province will be subject to the PVAT in respect of the Province in accordance with the rules generally applicable to the importation of goods into Canada under Part IX of the Excise Tax Act, and any other special rules under that Part developed for purposes of the PVAT in respect of the Province.
25. Canada will neither assess nor collect under this Agreement any product-specific tax, levy or mark-up imposed by the Province in respect of the importation of goods subject to a specific tax collection agreement between Canada and the Province.
26. The PVAT in respect of the Province will not be applicable to the importation into Canada of any goods other than non-commercial imported goods in accordance with the rules under Part IX of the Excise Tax Act, and any other special rules under that Part developed for purposes of the PVAT in respect of the Province.
27. Goods, other than non-commercial imported goods, which are imported into Canada for consumption or use, or for supply in whole or in part, otherwise than in the course of commercial activities, in the Province by a person, will be subject to self-assessment of the PVAT in respect of the Province by the person in accordance with the rules under Part IX of the Excise Tax Act, and any other special rules under that Part developed for purposes of the PVAT in respect of the Province. PVAT in respect of the Province will also apply through the self-assessment provisions under Division IV of that Part.

28. The Province will assess and collect, at the time of vehicle registration in the Province, any PVAT in respect of the Province payable in respect of motor vehicles imported into Canada as non-commercial imported goods.

## **Part IX**

### **Harmonized Tax Administration**

29. The Minister of National Revenue will administer and enforce the harmonized sales taxes payable under Part IX of the Excise Tax Act, which includes the rebates under Annex "B" and the input tax credit recapture and transitional rules under Annex "C". The Parties acknowledge that Canada will be solely responsible for all costs related to this administration and enforcement, including the collection referred to in clause 30.

30. Notwithstanding clause 29, the Parties acknowledge that, in accordance with section 214 of the Excise Tax Act, the collection of the harmonized sales taxes payable under Division III of Part IX of that Act is a responsibility of the Canada Border Services Agency.

31. The administration and enforcement contemplated by clause 29 and the collection contemplated by clause 30 will be at service and compliance levels mutually agreed upon between the Province and each of the Canada Revenue Agency and the Canada Border Services Agency, respectively. The service and compliance levels relating to matters specific to the PVAT in respect of the Province will be at least as high as those applied to the administration and enforcement of the harmonized sales taxes generally. The service and compliance levels will be documented in a manner agreeable to the Province and each of the Canada Revenue Agency and the Canada Border Services Agency and will be mutually amended on a timeline and by a process agreeable to the Province and each of the Canada Revenue Agency and the Canada Border Services Agency, respectively. The levels of the administration and enforcement contemplated by clauses 29 and 30 will be commensurate with the incremental compliance risk and service requirements associated with the administration of Part IX of the Excise Tax Act pursuant to this Agreement, in relation to other tax programs administered by the Minister of National Revenue and in relation to similar programs administered by the Canada Border Services Agency.

32. Each of the Canada Revenue Agency and the Canada Border Services Agency will discuss work plans, activities and results relating to the service and compliance levels referred to in clause 31 with the Province in a bilateral manner, and with all participating provinces, at the meetings of the Federal-Provincial Tax Administration Liaison Committee referred to in Part X, and will make all reasonable efforts to accommodate concerns expressed by the participating provinces in relation to those work plans, activities and results.

## **Part X**

### **Federal-Provincial Tax Administration Liaison Committee**

33. The Province, together with the other participating provinces, will have the right to be a member of the Federal-Provincial Tax Administration Liaison Committee that deals with the



management of administrative matters and consists of representatives from Canada and each participating province. The representatives from Canada on that committee will be officials from each of the Canada Revenue Agency and the Canada Border Services Agency. The Parties agree that the terms of reference of that committee will take into consideration the circumstances of all participating provinces. The Parties agree to work collaboratively, together with the other participating provinces, to establish mechanisms, or agreements, in respect of the functioning of that committee.

## **Part XI**

### **Human Resources**

34. Subject to the provisions in Annex "C" under the heading, "Human Resources", provision for employment by the Canada Revenue Agency or employment at other departments or agencies of Canada for which the Treasury Board is the employer of persons employed by the Province, including the number of such persons, the sequencing and timing of personnel hiring, the work location of service sites and staff, and the conditions of employment, will be set forth in human resource agreements. Provision for the employment by the Canada Revenue Agency of persons employed by the Province will be set forth in a human resource agreement entered into between the Province and the Canada Revenue Agency, as amended from time to time by the parties to that agreement. If necessary, provision for the employment at other departments and agencies of Canada for which the Treasury Board is the employer of persons employed by the Province will be set forth in another human resource agreement entered into between the Province and the appropriate delegates of the Public Service Commission, as amended from time to time by the parties to that agreement.

## **Part XII**

### **Exchange of Information**

35. The Parties agree to co-operate fully in exchanging such information regarding the PVAT in respect of the Province as may be disclosed pursuant to applicable laws and regulations. The specific terms on information exchange, and mutual assistance, between the Canada Revenue Agency and the Province, and between the Canada Border Services Agency and the Province, including the assurance of the timely provision to the Province of available data that is specific to, or otherwise related to, the PVAT in respect of the Province, will be set forth in agreements regarding information exchange and mutual assistance entered into between the Canada Revenue Agency and the Province, and between the Canada Border Services Agency and the Province, as amended from time to time by the parties to those agreements.

36. Any agreement referred to in clause 35 regarding information exchange and mutual assistance will provide for the sharing of confidential information that relates to specific persons in accordance with applicable laws, including section 295 of the Excise Tax Act.



## **Part XIII**

### **Litigation**

37. Canada will be responsible for the conduct of litigation in respect of the harmonized sales taxes.

## **Part XIV**

### **Dispute Resolution**

38. Best efforts will be exercised by federal and provincial officials to reach consensus in respect of issues arising in respect of matters governed by this Agreement.

39. Subject to clause 40, issues not resolved by federal and provincial officials will be referred to the Minister of Finance of Canada and the Ministers of Finance of the relevant participating provinces.

40. If the issue relates to the administration of the harmonized sales taxes contemplated by clause 29, the issue will be referred to the Minister of National Revenue, the Minister of Finance of the Province and, if applicable, to the appropriate Minister of relevant participating provinces, with notice of same to the Minister of Finance of Canada. If the issue relates to the collection of the harmonized sales taxes contemplated by clause 30, the issue will be referred to the Minister of Public Safety of Canada, the Minister of Finance of the Province and, if applicable, to the appropriate Minister of relevant participating provinces, with notice of same to the Minister of Finance of Canada and the Minister of National Revenue.

41. If an unresolved issue has been referred to the Ministers described in clauses 39 or 40, those Ministers may refer the issue to a third party for consideration and advice.

## **Part XV**

### **Term, Amendment and Termination**

42. The terms and conditions of this Agreement will continue in full force and effect, in accordance with and subject to the provisions of this Part, until the date that is specified by a Party in a written notice that is delivered to the other Party setting out the Party's desire to terminate this Agreement.

43. If the Province desires to amend the PVAT Rate in respect of the Province or to amend an element set out in a provision of Annex "B", or of Annex "C", in respect of which the Province has tax policy flexibility, the Province may, subject to the other provisions of this Agreement, advise Canada of its desire to amend the particular provision and of its proposed effective date of amendment (referred to as the "Proposed Amendment Date") by giving Canada written notice

(referred to as the "Amendment Notice") of the proposed amendment and of the Proposed Amendment Date at least 120 days in advance of the Proposed Amendment Date. Notwithstanding the Proposed Amendment Date set out in the Amendment Notice and subject to the terms and conditions of this Agreement, the Parties may mutually agree on an earlier or a later date (referred to as the "Alternate Amendment Date") as the effective date in respect of the Province's proposed amendment.

44. The Parties agree that the Proposed Amendment Date will be the first day of January, April or July or, if mutually agreed upon between the Parties, October.

45. After the Province has given Canada an Amendment Notice in accordance with the provisions of this Part, the Province will, unless otherwise mutually agreed upon between the Parties and subject to the terms and conditions of this Agreement,

- (a) make a public announcement in respect of the Province's proposed amendment at least 60 days prior to the effective date in respect of the Province's proposed amendment; and
- (b) following the public announcement referred to in paragraph (a), table at the earliest opportunity in the Province's legislature an instrument, in respect of the Province's proposed amendment, requesting a timely vote by the Province's legislature.

46. After tabling of the instrument referred to in paragraph 45(b) in accordance with the provisions of this Part, the Parties agree to propose any applicable legislative amendment that may be necessary to implement the Province's proposed amendment in a timely manner and further agree that such proposed legislation will set out the Proposed Amendment Date or the Alternate Amendment Date, as the case may be. If the vote referred to in paragraph 45(b) is unsuccessful, Canada will propose amendments, or take any other actions necessary, to nullify the Province's proposed amendments.

47. Any amendment to this Agreement must be made in writing through mutual agreement of the Parties and subject to any necessary approvals, authorizations or applicable legislative requirements.

48. Any amending document mutually agreed upon between the Parties will form a part of this Agreement and will be effective as of the date specified in that amending document.

49. Either Party may deliver to the other Party a written notice of termination to be effective no sooner than the end of the 18 month period that immediately follows the last day of the calendar quarter in which the written notice of termination is received or any other time period that may be mutually agreed upon between the Parties. The Parties agree that the termination date set out in such a written notice of termination will be the first day of January, April, July or October and cannot be earlier than the date that is the fifth year anniversary of the Implementation Date.

50. On termination of this Agreement, all rights and obligations of Canada and the Province under this Agreement cease, except for the obligations of Canada and the Province to settle accounts relating to amounts outstanding under this Agreement and any obligations relevant to settling these accounts.



## **Part XVI**

### **Government Purchases**

51. Canada and the Province agree to pay the harmonized sales taxes in respect of supplies acquired by their respective governments or by agents and entities thereof.

52. Where inter-jurisdictional immunity from taxation applies, any harmonized sales taxes paid by Canada or the Province, as provided for in clause 51, will be subject to rebate on application to the Minister of National Revenue, except to the extent that any such taxes are payable under any agreement regarding the reciprocal payment of sales or commodity taxes as between Canada and the Province or are otherwise recoverable.

53. In the case of the provincial government or of agents and entities thereof, any rebates payable under clause 52 shall be made on a bi-weekly basis and, at the direction of the Province, shall be paid either to the Province or to the government entity of the Province which paid the tax and which is identified as the recipient of the rebate in the application for the rebate.

## **Part XVII**

### **Province-Specific & Transitional Measures**

54. The agreement of the Parties in respect of provincial rebates or of the provincial component of a rebate under Part IX of the Excise Tax Act is set out in Annex "B".

55. The agreement of the Parties in respect of transitional assistance is set out in Annex "C".

56. The agreement of the Parties in respect of input tax credit recapture for PVAT in respect of the Province, including transitional revenues from such recapture, and in respect of other transitional measures, is set out in Annex "C".

57. [Intentionally omitted]

58. The Province will make, prior to the Implementation Date, best efforts to wind-down the Provincial Sales Tax of the Province and will take, throughout the term of this Agreement, all actions necessary to ensure that a Provincial Sales Tax of the Province will not be imposed in respect of the consumption, use, supply or importation of property or services in respect of which the CVAT is imposed.

59. The Province will propose legislation that is appropriate or necessary in respect of the transition to the PVAT in respect of the Province in order to give effect to the provisions of this Agreement and to give effect to any other provincially administered measure, unless, in accordance with applicable laws, the Province gives effect to these provisions and measures through other means.



## **Part XVIII**

### **Audit**

60. The Minister of Finance of the Province may designate a person to examine such books and records, excluding any information that is protected by law, as may be relevant in order to permit such person to report in respect of the payments made to the Province under this Agreement.

## **Part XIX**

### **Miscellaneous**

61. If Canada enters into a comprehensive integrated tax coordination agreement with a non-participating province under Part III.1 of the Federal-Provincial Fiscal Arrangements Act, or enters into a successor comprehensive integrated tax coordination agreement with a participating province under that Part, on terms that differ from those of the agreement then in effect between Canada and the Province, the Province will have the option of entering into a succeeding agreement with Canada regarding harmonization on the same terms as those in the comprehensive integrated tax coordination agreement with the other province; provided, however, that this option of the Province will not apply to any term in respect of a transitional measure contemplated under that comprehensive integrated tax coordination agreement. For the purpose of this clause, a successor comprehensive integrated tax coordination agreement includes an amended comprehensive integrated tax coordination agreement.

62. Unless otherwise mutually agreed upon between the Parties, best efforts will be made to conclude the mechanisms and agreements referred to in clauses 33, 34 and 35 in a timeframe that is consistent with, and no later than, January 1, 2013.

63. If a Party informs the other Party of a proposed change under any of Part IV, Part V or Part XVII of this Agreement that is to be announced publicly by that Party in a Budget or in a similar public announcement, the other Party commits to take all actions necessary to embargo the existence of such a proposal, negotiation or agreement, unless the Parties mutually agree otherwise in writing or unless otherwise required by law. Notwithstanding the embargo commitment referred to in this clause, Canada may, prior to any public announcement of such a proposal, negotiation or agreement, discuss on a need-to-know basis with other federal government departments or agencies (such as the Department of Justice, the Canada Revenue Agency, the Canada Border Services Agency and Statistics Canada) the information required for the purposes of evaluating and developing the processes and mechanisms that may be necessary for proper implementation, administration, enforcement and revenue allocation in respect of such a proposal, negotiation or agreement.

64. This Agreement may be executed in any number of counterparts, each of which will constitute an original and all of which taken together will constitute one and the same instrument. Counterparts may be executed in original, electronic or faxed form and the Parties adopt any signatures received by electronic mail or by a receiving fax machine as the original

signatures of the Parties; provided, however, that a Party providing its signature in such manner will promptly forward to the other Party an original of the signed copy of this Agreement.

65. By entering into this Agreement, neither Party is deemed to surrender or abandon any of the powers, rights, privileges or authorities vested in either of them under the *Constitution Acts, 1867-1982* (or under any amendments to those acts) or otherwise, or to impair any of such powers, rights, privileges or authorities.

66. This Agreement, including all Annexes attached, constitutes the entire agreement between the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings between the Parties with respect to that subject matter.

67. After execution of this Agreement, each Party will do, or cause to be done, all acts as the other Party may reasonably require from time to time for the purpose of giving effect to this Agreement and each Party will use reasonable efforts, and take all steps as may be reasonably within that Party's power, to implement to their full extent the provisions of this Agreement.

68. A Party may waive any right under this Agreement, but only in writing. If a waiver of any provision of this Agreement is executed in writing by a Party, that written waiver will not constitute a waiver of any other provision of this Agreement and will not constitute a continuing waiver unless otherwise expressly provided.

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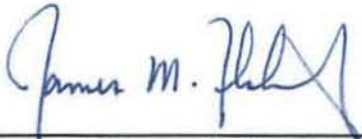
IN WITNESS WHEREOF, THIS AGREEMENT IS SIGNED IN DUPLICATE, in English and in French, each version being equally authentic,

THE GOVERNMENT OF CANADA

AT Ottawa

THIS 23<sup>rd</sup> DAY OF November, 2012.

BY



Minister of Finance for the Government of  
Canada

THE GOVERNMENT OF PRINCE EDWARD  
ISLAND

AT CHARLOTTETOWN, P.E.I.

THIS 26<sup>th</sup> DAY OF NOVEMBER, 2012

BY



Minister of Finance, Energy and Municipal  
Affairs



## **ANNEX "A"**

### **REVENUE ALLOCATION**

#### **Preamble**

This Annex to the Agreement sets forth the provisions governing the determination of tax revenue, as defined in Part II, and the provincial annual revenue entitlement from tax revenue. Tax revenue consists of the aggregate of the adjusted net tax payable in respect of the CVAT and the PVAT less specified refunds and rebates. Furthermore, the determination of tax revenue takes into account all amounts reported as CVAT and PVAT. The annual revenue entitlement of a province out of tax revenue is determined under Part IV and is based on a share which is a function of the PVAT rate, the CVAT rate, national and provincial economic data provided by Statistics Canada, administrative data provided by the Canada Revenue Agency and the Canada Border Services Agency, and other data sources determined by Finance (Canada). This Annex also sets forth the rules regarding the payment schedule and mechanism, including payment adjustments and the final settlement procedure, with respect to the provincial annual revenue entitlement.

#### **Part I**

##### **Interpretation**

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached. In this Annex,

"annual revenue entitlement" for a tax entitlement year means the amount determined by the formula:

$$A - B$$

where

A is the sum of all amounts, as determined under subclause 6(2), of provincial tax revenue payable by Canada to the Province in respect of the tax entitlement year or in respect of a sub-period of the tax entitlement year, and

B is the sum of all amounts of any provincial rebates in respect of the Province and the tax entitlement year, as determined or estimated by Finance (Canada) in consultation with the Province;

"Customs Act" means the *Customs Act*, R.S.C. 1985, c. 1 (2nd Supp.), as amended from time to time;

"federal rebate" means a rebate of CVAT paid or credited by Canada under section 254, 254.1, 255, 256, 256.2, or 259 of the Excise Tax Act or any other rebate of CVAT that is agreed by Canada and the Province to be a federal rebate for the purposes of this definition;

"harmonized sales taxes" means, in the case of a participating province, the PVAT in respect of the province and the CVAT, and, in the case of a non-participating province, the CVAT;

"province" means a province or territory of Canada;

"provincial rebate" means a rebate of PVAT that

(a) is paid or credited by Canada under section 256.21 (other than a rebate under that section that is agreed by Canada and the Province not to be a provincial rebate for the purposes of this definition), 259 or 261.31 of the Excise Tax Act,

(b) is paid or credited by Canada on behalf of a participating province in accordance with legislation or regulations, as amended from time to time, of the participating province that provide for a point-of-sale rebate of PVAT in respect of taxable supplies of certain property or services made in the participating province, or

(c) is agreed by Canada and the Province to be a provincial rebate for the purposes of this definition;

"public service body" means a person that is entitled to claim a rebate in respect of CVAT under section 259 of the Excise Tax Act;

"sub-period" of a tax entitlement year means a sub-period of that year as determined under clause 5; and

"tax entitlement year" means a calendar year, except that

(a) if the calendar year includes the Implementation Date, the tax entitlement year shall be the remaining part of the calendar year beginning on the Implementation Date, and

(b) if the calendar year includes a day on which the Province stops being a party to the Agreement, the tax entitlement year shall be the part of the calendar year preceding that day.

## **Part II**

### **Tax Revenue**

2. For the purposes of this Annex and subject to clauses 3 and 4, the tax revenue for a tax entitlement year or for a sub-period of a tax entitlement year, as the case may be, is the amount determined by the formula

$$A - B$$

where

A is the sum of

(a) all amounts of net tax, as or on account of CVAT or the PVAT in respect of any participating province, in respect of the tax entitlement year or sub-period, as determined or estimated by Finance (Canada), and



(b) all amounts deducted or deductible under section 234 of the Excise Tax Act in determining any amount of net tax referred to in paragraph (a), as determined or estimated by Finance (Canada), and

B is the sum of

(c) all amounts of any refund or rebate payable or claimable as or on account of CVAT or the PVAT in respect of any participating province, other than any amount of a federal rebate, a provincial rebate or a refund in respect of a negative amount of net tax, as determined or estimated by Finance (Canada),

(d) all amounts of any rebate paid to Canada or a province (including agents or entities of Canada or of a province) under this Agreement, an agreement similar to this Agreement in effect between Canada and a participating province or an agreement regarding the reciprocal payment of sales or commodity taxes between Canada and a province, as determined or estimated by Finance (Canada), other than any amount of a rebate deducted from tax revenue under paragraph (c), and

(e) all amounts of tax paid by federal departments, as reported to the Canada Revenue Agency by the Department of Public Works and Government Services or as determined or estimated by Finance (Canada), other than any amount of any such tax rebated and deducted from tax revenue under paragraph (c) or (d).

3. In determining tax revenue for a tax entitlement year or for a sub-period of a tax entitlement year, Finance (Canada) shall take into account all amounts reported as CVAT and PVAT, including amounts declared on returns filed with the Canada Revenue Agency or the Canada Border Services Agency under Part IX of the Excise Tax Act, amounts accounted for under the Customs Act in respect of tax under Part IX of the Excise Tax Act and amounts payable as a result of an assessment, reassessment or additional assessment under Part IX of the Excise Tax Act or as a result of a determination, re-determination or re-appraisal under the Customs Act.

4. Tax revenue does not include amounts collected as interest or penalties payable under the Excise Tax Act.

### **Part III**

#### **Segmentation of Tax Revenue**

5.(1) For the purposes of this Annex, a tax entitlement year contains one or more sub-periods, each of which commences on a date in that year when one of the following measures becomes effective:

(a) the Implementation Date of the PVAT in respect of the Province;

(b) the beginning of a new tax entitlement year;

(c) the date on which there is a change in the CVAT rate or a PVAT rate of any participating province;

(d) the implementation date of the PVAT in respect of a previously non-participating province;

(e) the date on which a province ceases to be a participating province; or

(f) any other date during the year as may be agreed upon as between Canada and the participating provinces.

(2) A particular sub-period shall end at the time that the next subsequent sub-period commences.

(3) For the purposes of this Annex, notwithstanding any return in which any part of tax revenue in respect of a tax entitlement year or sub-period is reported or any reporting period of any person required to file a return in which any part of tax revenue is to be reported, Finance (Canada) shall allocate tax revenue from a particular reporting period of a person to a tax entitlement year, or to a sub-period, using the following ratio:

$$\frac{\text{NUMDAYS}_p \times \text{AVGTXR}_p}{\sum_1^{\text{TP}} (\text{NUMDAYS}_p \times \text{AVGTXR}_p)}$$

where

**p** means a time period that is a portion of the particular reporting period that is within a particular tax entitlement year or a particular sub-period, as the case may be;

**NUMDAYS<sub>p</sub>** means the number of days in the time period "p";

**AVGTXR<sub>p</sub>** means the weighted average of the rates of the CVAT and PVATs across Canada as a function of the tax bases of the CVAT and the PVATs with respect to a particular tax entitlement year or a particular sub-period, as the case may be, that contains the time period "p", determined by Finance (Canada) in consultation with the Province and the other participating provinces; and

**TP** means the total number of time periods "p" within the particular reporting period.



## **Part IV**

### **Provincial Revenue Entitlement Under Revenue Allocation**

6.(1) In this clause,

"consumer expenditure"	means that part of personal expenditure on consumer goods and services within the Canadian System of National Accounts which represents the expenditures of households and those organizations which are not entitled to any rebate under section 259 of the Excise Tax Act, other than expenditures on residential construction, which includes expenditures on new housing construction, alterations and improvements, and transfer costs;
"i"	identifies a particular province of Canada;
"input-output tables"	means the set of economic accounts which is that part of the Canadian System of National Accounts, representing the input-output structure of the Canadian or provincial economy, as determined by Statistics Canada;
"j"	identifies a particular personal expenditure category within the Provincial Accounts representing personal expenditures on consumer goods and services;
"k"	identifies a particular type of public service body;
"m"	identifies a particular industry or group of industries within the provincial input-output tables of Statistics Canada;
"n"	identifies a particular commodity within the provincial input-output tables of Statistics Canada;
"Provincial Accounts"	means the Provincial Economic Accounts which is that part of the Canadian System of National Accounts, representing the provincial income-based and expenditure-based Gross Domestic Product, as determined by Statistics Canada;
"t"	identifies a particular tax entitlement year other than a tax entitlement year for which the annual revenue entitlement is no longer open to a re-estimate as a result of the limitation imposed under clause 12, except that where the tax entitlement year is subdivided into two or more sub-periods, "t" identifies a particular sub-period of the tax entitlement year;

$t^o$  identifies the earlier of the last calendar year for which Provincial Accounts data are available from Statistics Canada and the calendar year that includes the tax entitlement year or sub-period "t";

$t^{oo}$  identifies the earlier of the last calendar year for which provincial input-output tables are available from Statistics Canada and the calendar year that includes the tax entitlement year or sub-period "t"; and

"unrecoverable CVAT" means CVAT paid or payable in respect of which an input tax credit, or a rebate under section 261.01 of the Excise Tax Act, may not be claimed.

(2) For the purposes of determining the annual revenue entitlement of the Province, the amount of provincial tax revenue payable by Canada to the Province in respect of a particular tax entitlement year, or in respect of a particular sub-period of the tax entitlement year (so as to reflect the segmentation of tax revenue as between particular sub-periods within the particular tax entitlement year), shall be determined as follows:

Formula A

$$\text{PROVREV}_t = \text{TOTREV}_t \times \text{PROVSHARE}_t$$

where

$\text{PROVREV}_t$  means the amount of provincial tax revenue payable to the Province in respect of the particular tax entitlement year or the particular sub-period "t";

$\text{TOTREV}_t$  means the tax revenue for the particular tax entitlement year or the particular sub-period "t"; and

$\text{PROVSHARE}_t$  means the provincial share of tax revenue, as determined by Formula B, in respect of the particular tax entitlement year or the particular sub-period "t".



Formula B

$$\text{PROVSHARE}_t = \frac{(\text{PROVBASE}_t \times \text{PROVRATE}_t)}{\left[ (\text{FEDBASE}_t \times \text{FEDRATE}_t) + \sum_i (\text{PROVBASE}_t^i \times \text{PROVRATE}_t^i) \right]}$$

where

<b>PROVBASE<sub>t</sub></b>	means the estimated tax base under the harmonized sales taxes for the Province in the calendar year that includes the particular tax entitlement year or the particular sub-period "t", as determined by Formula D;
<b>PROVRATE<sub>t</sub></b>	means the PVAT rate applicable in the Province in the particular tax entitlement year or the particular sub-period "t";
<b>FEDBASE<sub>t</sub></b>	means the estimated CVAT base in the calendar year that includes the particular tax entitlement year or particular sub-period "t", as determined by Formula C;
<b>FEDRATE<sub>t</sub></b>	means the CVAT rate applicable in the particular tax entitlement year or the particular sub-period "t";
<b>PROVBASE<sub>t</sub><sup>i</sup></b>	means the estimated tax base under the harmonized sales taxes for province "i" in the calendar year that includes the particular tax entitlement year or particular sub-period "t", as determined by Formula D; and
<b>PROVRATE<sub>t</sub><sup>i</sup></b>	means the PVAT rate applicable in province "i" in the particular tax entitlement year or the particular sub-period "t" (the PVAT rate in a non-participating province is zero).

Formula C

$$\text{FEDBASE}_t = \sum_i \text{PROVBASE}_t^i;$$

Formula D

$$\text{PROVBASE}_t^i = \left[ \begin{array}{l} (\text{CEBASE}_{t^o}^i \times \delta_{t^o}) \\ + (\text{HOUSINGBASE}_{t^o}^i \times \delta_{t^o}) \\ + (\text{FIBASE}_{t^o}^i \times \delta_{t^o}) + \text{PSBBASE}_{t^o}^i \\ + (\text{BUSBASE}_{t^o}^i \times \delta_{t^o}) \end{array} \right]$$

where

$\text{CEBASE}_{t^o}^i$  means the estimated harmonized sales taxes base for consumer expenditures for province "i" in calendar year "t<sup>o</sup>", as determined by Formula E;

$\delta_{t^o}$  means the calibration adjustment factor as determined by Formula K for a calendar year "t<sup>o</sup>";

$\text{HOUSINGBASE}_{t^o}^i$  means the estimated harmonized sales taxes base associated with residential construction for province "i" in calendar year "t<sup>o</sup>", as determined by Formula F;

$\text{FIBASE}_{t^o}^i$  means the estimated harmonized sales taxes base for listed financial institutions for province "i" for calendar year "t<sup>o</sup>", as determined by Formula G;

$\text{PSBBASE}_{t^o}^i$  means the estimated harmonized sales taxes base for public sector bodies for province "i" for calendar year "t<sup>o</sup>", as determined by Formula H; and

$\text{BUSBASE}_{t^o}^i$  means the estimated harmonized sales taxes base attributable to taxable supplies acquired for consumption, use or supply in the provision of exempt supplies for province "i" for calendar year "t<sup>o</sup>", other than any portion thereof included within  $\text{CEBASE}_{t^o}^i$ ,  $\text{HOUSINGBASE}_{t^o}^i$ ,  $\text{FIBASE}_{t^o}^i$  or  $\text{PSBBASE}_{t^o}^i$ , as determined by Formula I.



Formula E

$$CEBASE_{t^o}^i = \sum_j NETEXPCE_{t^o}^{i,j} \times \tau_{t^o}^{i,j} \times \Delta_{t^o}^j$$

where

$NETEXPCE_{t^o}^{i,j}$

means the total expenditures in calendar year "t<sup>o</sup>" for personal expenditure category "j" in province "i", exclusive of any federal or provincial commodity or sales tax, other than a federal or provincial sales or commodity tax that is included in the base amount or consideration amount on which CVAT is determined, using the most recent Provincial Accounts data as provided by Statistics Canada;

$\tau_{t^o}^{i,j}$

means the proportion of personal expenditure in a category "j" in province "i" which is subject to CVAT in the calendar year that includes the tax entitlement year or sub-period "t", as calculated by Statistics Canada, in consultation with Finance (Canada), using detailed commodity expenditure information valued at purchaser's price contained in the latest available provincial input-output tables for calendar year "t<sup>o</sup>", exclusive of any federal or provincial commodity or sales tax, other than a federal or provincial sales or commodity tax that is included in the base amount or consideration amount on which CVAT is determined.

Statistics Canada will be provided with data which describes the degree to which specific commodities within Statistics Canada's provincial input-output tables do not attract the CVAT in the calendar year that includes the tax entitlement year or sub-period "t" as determined by Finance (Canada) in consultation with the Province together with the other participating provinces. This data will allow Statistics Canada to identify the non-taxable expenditures in personal expenditure category "j" in province "i". Thus, the remaining commodity expenditures in that category "j" would be subject to tax. A particular taxable proportion may be greater than 0%, notwithstanding that the commodity in question is an exempt supply, to reflect taxes levied on the inputs used in the provision of that exempt supply; and

$\Delta_{t^o}^j$

means an adjustment to the expenditures captured in personal expenditure category "j", for calendar year "t<sup>o</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces. Such an adjustment factor will exclude expenditures which do not form part of the tax base in the calendar year that includes the tax entitlement year or sub-period "t" derived for consumer expenditures including, but not limited to, those expenditures of public sector bodies which are included in personal expenditures reported by Statistics Canada.

Formula F

$$\text{HOUSINGBASE}_{t^o}^i = \frac{\text{HOUSINGGST}_{t^o}^i}{\text{AVGFEDTXR1}_{t^o}^i}$$

where

$\text{HOUSINGGST}_{t^o}^i$

means the estimated gross CVAT payable to Canada in calendar year "t<sup>o</sup>" in province "i" associated with expenditures on residential construction, which includes expenditures on new housing construction, alterations and improvements, and transfer costs, prior to taking into account any rebates related to housing payable under the Excise Tax Act, as determined by Finance (Canada) based on data provided by Statistics Canada.

Gross CVAT payable to Canada is determined by taking into consideration CVAT levied on land for new construction as determined by Statistics Canada; and

$\text{AVGFEDTXR1}_{t^o}^i$

means the CVAT rate in effect throughout calendar year "t<sup>o</sup>" or, where there has been a change in the CVAT rate in that year, the weighted average CVAT rate for that year in province "i", utilized by Statistics Canada in determining

$\text{HOUSINGGST}_{t^o}^i$ , as provided by Statistics Canada.



Formula G

$$FIBASE_{t^o}^i = \frac{GSTFI_{t^o}^i}{AVGFEDTXR\ 2_{t^o}^i}$$

where

$GSTFI_{t^o}^i$

means the unrecoverable CVAT paid or payable by listed financial institutions in calendar year "t<sup>o</sup>" allocated to a particular province "i" as estimated by Finance (Canada) based on information provided by Statistics Canada and the Canada Revenue Agency; and

$AVGFEDTXR\ 2_{t^o}^i$

means the CVAT rate in effect throughout calendar year "t<sup>o</sup>" or, where there has been a change in the CVAT rate in that year, the average CVAT rate across all purchases made by listed financial institutions in that year in province "i" as determined by Finance (Canada) in consultation with the Province and the other participating provinces.

Formula H

$$PSBBASE_{t^o}^i = \sum_k \left[ \frac{PSBREBATE_{t^o}^{i,k}}{(AVGFEDTXR3_{t^o}^{i,k} \times PSBRATE_{t^o}^k)} \right]$$

where

$PSBREBATE_{t^o}^{i,k}$

means the CVAT rebate or rebates payable to a public service body type "k" in a particular province "i" in calendar year "t<sup>o</sup>" under section 259 of the Excise Tax Act, as determined by the Canada Revenue Agency;

**AVGFEDTXR<sub>t<sup>o</sup></sub><sup>i,k</sup>**

means the CVAT rate in effect throughout calendar year "t<sup>o</sup>" or, where there has been a change in the CVAT rate in that year, the average CVAT rate across all purchases by public service body type "k" in that year in province "i", as determined by Finance (Canada) in consultation with the Province and the other participating provinces; and

**PSBRATE<sub>t<sup>o</sup></sub><sup>k</sup>**

means the rebate rate applicable under the CVAT in calendar year "t<sup>o</sup>" for a public service body type "k" or, where the rebate rate changes in that year, the average rebate rate applicable across all purchases by that type of public service body, as determined by Finance (Canada) in consultation with the Province and the other participating provinces.

Formula I

$$BUSBASE_{t^o}^i = BUSBASE_{t^{oo}}^i \times (1 + BUSGROWTH_{t^o}^i)$$

where

**BUSBASE<sub>t<sup>oo</sup></sub><sup>i</sup>**

means the estimated harmonized sales taxes base attributable to taxable supplies acquired for consumption, use or supply in the provision of exempt supplies in province "i" for calendar year "t<sup>oo</sup>", other than any portion thereof that

would be included within **CEBASE<sub>t<sup>o</sup></sub><sup>i</sup>**,

**HOUSINGBASE<sub>t<sup>o</sup></sub><sup>i</sup>**, **FIBASE<sub>t<sup>o</sup></sub><sup>i</sup>** or

**PSBBASE<sub>t<sup>o</sup></sub><sup>i</sup>**, as determined by Formula J; and

**BUSGROWTH<sub>t<sup>o</sup></sub><sup>i</sup>**

means the growth in nominal Gross Domestic Product for the province "i", measured at market prices, from calendar year "t<sup>oo</sup>" to calendar year "t<sup>o</sup>", as derived from the latest Provincial Accounts as provided by Statistics Canada.



Formula J

$$BUSBASE_{t^{oo}}^i = \sum_m \left\{ \frac{\left[ \sum_n (C_{t^{oo}}^{i,m,n} \times TX_{t^{oo}}^{m,n}) \right] \times \left[ \sum_n (O_{t^{oo}}^{i,m,n} \times EX_{t^{oo}}^{m,n} \times D_{t^{oo}}^{i,n} \times OX_{t^{oo}}^{m,n}) \right]}{\sum_n O_{t^{oo}}^{i,m,n}} \right\}$$

where

$C_{t^{oo}}^{i,m,n}$

means the expenditures in the latest available provincial input-output tables on commodity "n" by industry "m" in a particular province "i" valued at purchaser's price in calendar year "t<sup>oo</sup>", plus any adjustments where required for the value of land that is not reflected in the provincial input-output tables but is included in the base amount or consideration amount on which CVAT is calculated, exclusive of any federal or provincial commodity or sales tax, other than a federal or provincial sales or commodity tax that is included in the base amount or consideration amount on which CVAT is calculated, as determined by Statistics Canada in consultation with Finance (Canada);

$TX_{t^{oo}}^{m,n}$

means the proportion of expenditures ( $C_{t^{oo}}^{i,m,n}$ ) for calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables in respect of commodity "n" by industry "m" that would be subject to CVAT in the calendar year that includes the tax entitlement year or sub-period "t", regardless of whether input tax credits are claimed or claimable in respect of that tax, as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

$O_{t^{oo}}^{i,m,n}$

means the total value of the output of commodity "n" produced by industry "m" in province "i" in calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables, as determined by Statistics Canada;

$EX_{t^{oo}}^{m,n}$

means the proportion of the total value of the output of commodity "n" produced by industry "m" for calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables ( $O_{t^{oo}}^{i,m,n}$ ) that is an exempt supply in the calendar year that includes the tax entitlement year or sub-period "t", as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

$D_{t^{\circ}}^{i,n}$ 

means the proportion of the total value of the output of commodity "n" in province "i" that is not exported outside of Canada, as determined from the latest available provincial input-output tables for calendar year "t<sup>°</sup>" by Statistics Canada in consultation with Finance (Canada); and

 $OX_{t^{\circ}}^{m,n}$ 

means the proportion of the total value of the output of commodity "n" produced by industry "m" in calendar year "t<sup>°</sup>" in the latest available provincial input-output tables ( $O_{t^{\circ}}^{i,m,n}$ ) that is not included in the determination of another base for the calendar year that includes the tax entitlement year or sub-period "t", as determined by Finance (Canada) in consultation with the Province and the other participating provinces,

#### Formula K

$$\delta_{t^{\circ}} = \frac{\left\{ \begin{array}{l} \text{STOTREV}_{t^{\circ}} \\ - \sum_i \left[ (\text{PSBBASE}_{t^{\circ}}^i) \times \left( \begin{array}{l} \text{AVGFEDTXR4}_{t^{\circ}}^i \\ + \text{AVGPROVTXR1}_{t^{\circ}}^i \end{array} \right) \right] \end{array} \right\}}{\sum_i \left[ \left( \begin{array}{l} \text{CEBASER}_{t^{\circ}}^i \\ + \text{BUSBASER}_{t^{\circ}}^i \\ + \text{HOUSINGBASE}_{t^{\circ}}^i \\ + \text{FIBASE}_{t^{\circ}}^i \end{array} \right) \times \left( \begin{array}{l} \text{AVGFEDTXR5}_{t^{\circ}}^i \\ + \text{AVGPROVTXR2}_{t^{\circ}}^i \end{array} \right) \right]}$$

where



**STOTREV<sub>t°</sub>**

means the tax revenue for the tax entitlement year that corresponds to the calendar year "t°", except that:

a) where that tax entitlement year is segmented into two or more sub-periods and paragraph (b) does not apply,

**STOTREV<sub>t°</sub>** means the sum of the tax revenue for each sub-period of that year, and

b) where that tax entitlement year is less than a full calendar year, **STOTREV<sub>t°</sub>** means the tax revenue for the calendar year "t°", as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

**PSBBASE<sub>t°</sub>**

means the estimated harmonized sales taxes base for public sector bodies for province "i" for calendar year "t°", as determined by Formula H;

**AVGFEDTXR<sub>4t°</sub>**

means the CVAT rate in effect throughout calendar year "t°" or, where there has been a change in the CVAT rate in that year, the average CVAT rate across the base

**PSBBASE<sub>t°</sub>** in province "i" during calendar year "t°", as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

**AVGPROVTXR<sub>1t°</sub>**

means the PVAT rate in effect throughout calendar year "t°" in province "i" or, where there has been a change in that PVAT rate in that year, the average PVAT rate across the public sector bodies base in province "i" during a calendar year "t°", as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

**CEBASER<sub>t°</sub>**

means the estimated harmonized sales taxes base for consumer expenditures for province "i" in calendar year "t°", as determined by Formula L;

**BUSBASER<sub>t°</sub>**

means the estimated harmonized sales taxes base attributable to taxable supplies acquired for consumption, use or supply in the provision of exempt supplies in province "i" for calendar year "t°", other than any portion thereof included within **CEBASER<sub>t°</sub>**, **HOUSINGBASE<sub>t°</sub>**, **FIBASE<sub>t°</sub>** or **PSBBASE<sub>t°</sub>**, as determined by Formula M;

**HOUSINGBASE<sub>t°</sub>**

means the estimated harmonized sales taxes base associated with residential construction for province "i" in calendar year "t°", as determined by Formula F;

$FIBASE_{t^o}^i$

means the estimated harmonized sales taxes base for listed financial institutions for province "i" for calendar year "t<sup>o</sup>", as determined by Formula G;

$AVGFEDTXR5_{t^o}^i$

means the CVAT rate in effect throughout calendar year "t<sup>o</sup>" or, where there has been a change in the CVAT rate in that year, the average CVAT rate across the base that is the sum of the bases  $CEBASER_{t^o}^i$ ,  $BUSBASER_{t^o}^i$ ,  $HOUSINGBASE_{t^o}^i$ , and  $FIBASE_{t^o}^i$  during calendar year "t<sup>o</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces; and

$AVGPROVTXR2_{t^o}^i$

means the PVAT rate in effect throughout calendar year "t<sup>o</sup>" in province "i" or, where there has been a change in that PVAT rate in that year, the average PVAT rate across the base that is the sum of the bases  $CEBASER_{t^o}^i$ ,  $BUSBASER_{t^o}^i$ ,  $HOUSINGBASE_{t^o}^i$  and  $FIBASE_{t^o}^i$  in province "i" during calendar year "t<sup>o</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces.

Formula L

$$CEBASER_{t^o}^i = \sum_j NETEXPCE_{t^o}^{i,j} \times \tau R_{t^o}^{i,j} \times \Delta R_{t^o}^j$$

where

$NETEXPCE_{t^o}^{i,j}$

has the same meaning as in Formula E;

$\tau R_{t^o}^{i,j}$

means the proportion of personal expenditure in a category "j" in province "i" which is subject to CVAT in calendar year "t<sup>o</sup>", as calculated by Statistics Canada, in consultation with Finance (Canada), using detailed commodity expenditure information valued at purchaser's price contained in the latest available provincial input-output tables for calendar year "t<sup>o</sup>", exclusive of any federal or provincial commodity or sales tax, other than a federal or provincial sales or commodity tax that is included in the base amount or consideration amount on



which CVAT is determined.

Statistics Canada will be provided with data which describes the degree to which specific commodities within Statistics Canada's provincial input-output tables do not attract the CVAT in calendar year "t<sup>oo</sup>" as determined by Finance (Canada) in consultation with the Province together with the other participating provinces. This data will allow Statistics Canada to identify the non-taxable expenditures in personal expenditure category "j" in province "i". Thus, the remaining commodity expenditures in that category "j" would be subject to tax. A particular taxable proportion may be greater than 0%, notwithstanding that the commodity in question is an exempt supply, to reflect taxes levied on the inputs used in the provision of that exempt supply; and

$\Delta R_{t^o}^i$

means an adjustment to the expenditures captured in personal expenditure category "j", for calendar year "t<sup>oo</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces. Such an adjustment factor will exclude expenditures which do not form part of the tax base in calendar year "t<sup>oo</sup>" derived for consumer expenditures including, but not limited to, those expenditures of public sector bodies which are included in personal expenditures reported by Statistics Canada.

#### Formula M

$$BUSBASER_{t^o}^i = BUSBASER_{t^{oo}}^i \times (1 + BUSGROWTH_{t^o}^i)$$

where

$BUSBASER_{t^{oo}}^i$

means the estimated harmonized sales taxes base attributable to taxable supplies acquired for consumption, use or supply in the provision of exempt supplies in province "i" for calendar year "t<sup>oo</sup>", other than any portion thereof that

would be included within  $CEBASER_{t^o}^i$ ,

$HOUSINGBASE_{t^o}^i$ ,  $FIBASE_{t^o}^i$  or

$PSBBASE_{t^o}^i$ , as determined by Formula N; and

BUSGROWTH<sub>t<sup>oo</sup></sub><sup>i</sup>

has the same meaning as in Formula I.

Formula N

$$\text{BUSBASER}_{t^{oo}}^i = \sum_m \left\{ \frac{\left[ \sum_n (C_{t^{oo}}^{i,m,n} \times \text{TXR}_{t^{oo}}^{m,n}) \right] \times \left[ \sum_n (O_{t^{oo}}^{i,m,n} \times \text{EXR}_{t^{oo}}^{m,n} \times D_{t^{oo}}^{i,n} \times \text{OXR}_{t^{oo}}^{m,n}) \right]}{\sum_n O_{t^{oo}}^{i,m,n}} \right\}$$

where

$C_{t^{oo}}^{i,m,n}$ ,  $O_{t^{oo}}^{i,m,n}$  and  $D_{t^{oo}}^{i,n}$

have the same meaning as in Formula J;

$\text{TXR}_{t^{oo}}^{m,n}$

means the proportion of expenditures ( $C_{t^{oo}}^{i,m,n}$ ) for calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables on commodity "n" by industry "m" that would be subject to CVAT in calendar year "t<sup>oo</sup>" regardless of whether input tax credits are claimed or claimable in respect of that tax, as determined by Finance (Canada) in consultation with the Province and the other participating provinces;

$\text{EXR}_{t^{oo}}^{m,n}$

means the proportion of the total value of the output of commodity "n" produced by industry "m" for calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables

( $O_{t^{oo}}^{i,m,n}$ ) that is an exempt supply in calendar year "t<sup>oo</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces; and

$\text{OXR}_{t^{oo}}^{m,n}$

means the proportion of the total value of the output of commodity "n" produced by industry "m" in calendar year "t<sup>oo</sup>" in the latest available provincial input-output tables

( $O_{t^{oo}}^{i,m,n}$ ) that is not included in the determination of another base for calendar year "t<sup>oo</sup>", as determined by Finance (Canada) in consultation with the Province and the other participating provinces,



(3) The amount of tax revenue retained by Canada in respect of a particular tax entitlement year, or in respect of a particular sub-period of the year (so as to reflect a segmentation of tax revenue as between particular sub-periods within the particular tax entitlement year), shall be determined as follows:

$$\text{FEDREV}_t = \text{TOTREV}_t \times \text{FEDSHARE}_t$$

where

$$\text{FEDSHARE}_t = \frac{(\text{FEDBASE}_t \times \text{FEDRATE}_t)}{\left[ (\text{FEDBASE}_t \times \text{FEDRATE}_t) + \sum_i (\text{PROVBASE}_t^i \times \text{PROVRATE}_t^i) \right]}$$

## Part V

### Arrangements with Finance (Canada)

#### Statistics Canada

7. Statistics Canada has confirmed to Finance (Canada) that, subject to any disclosure restriction imposed under the *Statistics Act*, R.S.C. 1985, c. S-19, as amended from time to time, the Chief Statistician of Canada will provide to Finance (Canada) all of the available and released data required by the formulae contained in this Annex. If disclosure restrictions do apply, Statistics Canada will perform the calculations set forth in this Annex that are necessary so that the disclosure restrictions are satisfied and, thereafter, release the information to Finance (Canada). In addition, the Chief Statistician of Canada will provide to Finance (Canada) a certificate for each calendar year attesting that the data provided by Statistics Canada under this Annex for that year is the most recent information that has been released by Statistics Canada.

#### The Canada Revenue Agency

8. The Canada Revenue Agency has confirmed to Finance (Canada) that, subject to any disclosure restriction imposed under the *Excise Tax Act*, it will provide to Finance (Canada) all of the available data required by the formulae contained in this Agreement. If disclosure restrictions do apply, the Canada Revenue Agency will provide the information in summary form with sufficient detail so that the disclosure restrictions are satisfied and Finance (Canada) is able to perform the calculations set forth in this Agreement. In addition, the Canada Revenue Agency will provide to Finance (Canada) a certificate for each calendar year attesting to the

reliability of the data provided by the Canada Revenue Agency under this Agreement for that year.

#### **The Canada Border Services Agency**

9. The Canada Border Services Agency has confirmed to Finance (Canada) that, subject to any disclosure restriction imposed under the Excise Tax Act or the Customs Act, it will provide to Finance (Canada) all of the available data required by the formulae contained in this Agreement. If disclosure restrictions do apply, the Canada Border Services Agency will provide the information in summary form with sufficient detail so that the disclosure restrictions are satisfied and Finance (Canada) is able to perform the calculations set forth in this Agreement. In addition, the Canada Border Services Agency will provide to Finance (Canada) a certificate for each calendar year attesting to the reliability of the data provided by the Canada Border Services Agency under this Agreement for that year.

### **Part VI**

#### **Harmonized Tax Payments**

##### **Payment Date**

10.(1) Canada shall make instalment payments to the Province in respect of the annual revenue entitlement for a tax entitlement year, each of which is for the amount determined under subclause 11(10), pursuant to the following schedule:

- (a) one payment on the first business day of each month in the tax entitlement year;
- (b) one payment on the first business day following the eighth day of each month in the tax entitlement year;
- (c) one payment on the first business day following the fifteenth day of each month in the tax entitlement year; and
- (d) one payment on the first business day following the twenty-third day of each month in the tax entitlement year.

(2) The official estimate of the annual revenue entitlement will not be adjusted to account for the time-value of the payment schedule

##### **Payment Amount**

11.(1) The first official estimate of the annual revenue entitlement for a tax entitlement year will be made at least 10 days prior to the date on which the first payment for that tax entitlement year is due, as determined under clause 10.

(2) During a tax entitlement year, there will be a minimum of one official re-estimate of the annual revenue entitlement for that tax entitlement year with the first re-estimate occurring before June 1<sup>st</sup>. If the tax entitlement year is subdivided into two or more sub-periods, an official re-estimate of the annual revenue entitlement for the tax entitlement year will be made prior to the beginning of the second sub-period in the tax entitlement year and prior to the beginning of each subsequent sub-period in the tax entitlement year.



(3) Any official re-estimate of the annual revenue entitlement for a tax entitlement year performed under subclause (2) will result in an equal adjustment to each of the remaining payments for that tax entitlement year, beginning on the first business day of the month following the month in which the re-estimate occurred (referred to in this clause as an "adjustment day"), so that the total payments over that tax entitlement year equals the re-estimated annual revenue entitlement.

(4) Subject to the provisions establishing a limitation date regarding further adjustments to the annual revenue entitlement for a particular tax entitlement year set out in clause 12, the annual revenue entitlement for tax entitlement years prior to the current tax entitlement year shall be subject to a minimum of one re-estimate or reconciliation each year, and adjusted where necessary, to reflect more recent data in respect of the particular prior year. Any such adjustment is referred to in this clause as a "prior-year adjustment".

(5) In subclauses (6) to (9) and in Part IX, "aggregate prior-year adjustment" means the sum of the most recent prior-year adjustments for each tax entitlement year for which there is not a final re-estimate, as set out in clause 12.

(6) If the result of an aggregate prior-year adjustment is that an amount remains payable to the Province,  $\frac{1}{48}^{\text{th}}$  of the amount shall be added to

(a) the particular instalment payment that is on the earlier of the first adjustment day following the prior-year adjustment and the first business day of January of the first calendar year following the prior-year adjustment; and

(b) each of the forty-seven instalment payments following the particular instalment payment.

(7) If the result of a prior-year adjustment relating to a final re-estimate made under clause 12 for a tax entitlement year is that an amount remains payable to the Province,  $\frac{1}{48}^{\text{th}}$  of the amount shall be added to

(a) the particular instalment payment that is on the earlier of the first adjustment day following the prior-year adjustment and the first business day of January of the first calendar year following the prior-year adjustment; and

(b) each of the forty-seven instalment payments following the particular instalment payment.

(8) If the result of an aggregate prior-year adjustment is that there has been an aggregate overpayment to the Province

(a) unless paragraph (b) applies,  $\frac{1}{48}^{\text{th}}$  of the amount of the overpayment shall be deducted from

(i) the particular instalment payment that is on the earlier of the first adjustment day following the prior-year adjustment and the first business day of January of the first calendar year following the prior-year adjustment; and

(ii) each of the forty-seven instalment payments following the particular instalment payment.



(b) if the overpayment is equal to or greater than 7% of the first official estimate of the annual revenue entitlement for the upcoming entitlement year and the Province requests that this paragraph apply in respect of the overpayment,  $1/144^{\text{th}}$  of the amount of the overpayment shall be deducted from

(i) the particular instalment payment that is on the earlier of the first adjustment day following the prior-year adjustment and the first business day of January of the first calendar year following the prior-year adjustment; and

(ii) each of the one hundred and forty-three instalment payments following the particular instalment payment.

(9) If the result of a prior-year adjustment relating to a final re-estimate made under clause 12 for a tax entitlement year is that there has been an overpayment to the Province in respect of the annual revenue entitlement for that tax entitlement year,  $1/48^{\text{th}}$  of the amount of the overpayment shall be deducted from

(a) the particular instalment payment that is on the earlier of the first adjustment day following the prior-year adjustment and the first business day of January of the first calendar year following the prior-year adjustment; and

(b) each of the forty-seven instalment payments following the particular instalment payment.

(10) Each instalment payment in respect of the annual revenue entitlement for a tax entitlement year to be paid by Canada to the Province will be determined as follows:

$$(A / B) + C + D$$

where

- A is the first official estimate of the annual revenue entitlement for the tax entitlement year made under subclause (1);
- B is the number of instalment payments to be made to the Province during the tax entitlement year;
- C is the sum of the adjustments made under subclause (3) to the instalment payment arising from re-estimates of the annual revenue entitlement for the tax entitlement year; and
- D is the sum of the adjustments made under subclauses (6) to (9) to the instalment payment arising from prior-year adjustments, including prior-year adjustments arising from final re-estimates.

#### Final Adjustments

12.(1) Subject to subclause (2), the final re-estimate of the annual revenue entitlement for a tax entitlement year shall be determined using the most current data in respect of the tax entitlement year that is available as of 120 days after the end of the fifth calendar year beginning after the tax entitlement year.

(2) At least six months before the first day of any particular tax entitlement year that begins at least five calendar years after the Implementation Date, the Province may deliver to Finance (Canada) a written notice of its desire to have a four-year adjustment period apply to the particular tax entitlement year and to all subsequent tax entitlement years. In this case, the final re-estimate of the annual revenue entitlement for the particular tax entitlement year and all subsequent tax entitlement years shall be determined using the most current data in respect of the tax entitlement year that is available as of 120 days after the end of the fourth calendar year beginning after the tax entitlement year.

(3) The re-estimated annual revenue entitlement and reconciliation referred to in subclause (1) or (2), as applicable, will be determined no later than the particular day that is one month after Finance (Canada) has received all relevant data and will be final and not subject to revision after the day that is 60 days after that particular day.

## **Part VII**

### **Application of the Revenue Allocation Formula under Parameter Changes**

#### **Changes in Rates**

13. If there is a change to either the CVAT rate or the PVAT rate of a participating province in a tax entitlement year, the share of tax revenue of Canada and of each participating province for that tax entitlement year will be re-calculated to account for the rate change and be effective as of the effective date of the rate change.

#### **Changes in Rebates or the Harmonized Tax Base**

14. If there is a change to either the harmonized sales taxes base or a rebate of PVAT or CVAT in a tax entitlement year, the share of tax revenue of Canada and of each participating province for that tax entitlement year will be re-calculated to account for the change at the time of the next re-estimate.

## **Part VIII**

### **Information Requirements Pertaining to Revenue Allocation**

#### **Statistics Canada**

15. A copy of all information, including certificates, provided by Statistics Canada to Finance (Canada) for the purposes of this Agreement shall be provided to the Province upon receipt.

#### **Finance (Canada)**

16. Finance (Canada) shall provide to the Province in a timely fashion:

(a) booklets, in printed or in electronic form (or both, where available), including the estimates and re-estimates in respect of revenue entitlements and the details of the derivation of the payment amounts made in accordance with clause 11;

(b) a monthly statement of payments made to the Province in respect of the current tax entitlement year; and



(c) detailed information with respect to the estimated tax revenue and any changes to such an estimate.

## **Part IX**

### **Transitional Measures**

#### **Adjustments to Tax Revenue and Annual Revenue Entitlement**

17. Finance (Canada), in consultation with the Province, may make any adjustments to the tax revenue for any tax entitlement year or any sub-period of a tax entitlement year or to the annual revenue entitlement of the Province for any tax entitlement year that are necessary in order to account for any measures related to the implementation of the PVAT in respect of the Province, the winding down of the Provincial Sales Tax of the Province, a change in the PVAT Rate in respect of the Province or the winding down of the PVAT in respect of the Province, such that the net revenues from those measures are properly added to or deducted from the tax revenues and the annual revenue entitlements of the Province.

18. For greater certainty, the adjustments in clause 17 do not include any amounts included in elements A or B of clause 24 of Annex C to the Agreement or any other amounts related to the Province's general transitional rules relating to the winding down of the Provincial Sales Tax of the Province or the implementation of the PVAT in respect of the Province, except for adjustments to the tax revenue that are necessary to account for measures related to the Province's transitional rules in respect of residential housing and to ensure that the annual revenue entitlements of the other participating provinces are not affected by those measures.

#### **First Payment**

19. For greater certainty, Canada shall make the first instalment payment to the Province for the first tax entitlement year to which the Agreement applies on April 1, 2013 or, if the Implementation Date is not April 1, 2013, on the first business day that is on or after the Implementation Date. Each successive instalment payment for the first tax entitlement year shall be made to the Province in accordance with the schedule set out in subclause 10(1).

#### **Mid-Year Re-estimates**

20. Notwithstanding subclause 11(2), if a tax entitlement year is six months or less in length, no official re-estimate of the annual revenue entitlement for that year is required during that year.

#### **Winding-Down of PVAT**

21. If the Agreement is terminated for any reason, the Parties agree that, notwithstanding any other clause of the Agreement, the terms and conditions of this Annex will remain in full force and effect until all final re-estimates for all tax entitlement years of the Province are finalized under clause 12.

22. Notwithstanding clause 11, if an aggregate prior-year adjustment, or a prior-year adjustment relating to a final re-estimate for a tax entitlement year, is determined before the day on which the Agreement is terminated, the result of the adjustment is that an amount remains payable to the Province and all or a part of the amount has not been added to the instalment



payments made to the Province on or before that day, Canada shall pay the amount or part, as the case may be, to the Province on the first business day following that day.

23. Notwithstanding clause 11, if an aggregate prior-year adjustment, or a prior-year adjustment relating to a final re-estimate for a tax entitlement year, is determined before the day on which the Agreement is terminated, the result of the adjustment is that there has been an overpayment to the Province and all or a part of the overpayment has not been deducted from the instalment payments made to the Province on or before that day, the amount or part, as the case may be, becomes due and payable by the Province as a debt due to Canada on the first business day following that day.

24. Notwithstanding clause 11, if an aggregate prior-year adjustment, or a prior-year adjustment relating to a final re-estimate for a tax entitlement year, is determined after the day on which the Agreement is terminated and the result of the adjustment is that an amount is payable to the Province, Canada shall pay the amount to the Province on the first business day of the month following the adjustment.

25. Notwithstanding clause 11, if an aggregate prior-year adjustment, or a prior-year adjustment relating to a final re-estimate for a tax entitlement year, is determined after the day on which the Agreement is terminated and the result of the adjustment is that there has been an overpayment to the Province, the amount of the overpayment becomes due and payable by the Province as a debt due to Canada on the first business day of the month following the adjustment.

## **ANNEX "B"**

### **PROVINCIAL FLEXIBILITY IN RESPECT OF REBATES**

#### **Definitions**

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached. For the purposes of this Annex, the following terms have the following meanings:

"GST Base" in respect of the Province for a calendar year means the estimated tax base under the harmonized sales taxes for the Province in the calendar year, as determined by Finance (Canada) pursuant to Formula D of Annex "A" (referred to in that Annex as "PROVBASE<sub>t</sub>").

"PVAT-POS Rebate", in respect of a province, and in relation to a taxable supply of property or a service made in the province, means the provincial rebate under an Act of the Legislature of the province paid to, or credited at the time of supply in favour of, the recipient of the taxable supply, the amount of which the supplier is permitted to deduct in computing the supplier's net tax under Part IX of the Excise Tax Act.

#### **Provincial Point-of-Sale Rebates**

2. The Parties agree that a supply of property or a service may be eligible for a PVAT-POS Rebate in respect of the Province if:

- (a) subject to the reasonable capacity of the Minister of National Revenue to administer and enforce such a PVAT-POS Rebate and subject to the reasonable capacity of businesses to comply with such a PVAT-POS Rebate, the definition of the property or service is used in the Canadian System of National Accounts and sufficient data is available from that system to determine the amount of expenditure in the Province attributable to the supply of that property or service; or
- (b) other data sources, definitions and methodologies mutually agreed upon between the Parties can be used to determine the amount of expenditure in the Province attributable to the supply of that property or service.

3. Where the Province advises Canada of its desire to designate particular property or services as items eligible for a PVAT-POS Rebate in respect of the Province effective on and from a particular day, the Parties agree that the Province will be permitted to designate those property and services as such items if the total value, as determined by Finance (Canada) in consultation with the Province, of all such items that would be eligible for a PVAT-POS Rebate in respect of the Province immediately after the particular day (including the particular property or services) and that were supplied in the Province during the last calendar year for which the GST Base in respect of the Province has been determined, in accordance with Annex "A", does not exceed 5% of that GST Base.

4. If a condition under clause 2 in respect of data or definitions is not met, any cost involved in obtaining or establishing such data or definitions for the purpose of achieving the mutual agreement of the Parties referred to in that clause will be the sole responsibility of the Province. If obtaining or establishing such data or definitions benefits the Province and another participating province, the Province may enter into a separate agreement with the other



participating province in respect of sharing, between the Province and the other participating province, the cost involved in obtaining or establishing such data or definitions.

5. On and from the Implementation Date, subject to the definitions mutually agreed upon between the Parties, the Parties agree that in general terms the items eligible for a PVAT-POS Rebate in respect of the Province will be, unless such items are removed in accordance with the Agreement:

- (a) books;
- (b) children's clothing and footwear;
- (c) heating oil; and
- (d) other property or service proposed from time to time by the Province that may, in accordance with the Agreement, become property or service eligible for a PVAT-POS Rebate in respect of the Province.

6. Unless otherwise mutually agreed upon between the Parties, where an item that the Province proposes to be eligible for a PVAT-POS Rebate in respect of the Province is of the same class or kind as an existing item that is subject to an existing PVAT-POS Rebate in respect of another province, the Province agrees that the proposed item will have the same definition as the existing definition in respect of the existing item.

#### **Provincial Component of Rebates under the Excise Tax Act**

7. Where the Province advises Canada of its desire to offer a rebate of the PVAT in respect of the Province payable by certain public service bodies, the Parties agree that the Province will be permitted to designate the rate of the rebate of the PVAT in respect of the Province payable to the public service body if all other variables in respect of the proposed rebate payable to the public service body, including all administrative, structural and definitional parameters, match the framework and rules set out under Part IX of the Excise Tax Act in respect of a CVAT rebate for any of those public service bodies.

8. On and from the Implementation Date, subject to the definitions under Part IX of the Excise Tax Act and unless otherwise amended in accordance with the Agreement, the Parties agree that the applicable rates of the rebates of the PVAT in respect of the Province in respect of certain public service bodies will be:

- (a) in the case of charities, and qualifying non-profit organizations, that are not selected public service bodies, 35%; and
- (b) in the case of charities, public institutions, and qualifying non-profit organizations, that are selected public service bodies, 35% but only in respect of their activities that are not selected public service body activities.

9. Where the Province advises Canada of its desire to offer a rebate of the PVAT paid in respect of new housing, new rental housing or land for residential use, as contemplated in Part IX of the Excise Tax Act, the Parties agree that the Province will be permitted to designate the rate of the rebate of the PVAT in respect of the Province payable in respect of that new housing, new rental housing or land for residential use, the threshold amounts in respect of which such a



rebate will apply, including the phasing-out thresholds (if any) of such a rebate, and the maximum amount of such a rebate, if all other variables in respect of the proposed rebate payable in respect of that new housing, new rental housing or land for residential use, including all administrative, structural and definitional parameters, match the framework and rules set out in Part IX of the Excise Tax Act in respect of a CVAT rebate for that new housing, new rental housing or land for residential use.

10. [Intentionally Omitted]

11. Canada may propose any change, and formulate any new rule, in respect of a CVAT rebate under Part IX of the Excise Tax Act and, notwithstanding the provisions under clauses 7 to 10, the Province agrees to be bound by any such change or rule that may affect the provincial component of rebates referred to in those clauses.

12. The Parties acknowledge that the provision under clause 11 will operate in a manner consistent with the Province's flexibility under clauses 7 to 10.

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## **ANNEX "C"**

### **TRANSITIONAL MEASURES IN RESPECT OF THE PROVINCE**

#### **Interpretation**

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached.
2. The Parties agree that:
  - (a) the transitional measures set out in this Annex are available to the Province as a consequence of the Province's commitment to transition from a retail sales tax in respect of the Province that applies to a broad base of property or services to the PVAT in respect of the Province; and
  - (b) absent such commitment, such transitional measures would not be available to the Province.
3. For greater certainty, transitional measures in the nature of those set out in this Annex are not available to a participating province that, unlike the Province, is not in the process of transitioning from a retail sales tax that applies to a broad base of property or services to a PVAT in respect of the participating province.

#### **Transitional Assistance**

4. The Parties acknowledge that the effective implementation of the PVAT in respect of the Province and the winding-down of the Provincial Sales Tax administration in the Province will require substantial investments from each Party. The Parties further recognize and acknowledge that:
  - (a) an integrated tax system will support broader economic growth and job creation in both Canada and the Province; and
  - (b) in particular, transitioning to the PVAT in respect of the Province would support economic growth and job creation in the Province.
5. On the terms and subject to the fulfillment of the conditions set out in the provisions of this Annex under the heading, "Transitional Assistance", Canada agrees to provide, and the Province agrees to accept, in order to support the transition associated with the implementation of the PVAT in respect of the Province and the winding-down of the Provincial Sales Tax administration in the Province referred to in clause 4 and to support economic growth and job creation that arise as a consequence of the transitioning referred to in that clause, the transitional assistance set out in clause 6.
6. The total transitional assistance (referred to as the "Assistance Amount") payable by Canada to the Province under the Agreement will be \$39 million, pursuant to the provisions in clause 7 or 8, as the case may be, and subject to any adjustment in accordance with clauses 14 and 16.

7. Portions of the Assistance Amount will become payable as and when agreed upon in writing between the Parties from time to time, provided that such portions, in total, will not exceed \$39 million. Failing such an agreement between the Parties in respect of the sum and timing for any such portion, the Parties agree that the Assistance Amount will be payable in accordance with, and subject to, the payment schedule set out in clause 8.

8. If the Province is not considered to have, at or before the time set forth in the table below, committed a material breach of the Agreement, Canada will, at that time, pay to the Province the amount set opposite that time in the table to be applied toward satisfaction of the Assistance Amount:

<u>Time</u>	<u>Amount</u>
▪ within 7 days of the first reading of legislation to wind-down the Provincial Sales Tax of the Province	▪ \$25 million
▪ on the first business day following the Implementation Date	▪ \$14 million

9. Where Canada has, at a particular time, provided written notice to the Province (referred to as an "Effective Notice") that Canada considers the Province to have committed a material breach of the Agreement, for purposes of the provisions of this Annex under the heading, "Transitional Assistance", the Province will be considered to have, at the particular time, committed a material breach of the Agreement if:

- (a) the Province has, at or before the particular time, committed a material breach of the Agreement; and
- (b) the Province
  - (i) has not, within 60 days of the particular time, commenced reasonable steps to fully effect a cure or remedy of the material breach, or
  - (ii) has not, within 180 days of the particular time, remedied or cured the material breach.

10. A Party will, prior to giving written notice to the other Party that the Party considers the other Party to have committed a material breach of the Agreement, consult with the other Party in respect of the material breach and, during that consultation, discuss the circumstance or action that, in the Party's opinion, constitutes the material breach by the other Party.

11. Notwithstanding clause 49 of the Agreement, if, within 60 days of Canada's provision of an Effective Notice in respect of a material breach, the Province does not commence reasonable steps to fully effect a remedy or cure of the material breach that remedy or cure the material breach within 180 days of Canada's provision of the Effective Notice, Canada's provision of the Effective Notice will constitute Canada's delivery to the Province of a written notice of termination.

12. Notwithstanding clause 11, where Canada has, at a particular time, provided an Effective Notice in respect of a material breach and the Province has not, within 60 days of the particular



time, commenced reasonable steps to fully effect a remedy or cure of the material breach, but the material breach is remedied or cured within 180 days of the particular time, the Parties agree that Canada's provision of the Effective Notice in respect of the material breach will not constitute Canada's delivery to the Province of a written notice of termination.

13. Termination of the Agreement in accordance with clause 11 will be effective no sooner than the end of the 18 month period that immediately follows the last day of the calendar quarter in which the Effective Notice is received. The Parties agree that the effective date of a termination in accordance with clause 11 will be the first day of January, April, July or October.

14. If, within 180 days of Canada's provision of an Effective Notice in respect of a material breach that the Province committed at any time before the day that is five years after the Implementation Date, the material breach has not been remedied or cured, the Parties agree that, on the day that is 180 days after Canada's provision of the Effective Notice, the Assistance Amount will become immediately due and repayable by the Province as a debt due to Canada to the extent that the Assistance Amount has been received by the Province. Canada will be entitled to set off any debt owed, or amount payable, to Canada at any time by the Province under this clause against any amount due, or becoming due, to the Province from Canada for any reason and at any time, until such indebtedness of the Province is fully paid to Canada. This right of set-off will survive any termination of the Agreement.

15. Notwithstanding clause 14 and subject to clause 16, the Assistance Amount will not become, at a particular time, immediately due and payable by the Province as a debt due to Canada if, at or before the particular time:

- (a) the Province has provided written notice to Canada that the Province considers Canada to have committed a material breach of the Agreement;
- (b) Canada has committed the material breach referred to in paragraph (a); and
- (c) Canada has not cured or remedied that material breach.

16. If, on the particular day that is 180 days after April 1, 2013 or after another date mutually agreed upon between the Parties, the PVAT in respect of the Province has not been implemented, the Parties agree that all portions (referred to as the "Pre-Implementation Assistance") of the Assistance Amount that the Province received under the Agreement will become immediately due and repayable by the Province as a debt due to Canada and if, within 30 days of that particular day, the Pre-Implementation Assistance has not been paid to Canada, Canada will be entitled to set off any amount of the Pre-Implementation Assistance owed or payable to Canada at any time under this clause against any amount due, or becoming due, to the Province from Canada for any reason and at any time, until the Pre-Implementation Assistance is fully paid to Canada. This right of set-off will survive any termination of the Agreement.

#### **Input Tax Credit Recapture for PVAT in respect of the Province**

17. Where the Province provides Canada, prior to the date this Agreement is entered into, with a defined class of specified persons in respect of whom, and a select list of specified property and specified services in respect of which, the Province desires a payment by each of those specified persons of an amount equivalent to input tax credits of the specified person, at a specified percentage, relating to PVAT in respect of the Province on the specified property and



specified services, the Parties agree that, for a period of five years commencing on the Implementation Date (referred to as the "ITC Repayment Period"), an amount equivalent to those input tax credits will be paid at the specified percentage of 100% by those specified persons in respect of that specified property and those specified services if, with all the necessary changes that the circumstances may require, the scope of those specified persons, that specified property and those specified services, captured during the ITC Repayment Period, does not exceed the scope of the persons, property and services that are denied input tax credits under the Excise Tax Act as it read on May 30, 2012.

18. The Parties agree that the definitions established, as of the commencement of the ITC Repayment Period, in respect of the defined class of specified persons, and the select list of specified property and specified services, referred to in clause 17, will not, during the term of the ITC Repayment Period and of the Phase-Out Period (within the meaning of clause 19), be amended, unless otherwise mutually agreed upon between the Parties.

19. Upon completion of the ITC Repayment Period, the Parties agree that the obligation of specified persons to pay an amount equivalent to input tax credits as contemplated under clause 17 will, during a period of three years (referred to as the "Phase-Out Period") immediately following the ITC Repayment Period, be phased-out in equal annual proportions.

20. Subject to the amendment provisions set out in Part XV of the Agreement and as the fiscal circumstances of the Province allow, the Province will:

- (a) shorten the Phase-Out Period; and
- (b) subject to mutual agreement of the Parties, take other steps to advance the elimination of payment of amounts equivalent to input tax credits.

21. If the Province shortens the Phase-Out Period in accordance with clause 20, the Parties agree that any such shortened period must, unless otherwise mutually agreed upon between the Parties, begin on the first day of April and end on the last day of March.

22. On and from the Implementation Date, subject to the definitions and rules under the Excise Tax Act as it read on May 30, 2012 and unless otherwise amended in accordance with the Agreement, the Parties agree that in general terms the items on the select list of specified property and specified services will be:

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

23. On and from the Implementation Date, subject to the definitions and rules under the Excise Tax Act as it read on May 30, 2012 and unless otherwise amended in accordance with the Agreement, the Parties agree that in general terms the defined class of specified persons will be businesses with annual taxable sales in excess of \$10 million and financial institutions.



### **Revenues and Expenses related to Transitional Measures**

24. For each particular month, Canada shall determine the positive or negative amount (referred to as the "Transitional Measures Monthly Amount") determined by the formula

$$A - B$$

where

A is the aggregate of all amounts assessed or reassessed under the Excise Tax Act during the particular month in respect of any reporting period on account of

- (a) amounts required to be paid, in accordance with clauses 17 to 23, by specified persons that are equivalent to all or a part of input tax credits of the specified persons relating to PVAT in respect of the Province on specified property or specified services, or
- (b) amounts of a transitional tax adjustment in respect of housing the supply of which is not subject to the PVAT in respect of the Province and the possession and ownership of which are both transferred on or after the Implementation Date,

after taking into account any credits, reductions, deductions, rebates and remissions that are applicable in respect of amounts described in paragraph (a) or (b) during the particular month, and

B is the aggregate of

- (c) all amounts assessed or reassessed under the Excise Tax Act during the particular month in respect of any reporting period on account of particular amounts of Revenue Tax transitional housing rebates in respect of newly constructed or substantially renovated housing that is completed in full or in part prior to the Implementation Date and is subject to PVAT in respect of the Province or to the transitional tax adjustment described in paragraph (b), and
- (d) all amounts that are particular amounts of PVAT in respect of the Province that would have become payable in respect of supplies of newly constructed or substantially renovated housing the agreement for which was entered into on or before the last day of grandparenting in respect of such supplies, as announced by the Province, and the ownership and possession of which are both transferred on or after the Implementation Date, if PVAT in respect of the Province applied in respect of such supplies, and are derived from amounts reported in returns or rebate applications processed by the Canada Revenue Agency during the particular month,

after taking into account any adjustments that are applicable in respect of the particular amounts described in paragraph (c) or (d) during the particular month.

For greater certainty, elements A and B do not include any other amounts related to the Province's general transitional rules in respect of the implementation of the PVAT in respect of the Province or the winding-down of the Provincial Sales Tax of the Province.

25. For greater certainty, for the purposes of clause 24 an amount reassessed under the Excise Tax Act means the positive or negative amount that is the difference between the amount of the reassessment and the amount of the previous assessment or previous reassessment, as the case may be, to which the reassessment relates.
26. For greater certainty, Transitional Measures Monthly Amounts do not include amounts assessed or collected as interest or penalties payable under the Excise Tax Act.
27. If the Transitional Measures Monthly Amount for a particular month is greater than zero, that Amount shall be added to the instalment payment that is payable by Canada to the Province pursuant to Annex "A" to the Agreement on the first business day following the twenty-third day of the month following the particular month.
28. If the Transitional Measures Monthly Amount for a particular month is less than zero, that Amount shall be deducted from the instalment payment that is payable by Canada to the Province pursuant to Annex "A" to the Agreement on the first business day following the twenty-third day of the month following the particular month.
29. Transitional Measures Monthly Amounts shall not be adjusted to account for the time-value of the payment schedule set out in clauses 27 and 28.
30. For each month, Canada shall provide to the Province in a timely fashion a statement of the determination of the Transitional Measures Monthly Amount for that month.

#### **Transitional Rules**

31. If, prior to execution of the Agreement, the Province determines in consultation with Canada the framework and all parameters relating to transitional rules, a transitional tax adjustment and a Revenue Tax transitional housing rebate, in respect of new housing or new rental housing, as contemplated in Part IX of the Excise Tax Act, the Parties agree that Canada will administer:
- (a) such transitional rules, including the applicable builder reporting and disclosure requirements;
  - (b) the transitional tax adjustment related to such new housing or new rental housing; and
  - (c) the Revenue Tax transitional housing rebate.
32. The transitional rules related to implementation of the PVAT in respect of the Province and the winding-down of the Provincial Sales Tax in respect of the Province will be mutually agreed upon between the Parties and, in arriving at this mutual agreement, the Parties acknowledge that the administrative and structural parameters related to these transitional rules must match the framework and rules set out in the Excise Tax Act.

#### **Administration of Provincial Sales Tax**

33. During the period that the Provincial Sales Tax of the Province is being wound-down, the Province and Canada may agree on the provision by Canada to the Province of services in respect of the Provincial Sales Tax winding-down, on an incremental fee-for-service basis,



including services related to collections, audits, rulings, objections and appeals, which agreement, if any, may from time to time be mutually amended by the Province and Canada.

#### **Human Resources**

34. The Parties acknowledge that the Canada Revenue Agency, the Treasury Board and the Province must consider all relevant legislation and policies and that the Canada Revenue Agency, the Treasury Board and the Province have collective agreement obligations with their respective bargaining agents. In this context, each of the Canada Revenue Agency and the appropriate delegates of the Public Service Commission agree to negotiate the best possible arrangements, to be contained in the human resource agreements referred to in Part XI, for employment within the Province at the Canada Revenue Agency, the Canada Border Services Agency or other departments or agencies of Canada of public service employees of the Province affected by this Agreement.

35. The Parties agree that the Canada Revenue Agency and Canada Border Services Agency will take steps to maximize the number of activities and operations related to the PVAT in respect of the Province that are carried on in the Province. Where it can be demonstrated, with respect to specific activities and operations related to the PVAT in respect of the Province, that the effective administration of the PVAT in respect of the Province would be jeopardized if the activities and operations are performed in the Province, each of the Canada Revenue Agency and the Treasury Board agree to use best efforts to maximize employment opportunities in the Province for a corresponding number of employees of the Province affected by this initiative within the Canada Revenue Agency and other departments or agencies of Canada.

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