



HST Impact - Information for Large Businesses

The government of British Columbia (BC) will be harmonizing the Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST) to create the Harmonized Sales Tax (HST), effective July 1, 2010.

The BC HST rate will be 12%, composed of a 5% federal component and a 7% provincial component. Like GST, HST will be a value-added sales tax and will be charged on most goods and services sold in Canada. Businesses will collect HST on their sales and may also claim input tax credits (ITCs) to recover HST paid on purchases that they use in commercial activities.

With the implementation of the HST almost upon us, there are some businesses that will be impacted more so than others. In particular, large business will face some additional rules that they should be aware of.

Restricted Input Tax Credits

Certain large businesses will be denied an Input Tax Credit (ITC) in respect of the 7% provincial portion of the HST on a select list of items. The recapture system will last for 8 years with a full denial of the ITCs for up to 5 years followed by a phase out over a three year period thereafter.

A large business for purposes of the ITC recapture rules includes financial institutions and any business which is part of an associated group with more than \$10 million in taxable sales.

The following are the specific property/services on which ITC's may be recaptured:

- Energy- includes electricity, steam, gas or fuel except for:
 - Energy used to produce goods for sale
 - Energy purchased by farmers
 - Energy used in scientific research and experimental development
 - Fuels used in propulsion (vehicles, aircraft or boats, etc)
- Telecommunication services other than internet access, web-hosting and toll-free numbers
- Road vehicles weighing less than 3,000 kg
- Meals, beverages and entertainment

Businesses that are subject to the recapture of ITCs have to track and separately identify recaptured ITCs on their GST/HST returns and cannot simply forego claiming these ITCs in calculating the GST/HST owing.



Electronic Reporting Requirements

There will be mandatory electronic filing of GST/HST returns for registrants who meet any of the following conditions:

- Annual taxable sales in Canada greater than \$1.5 million
 - Includes sales by associated persons
- Subject to temporary ITC restriction for large businesses (as per above)
- Builders who:
 - Sell grand-parented housing not eligible for provincial new housing/rental rebate
 - Report transitional tax adjustment, or
 - Provincial new housing rebate

The requirements are effective for periods ending on or after July 1, 2010. Most entities are required to use NETFILE only.

For additional information on HST and how it may impact your business, contact your Johnsen Archer LLP advisor.