

BACKGROUNDER

Electronic Filing Options

The following goods and services tax/harmonized sales tax (GST/HST) registrants will be required to file their GST/HST returns electronically:

- all registrants with greater than \$1.5 million in annual taxable supplies except for charities (the \$1.5 million in taxable annual supplies will be calculated by reference to the registrant and all associated persons); or
- registrants that are required to recapture input tax credits (ITCs) for the provincial portion of the HST on certain inputs in Ontario or British Columbia; or
- certain builders that are affected by the transitional housing measures announced by Ontario or British Columbia.

The Canada Revenue Agency (CRA) offers several electronic filing options for GST/HST registrants.

- GST/HST NETFILE is a free Internet-based filing service that allows registrants to file their returns directly to the CRA over the Internet. To file using GST/HST NETFILE, registrants complete an online form, enter the required information and confirm that they want to file their return. Once the registrant hits <Submit> a confirmation page will immediately be displayed containing the six-digit confirmation number.
- GST/HST TELEFILE allows eligible registrants to file their GST/HST returns using their touch-tone telephone and a toll-free number.
- Electronic Data Interchange (EDI) is a computer-to-computer exchange of information in a standard format. Eligible registrants can use EDI to file their GST/HST returns and remit their GST/HST payments electronically.
- GST/HST Internet File Transfer (GIFT) is a new option that allows eligible registrants to utilize third-party CRA certified accounting software to file their returns electronically.

The electronic filing options that are available to GST/HST registrants will depend on their reporting circumstances (see below). These new filing requirements will also apply to GST/HST registrants that file a return with Revenu Québec. Further information on the appropriate format for filing a return electronically with Revenu Québec will be released in the near future.

Registrants who fail to file an electronic GST/HST return in the correct format, or who fail to report required information will be subject to penalties.

Electronic Filing through GST/HST NETFILE

It is proposed that the following GST/HST registrants would be required to file an electronic return using GST/HST NETFILE effective for the first reporting period that ends on or after July 1, 2010:

- any registrants that are required to recapture ITCs on the provincial portion of the HST on certain inputs in Ontario or British Columbia (see below); and
- builders that
 - make sales of grandparented housing where the purchaser is not entitled to claim a GST/HST new housing rebate or new residential rental property rebate;
 - make sales of housing that are subject to the HST where the builder purchased the housing on a grandparented basis;
 - are required to report a transitional tax adjustment amount; or
 - report provincial transitional new housing rebates (see below).

In conjunction with these proposed new filing requirements, the CRA will include new information fields on the GST/HST NETFILE return for these registrants.

Electronic Filing through GST/HST NETFILE or GST/HST TELEFILE

It is also proposed that each builder having greater than \$1.5 million in annual taxable supplies that is not otherwise required to file using GST/HST NETFILE and that pays or credits a GST/HST new housing rebate amount to the purchaser and claims that amount as a deduction from the builder's GST/HST liability would be required to file an electronic return using GST/HST NETFILE or GST/HST TELEFILE effective for the first reporting period that ends on or after July 1, 2010.

As a result of the proposed changes, the CRA will include new information fields on the GST/HST NETFILE and GST/HST TELEFILE returns for these registrants.

Electronic Filing through GST/HST NETFILE, GST/HST TELEFILE, EDI or GIFT

It is also proposed that all GST/HST registrants, other than those required to file using GST/HST NETFILE or GST/HST TELEFILE and with greater than \$1.5 million in annual taxable supplies, excluding charities, would be required to file an electronic return using GST/HST NETFILE, GST/HST TELEFILE, EDI or GIFT effective for the first reporting period that ends on or after July 1, 2010.

New Reporting Requirements for GST/HST Registrants - Summary

Type of Business	Filing Options
<p>Businesses that:</p> <ul style="list-style-type: none"> a) are required to recapture ITCs for the provincial portion of the HST on certain inputs in Ontario or British Columbia; or b) are builders who sell grandparented housing where the purchaser is not entitled to claim a GST/HST new housing rebate or new residential rental property rebate; or c) are builders who sell housing subject to the HST where the builder purchased that housing on a grandparented basis; or d) are builders who are required to remit the transitional tax adjustment on housing; or e) are builders who are reporting provincial transitional new housing rebates. 	<p>GST/HST NETFILE</p>
<p>Unless required to file using GST/HST NETFILE, builders with greater than \$1.5 million in annual taxable supplies that pay or credit a GST/HST new housing rebate amount to the purchaser and claim that amount as a deduction from their GST/HST liability.</p>	<p>GST/HST NETFILE GST/HST TELEFILE</p>
<p>Businesses that are not required to file using GST/HST NETFILE or GST/HST TELEFILE and with annual taxable supplies exceeding \$1.5 million, excluding charities.</p>	<p>GST/HST NETFILE GST/HST TELEFILE GIFT EDI</p>
<p>All other businesses.</p>	<p>GST/HST NETFILE GST/HST TELEFILE GIFT EDI Paper Return</p>

Recaptured Input Tax Credits

Under the modernized HST framework, Ontario and British Columbia are allowed to temporarily restrict ITCs for the provincial portion of the HST.

Ontario and British Columbia have announced that businesses with annual taxable supplies in excess of \$10 million and certain financial institutions will be restricted from claiming ITCs for the provincial portion of the HST paid or payable on:

- energy, except where purchased by farms or used to produce goods for sale;
- telecommunication services other than Internet access or toll free numbers;
- road vehicles weighing less than 3,000 kilograms (and parts and services) and (in Ontario only) fuel to power those vehicles; and
- food, beverages and entertainment.

All businesses that are GST/HST registrants with annual taxable supplies greater than \$10 million and certain financial institutions will be required to recapture ITCs on the provincial portion of the HST in Ontario and British Columbia. Rules for claiming ITCs for the federal portion of the HST paid or payable on these inputs will not be affected, nor will the rules for claiming ITCs for the provincial portion of the HST on these inputs when they are supplied in Nova Scotia, New Brunswick and Newfoundland and Labrador. Further details on the ITC restrictions will be released shortly.

How will businesses report recaptured ITCs?

Restricted ITCs will be “recaptured,” rather than denied. Registrants who are subject to the ITC recapture will be required to calculate and report their ITCs in the GST/HST NETFILE return in the following manner (note that information on specific reporting and filing requirements for financial institutions will be provided at a later date):

1. The amount of the “gross” ITCs is to be reported in a separate information field on a schedule to the GST/HST NETFILE return. “Gross” ITCs are the ITCs and adjustments that a registrant is entitled to claim before taking into account any ITC recapture.
2. The amount of ITCs that is recaptured is to be reported in separate information fields on the schedule: one field for recaptured ITCs in respect of the provincial portion of the HST in Ontario and another field for British Columbia. These recaptured ITCs are generally required to be reported in the period in which the HST became payable.
3. The net amount of ITCs, which is the gross ITCs less the recaptured ITCs, is then calculated and reported in an information field on the schedule. This net amount is eligible to be claimed as an ITC in the GST/HST NETFILE return in the field “Total ITCs and adjustments.”

Generally, if a registrant fails to report recaptured ITCs in the appropriate reporting period, any subsequent reporting of the recaptured ITCs is to be done through an amended return for that period.

Transitional Housing Measures

On June 18, 2009, Ontario announced transitional rules for residential real property. Transitional rules for residential real property for British Columbia were announced on November 18, 2009.

For reporting periods ending on or after July 1, 2010, builders that are affected by transitional housing measures for Ontario or British Columbia would be required to file a GST/HST NETFILE return if they have to report any of the following information in their return:

- The number of grandparented* housing units sold by the builder during the reporting period where the purchaser was not entitled to claim a GST/HST new housing rebate or new residential rental property rebate and the total of the sale prices of those units;
- The number of newly constructed or substantially renovated housing units sold by the builder during the reporting period that are subject to the HST, where those units were previously purchased by the builder on a grandparented basis and the total of the purchase prices of those units;
- The transitional tax adjustment that is required to be included in the builder's net tax calculation for the reporting period; and
- The amount of all RST or PST transitional new housing rebates claimed for the reporting period (including the transitional new housing rebates that were assigned to the builder).

Most of this information will be reported in separate information fields on a schedule to the GST/HST NETFILE return.

*Generally, a sale of newly constructed or substantially renovated housing is grandparented if both ownership and possession of the housing are transferred to the purchaser after June 2010 under a written agreement of purchase and sale that was entered into on or before:

- June 18, 2009, for housing in Ontario; or
- November 18, 2009, for housing in British Columbia.

GST/HST New Housing Rebate

Under existing legislation, builders are required to submit a GST/HST new housing rebate application when the builder pays or credits a rebate amount to the purchaser and claims that amount as a deduction from the builder's GST/HST liability.

It is proposed that builders who are required to file a GST/HST NETFILE or GST/HST TELEFILE return will be required to report in a separate information field in the return,

the rebate amount paid or credited to the purchaser in a reporting period. This field will trigger a validation process against the information provided in rebate forms that are filed separately by the builder.