TRANSITIONAL RULES FOR THE PRINCE EDWARD ISLAND HST RATE INCREASE

16 June 2016

This Notice provides general descriptions of transitional rules for the increase in the Harmonized Sales Tax (HST) rate to 15 per cent in Prince Edward Island.

Overview

On April 19, 2016, the Government of Prince Edward Island announced its intention to increase the rate of the Prince Edward Island component of the HST to a rate of 10 per cent effective October 1, 2016, resulting in an HST rate of 15 per cent in Prince Edward Island. Transitional rules are required to determine which tax rate — the existing HST rate of 14 per cent or the new HST rate of 15 per cent — would apply in respect of transactions that straddle October 1, 2016.

Under the transitional rules, suppliers would generally be required to charge the HST at the rate of 15 per cent on any consideration that becomes due without having been paid, or is paid without having become due, on or after October 1, 2016 for taxable supplies of property or services. Under the *Excise Tax Act* (ETA), the consideration, or a part thereof, for a taxable supply generally becomes due on the earliest of:

- the day the supplier first issues an invoice in respect of the supply for that consideration or part thereof;
- the date of that invoice;
- the day the supplier would have, but for an undue delay, issued an invoice in respect of the supply for that consideration or part thereof; and
- the day the recipient of the supply is required to pay that consideration or part thereof to the supplier pursuant to a written agreement.

Special transitional rules would apply in respect of certain real property transactions.

Unless otherwise indicated, the transactions described in this Notice are those that, for purposes of the ETA, would be considered to be taxable supplies made in Prince Edward Island.

Unless otherwise stated, or the circumstances otherwise require, words and expressions used in this Notice have the same meaning as in Part IX of the ETA.

Tangible Personal Property

This section describes the transitional rule for supplies of tangible personal property (i.e., goods) by way of sale, including subscriptions to periodical publications such as newspapers and magazines.

The HST rate of 15 per cent would apply to any consideration that becomes due without having been paid, or is paid without having become due, on or after October 1, 2016 for a supply of goods.

Conversely, the HST rate of 14 per cent would apply to any consideration that becomes due or is paid before October 1, 2016 for a supply of goods.

> Example 1: In September 2016, a person fully pays for an annual magazine subscription. Issues of the magazine are to be delivered each month for twelve months starting in October 2016. The HST rate of 14 per cent would apply to the payment for the magazine subscription.

> Example 2: In October 2016, a supplier first issues an invoice for an unpaid delivery of sand that was ordered by and delivered to a person in September 2016. The HST rate of 15 per cent would apply to the invoiced amount.

Services

This section describes the transitional rule for supplies of services.

The HST rate of 15 per cent would apply to any consideration that becomes due without having been paid, or is paid without having become due, on or after October 1, 2016 for a supply of services. Conversely, the HST rate of 14 per cent would apply to any consideration that becomes due or is paid before October 1, 2016 for a supply of services.

> Example 3: In October 2016, a supplier first issues an invoice for unpaid landscaping services, which are performed between September 20, 2016 and October 8, 2016. The HST rate of 15 per cent would apply to the invoiced amount.

> Example 4: In September 2016, a person pays for round-trip air travel from Charlottetown to Ottawa, departing on October 3, 2016 and returning on October 9, 2016. The HST rate of 14 per cent would apply to the payment for the round-trip air travel.

Leases and Licences

This section describes the transitional rule for property — including goods, intangible personal property, and real property — that is supplied by way of lease, licence or similar arrangement.

The HST rate of 15 per cent would apply to any consideration that becomes due without having been paid, or is paid without having become due, on or after October 1, 2016 for a supply of property by way of lease, licence or similar arrangement. Conversely, the HST rate of 14 per cent would apply to any consideration that becomes due or is paid before October 1, 2016 for a supply of property by way of lease, licence or similar arrangement.

> Example 5: On September 10, 2016, a person makes a car lease payment, as required under the written lease agreement, for a lease interval that runs from September 10, 2016 to October 9, 2016. The HST rate of 14 per cent would apply to the lease payment. The HST rate of 15 per cent would apply to the lease payment that is required to be made on October 10, 2016, unless the lease payment is made before October 1, 2016.

Intangible Personal Property

This section describes the transitional rule for supplies of intangible personal property (e.g., intellectual property or contractual rights) by way of sale, which includes memberships, admissions, and passenger transportation passes.

The HST rate of 15 per cent would apply to any consideration that becomes due without having been paid, or is paid without having become due, on or after October 1, 2016 for a supply of intangible personal property. Conversely, the HST rate of 14 per cent would apply to any consideration that becomes due or is paid before October 1, 2016 for a supply of intangible personal property.

> Example 6: In August 2016, a vendor sells tickets to a concert that will take place in January 2017. The HST rate of 14 per cent would apply to the payment for the tickets.

Real Property

This section describes the transitional rule for supplies of real property by way of sale, including deemed taxable supplies of real property, as well as specific transitional rules for grandparenting sales of new housing, and builder disclosure and reporting requirements for the transitional period.

The HST rate of 15 per cent would generally apply to a supply of real property by way of sale (including sales of newly constructed or substantially renovated housing) if both ownership and possession of the property are transferred to the purchaser on or after October 1, 2016. Conversely, the HST rate of 14 per cent would apply to a supply of real property by way of sale if either ownership or possession of the property is transferred to the purchaser before October 1, 2016.

> Example 7: In July 2016, a land developer enters into an agreement to sell a small commercial property to a business. Ownership and possession of the property will transfer to the business in November 2016. The HST rate of 15 per cent would apply to the payments for the purchase of the property.

For deemed taxable supplies of real property by way of sale (e.g., leases of new or substantially renovated housing or leases of land for residential use, which result in deemed taxable supplies by way of sale under the ETA), the HST rate of 15 per cent would generally apply if the supply is deemed to have been made on or after October 1, 2016. Conversely, the HST at the rate of 14 per cent would apply if the supply is deemed to have been made before October 1, 2016.

For information on transitional rules for leases of real property (including transient accommodation but excluding leases of real property that result in deemed taxable supplies for HST purposes), see the Leases and Licences section of this Notice.

Generally, if a person enters into an agreement to have new housing constructed on land that the person owns or purchases separately, the transitional rules for supplies of services would apply in respect of the construction services (see the Services section of this Notice) and the transitional rules for sales of real property would apply in respect of any purchase of the land.

Grandparenting for Sales of New Housing

A builder's sale of a new or substantially renovated single-unit home, duplex, mobile home, floating home or residential condominium unit, in respect of which both ownership and possession are transferred after September 30, 2016 under a written agreement of purchase and sale, would be grandparented (i.e., subject to HST at a rate of 14 per cent) if the agreement was entered into on or before 16 June 2016. For grandparenting to apply (other than for sales of a mobile home or floating home), the land portion of the housing must be supplied by the builder together with the sale of the building portion under the same agreement.

Grandparenting would generally not apply to deemed taxable supplies of real property by way of sale (including instances where builder-landlords are required to self-assess HST under the self-supply rules for newly constructed or substantially renovated housing on or after October 1, 2016). However, if a builder is required to self-assess HST under subsection 191(1) of the ETA in respect of an exempt sale of the building part of a single unit residential complex or a residential condominium unit and a supply by way of lease, or an assignment of a lease, of the land part of the complex or unit, and the agreement for the purchase and sale of the building or unit was entered into in writing on or before 16 June 2016, HST at the rate of 14 per cent would apply to the deemed supply made by the builder, even if that supply is deemed to have been made on or after October 1, 2016.

Grandparenting would not apply to sales of traditional apartment buildings.

Builder Disclosure Requirements for the Transitional Period

If a written agreement of purchase and sale for newly constructed or substantially renovated housing (e.g., a single-unit home or residential condominium unit) is entered into after 16 June 2016 and before October 1, 2016 (the "transitional period"), the builder of the housing would be required to disclose in the written agreement of purchase and sale either the total tax payable in respect of the sale and whether that total is net of the Goods and Services Tax (GST) new housing rebate, if applicable, or the total of the rates at which tax is payable in respect of the sale (e.g., HST at a rate of 15 per cent).

If the builder does not make a disclosure as outlined above and ownership and possession of the housing are transferred on or after October 1, 2016, the builder would be deemed to have collected tax based on a 15 per cent rate of HST and the purchaser would not be liable to pay any additional amount of HST in respect of the sale. This proposed transitional measure would help provide certainty to both builders and purchasers with respect to the application of the HST rate increase to purchases and sales of new or substantially renovated housing under written agreements entered into during the transitional period.

Builder Reporting Requirements

Builders that are affected by these proposed transitional housing measures may be required to file their GST/HST returns electronically. The Canada Revenue Agency document entitled "GST/HST Info Sheet GI-

118, Builders and GST/HST NETFILE" provides information on the current GST/HST NETFILE requirements.

Non-registrant builders are not required to file GST/HST returns electronically. If, however, they are affected by these proposed transitional housing measures, they are required to report the same transitional information using Form GST62, Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-Personalized). The Canada Revenue Agency will publish a GST/HST info sheet entitled "Prince Edward Island HST Rate Increase: Information for Non-Registrant Builders" in which it will provide information on the reporting requirements for non-registrant builders affected by the proposed transitional housing measures.

As a result of the proposed changes, the Canada Revenue Agency will publish information on the new reporting requirements for Prince Edward Island builders and will add new information reporting fields to the GST/HST NETFILE return.

<u>Other Consequential Changes</u>

Certain amounts and rates in the ETA that apply in calculating, in respect of property situated in Prince Edward Island, an amount of a GST new housing rebate based on the level of embedded tax in the value of the property would be adjusted to reflect the HST rate of 15 per cent.

Other Transitional Rules

<u>Returns and Exchanges</u>

The following rules would generally apply if a person purchases property before October 1, 2016 that is subject to the HST rate of 14 per cent and returns it on or after October 1, 2016:

- If the property is returned and a refund of all or part of the consideration for the property is given, the HST at a rate of 14 per cent may be refunded in respect of the consideration or part thereof;
- If a straight exchange is made (i.e., a swap of similar or like items) resulting in neither a refund nor an additional payment, HST would neither be refundable on the exchanged property nor payable on the replacement property; and
- In the case of any other exchange, the HST at a rate of 14 per cent may be refunded in respect of the consideration or part thereof for the exchanged property and the HST at a rate of 15 per cent would be payable on the replacement property.

> Example 8: In October 2016, a person returns a golf club purchased in September 2016 for $200. The vendor may refund the HST at the rate of 14 per cent on the $200 price of the golf club.
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> Example 9: In October 2016, a person exchanges a shirt purchased in September 2016 for $20 for a different sized shirt also costing $20. The vendor does not process the transaction as a return and new purchase. In this situation, HST would neither be refundable on the exchanged property nor payable on the replacement property.

> Example 10: In October 2016, a person returns a slow cooker purchased in June 2016 for $100 and, at the same time, purchases a rice cooker that costs $120. The vendor may refund the HST at the rate of 14 per cent on the $100 price of the slow cooker and would be required to charge and collect the HST at the rate of 15 per cent on the $120 price of the rice cooker.

Property and Services Brought into Prince Edward Island

Under the ETA, persons bringing property or services into a participating province (i.e., an HST province) from another province may be required to self-assess the provincial component of the HST, or a part thereof, in cases where the provincial component of the HST was not previously paid at a rate that is equal to or greater than the rate for that participating province.

For the purposes of this rule, the Prince Edward Island component of the HST at a rate of 10 per cent, or a part thereof, would generally apply:

- in respect of tangible personal property, including mobile homes that are not affixed to land and floating homes, that is brought into Prince Edward Island after September 30, 2016;
- in respect of such property that is brought into Prince Edward Island before October 1, 2016 by a carrier if the property is delivered in Prince Edward Island to a consignee after September 30, 2016; and
- in respect of a service or intangible personal property supplied in another province to a resident of Prince Edward Island to the extent that the consideration for the supply becomes due without having been paid, or is paid without having become due, after September 30, 2016.

Imported Goods

HST at a rate of 15 per cent would generally apply to non-commercial goods that are imported by a resident of Prince Edward Island on or after October 1, 2016, and to non-commercial goods imported by a resident of Prince Edward Island before that date that are accounted for under the relevant provisions of the federal *Customs Act* on or after October 1, 2016.

A person bringing a specified motor vehicle or commercial goods into Prince Edward Island from a place outside Canada on or after October 1, 2016 would generally be liable for the Prince Edward Island component of the HST at a rate of 10 per cent. This rule would generally not apply, however, to commercial goods, other than a specified motor vehicle, that are brought into Prince Edward Island by a GST/HST registrant for consumption, use or supply exclusively in the course of commercial activities of the registrant. Persons liable to pay the Prince Edward Island component of the HST in these circumstances would generally be required to self-assess the tax.

Imported Taxable Supplies

The ETA imposes GST/HST on imported taxable supplies, which are generally supplies made outside Canada of intangible personal property, services, or tangible personal property under certain conditions to a recipient that is resident in Canada, that are not for consumption, use or supply exclusively in commercial activities. The recipient of an imported taxable supply is generally required to self-assess and pay the tax on the value of the consideration for the supply.

The Prince Edward Island component of the HST at a rate of 10 per cent would apply in respect of an imported taxable supply made on or after October 1, 2016, and in respect of an imported taxable supply made before October 1, 2016 to the extent that the consideration for that supply becomes due without having been paid, or is paid without having become due, on or after October 1, 2016. The federal component of the HST at a rate of 5 per cent would also generally apply.

Financial Institutions

Special rules would apply to financial institutions (FIs) in respect of periods that begin before October 1, 2016 and end on or after that date.

- For the purposes of determining the liability in respect of the Prince Edward Island component of the HST of a selected listed financial institution (SLFI) that is not a distributed investment plan for its reporting period that includes October 1, 2016, the Prince Edward Island component of the HST would generally apply at a rate of 10 per cent based upon the number of days in the reporting period that are on or after October 1, 2016 and at a rate of 9 per cent based upon the number of days in the reporting period that are before that date.

- For the purposes of determining the liability in respect of the Prince Edward Island component of the HST of an SLFI that is a distributed investment plan for its reporting period that includes October 1, 2016, the Prince Edward Island component of the HST would generally apply at a rate of 10 per cent based upon the amount of GST or federal component of the HST that is payable, or that is paid without having become payable, by the SLFI in the reporting period on or after October 1, 2016 and at a rate of 9 per cent based upon the amount of GST or federal component of the HST that is payable, or that is paid without having become payable, by the SLFI in the reporting period before that date.

- For the purposes of determining the amount of tax an FI is required to self-assess in respect of internal charges, external charges and qualifying consideration under the import rules for FIs for a specified year of the FI that includes October 1, 2016, the Prince Edward Island component of the HST would generally apply at a rate of 10 per cent based upon the number of days in the specified year that are on or after October 1, 2016 and at a rate of 9 per cent based upon the number of days in the specified year that are before that date.

Pension Plans

Special rules would also apply to participating employers and pension entities of pension plans for periods that begin before October 1, 2016 and end on or after that date.

- If a participating employer of a pension plan is deemed under the ETA to have made a taxable supply to a pension entity on the last day of its fiscal year that includes October 1, 2016, as a consequence of having acquired or imported property or a service for the purpose of supplying it to the pension entity, the Prince Edward Island component of the HST at a rate of 10 per cent would apply to the deemed supply if the property or service was acquired or imported for the purpose of making a supply to the pension entity of any part of the property or service on or after October 1, 2016. Otherwise, the Prince Edward Island component of the HST at a rate of 9 per cent would apply to the deemed supply.

- In addition, a participating employer of a pension plan would determine its liability for the Prince Edward Island component of the HST for deemed supplies of employer resources on an apportionment basis. The Prince Edward Island component of the HST would apply at a rate of 9 per cent based on the number of days in the employer's fiscal year that are before October 1, 2016 and at a rate of 10 per cent based on the number of days in the fiscal year that are on or after that date.

- A similar apportionment rule would apply to determine the Prince Edward Island portion of a pension entity's provincial pension rebate amount for its claim period that includes October 1, 2016. The apportionment would be based on the number of days in the claim period of the pension entity that are before October 1, 2016 and on or after that date.

Taxable Benefits

In certain circumstances, an amount of tax is calculated based on amounts determined for income tax purposes and in reference to a person's taxation year. Specifically, this is the case in the determination of the GST/HST on certain taxable benefits for employees and shareholders. In these cases, the amount of tax is calculated by multiplying the amount determined for income tax purposes by a factor specified in the ETA or its related regulations. These factors and rates would be adjusted to reflect the increased rate of HST in Prince Edward Island.

- The HST rate for calculating tax on automobile operating expense benefits, which is currently 10 per cent for employees who report to work in Prince Edward Island and shareholders resident in Prince Edward Island, would be 10.25 per cent for the 2016 taxation year and 11 per cent for taxation years thereafter.

- The HST rate for calculating tax on other employee and shareholder benefits, which is currently 13 per cent for employees who report to work in Prince Edward Island and shareholders resident in Prince Edward Island, would be 13.25 per cent for the 2016 taxation year and 14 per cent for taxation years thereafter.

Special rates apply to GST/HST registrants that are large businesses subject to recaptured input tax credits for the purposes of calculating tax on automobile operating expense benefits. These special rates will also need to be adjusted to reflect the increased rate of HST in Prince Edward Island.

Streamlined Accounting Methods

Eligible small businesses, as well as eligible public service bodies, may use the Quick or Special Quick Method of Accounting to simplify compliance. These methods allow the business or public service body to remit an amount of tax that is a percentage (the "remittance rate") of its eligible GST/HST-included sales. In general, this allows the entity to avoid having to keep track of the GST/HST collected on sales and paid on purchases. Certain transactions are excluded from these rules (e.g., the sale or purchase of real property). In such cases, the tax must be accounted for separately under the normal GST/HST rules.

As a result of the increased rate of HST in Prince Edward Island effective October 1, 2016, new remittance rates will be required for the streamlined accounting methods. The proposed new rates are set out in the tables in the Annex to this Notice.

These remittance rates would generally apply for the purpose of determining the net tax of a registrant for reporting periods ending after September 30, 2016. For reporting periods that begin before October 1, 2016 and end after September 30, 2016, the remittance rates and rules that would have applied before the proposed changes apply in respect of a supply if consideration for the supply becomes due or is paid before October 1, 2016.

Anti-Avoidance

Existing anti-avoidance rules in the ETA and the federal *New Harmonized Value-added Tax System Regulations* would apply to transactions subject to the transitional rules. Additional anti-avoidance rules may be implemented in order to maintain the integrity of the GST/HST during the period of transition to the increased HST rate for Prince Edward Island.

Additional Information

For further information on the general transitional rules, please contact the Canada Revenue Agency's Business enquiries line at 1-800-959-5525 (English service) or 1-800-959-7775 (French service). For further information on the transitional rules for sales of real property, please contact the Canada Revenue Agency's technical GST/HST enquiries line at 1-800-959-8287 (English service) or 1-800-959-8296 (French service).

ANNEX: Specified Remittance Rates for the Streamlined Accounting Methods

Table 1

Remittance Rates for Business Registrants in Prince Edward Island Using the Quick Method of Accounting after September 30, 2016

	Supplies Made in		
	Non-participating province	**Ontario**	**Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland and Labrador**
i) Mainly Purchases Goods for Resale			
(Permanent Establishment in Prince Edward Island)	0.0%* (credit 4.0%)*	3.3%	5.0%
ii) Mainly Provides Services			
(Permanent Establishment in Prince Edward Island)	1.4%	8.4%	10.0%

* Businesses that use the 0% remittance rate for eligible sales are entitled to a credit on those sales as they generally pay HST at 15% on their inputs but collect 5% GST on those sales.

Table 2

Remittance Rates for Business Registrants in Other Provinces Using the Quick Method of Accounting after September 30, 2016

	Supplies Made in Prince Edward Island
i) Mainly Purchases Goods for Resale	
(Permanent Establishment in)	
Non-participating province	10.4%
Ontario	6.1%
Nova Scotia, New Brunswick or Newfoundland and Labrador	5.0%
ii) Mainly Provides Services	
(Permanent Establishment in)	
Non-participating province	12.0%
Ontario	10.4%
Nova Scotia, New Brunswick or Newfoundland and Labrador	10.0%

Table 3

Remittance Rates for Public Service Bodies in Prince Edward Island Using the Special Quick Method of Accounting after September 30, 2016

	Supplies Made in		
	Non-participating province	**Ontario**	**Nova Scotia, New Brunswick, Prince Edward Island or Newfoundland and Labrador**
i) Municipality	2.3%	9.2%	10.8%
ii) University or Public College (if Supplies Through Vending Machines Account for at Least 25% of Total Supplies)	0.0%	7.0%	8.6%
iii) University or Public College (if Supplies Through Vending Machines Account for Less Than 25% of Total Supplies)	2.0%	8.9%	10.5%
iv) School Authority	1.9%	8.8%	10.4%
v) Hospital Authority, External Supplier or Facility Operator	1.6%	8.5%	10.1%
vi) Specified Facility Operator, Qualifying Non-Profit Organization or Designated Charity	0.7%	7.7%	9.3%

Table 4

Remittance Rates for Public Service Bodies in Other Provinces Using the Special Quick Method of Accounting after September 30, 2016

	Supplies Made in Prince Edward Island
i) Municipality	
(Permanent Establishment in)	
Non-participating province	13.0%
Ontario	12.6%
Nova Scotia or New Brunswick	12.1%
Newfoundland and Labrador (before January 1, 2017)	11.4%
Newfoundland and Labrador (after December 31, 2016)	12.1%
ii) University or Public College (if Supplies Through Vending Machines Account for at Least 25% of Total Supplies)	
(Permanent Establishment in)	
Non-participating province	12.4%
Ontario	11.8%
Nova Scotia	11.2%
New Brunswick or Newfoundland and Labrador	8.6%
iii) University or Public College (if Supplies Through Vending Machines Account for Less Than 25% of Total Supplies)	
(Permanent Establishment in)	
Non-participating province	12.7%
Ontario	12.3%
Nova Scotia	12.0%
New Brunswick or Newfoundland and Labrador	10.5%
iv) School Authority	
(Permanent Establishment in)	
Non-participating province	12.7%
Ontario	12.6%
Nova Scotia	12.0%
New Brunswick or Newfoundland and Labrador	10.4%
v) Hospital Authority, External Supplier or Facility Operator	
(Permanent Establishment in)	
Non-participating province	12.8%
Ontario	12.5%
Nova Scotia	12.4%
New Brunswick or Newfoundland and Labrador	10.1%
vi) Specified Facility Operator, Qualifying Non-Profit Organization or Designated Charity	
(Permanent Establishment in)	
Non-participating province	12.0%
Ontario	11.4%
Nova Scotia, New Brunswick or Newfoundland and Labrador	10.0%

Table 5

Remittance Rates for Registrants that Provide a Point-of-Sale Rebate on Eligible Supplies When Using the Quick or Special Quick Method of Accounting after September 30, 2016

(Type of supplier)	
Business that Mainly Purchases Goods for Resale	1.8%
Business that Mainly Provides Services	3.6%
Municipality	4.7%
University or Public College (if Supplies Through Vending Machines Account for at Least 25% of Total Supplies)	4.1%
University or Public College (if Supplies Through Vending Machines Account for Less Than 25% of Total Supplies)	4.4%
School Authority	4.4%
Hospital Authority, External Supplier or Facility Operator	4.5%
Specified Facility Operator, Qualifying Non-Profit Organization or Designated Charity	3.6%