

Prince Edward Island: Transition to the Harmonized Sales Tax – Services

The Government of Prince Edward Island has proposed a harmonized sales tax (HST) that would come into effect on April 1, 2013.

The HST rate in Prince Edward Island would be 14% of which 5% would represent the federal part and 9% the provincial part.

This info sheet reflects proposed tax changes announced in the *Prince Edward Island 2012 Budget and Revenue Tax Guide RTG185, Implementation of the Harmonized Sales Tax in Prince Edward Island*.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet explains whether the goods and services tax (GST) or the HST would apply to taxable supplies of services made in Prince Edward Island where the services are performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

For more information on determining whether a supply is made in Prince Edward Island, refer to Draft GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

The information provided in this info sheet does not apply to services performed on a continuous basis by means of wire, cable, satellite, or other telecommunication facility such as cable television, satellite television, or cellular phone services. Also, it does not apply to services supplied under a budget payment arrangement. For more information, refer to GST/HST Info Sheet *Prince Edward Island: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements* which will be published soon.

Also, the information provided in this info sheet does not apply to certain services. For more information, refer to the following GST/HST Info Sheets:

- GI-138, *Prince Edward Island: Transition to the Harmonized Sales Tax – Passenger Transportation Services*;
- GI-140, *Prince Edward Island: Transition to the Harmonized Sales Tax – Freight Transportation Services*; and
- GI-142, *Prince Edward Island: Transition to the Harmonized Sales Tax – Prepaid Funeral and Cemetery Arrangements and Interment Property*.

For services brought into Prince Edward Island, refer to GST/HST Notice 278, *Harmonized Sales Tax for Prince Edward Island – Questions and Answers on General Transitional Rules for Personal Property and Services*.

Introduction

To determine whether GST or HST would apply to services performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island, suppliers would have to consider:

- when the service is performed;
- when an amount payable for the service becomes due; and
- whether an amount is paid without having become due.

Refer to Appendix A for a flowchart that illustrates the general transitional rules that would apply for services performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.



Refer to Appendix B for information on when an amount becomes due and when an amount is paid without having become due.

Note: This info sheet uses examples to illustrate the application of the HST transitional rules for supplies of services. Unless otherwise indicated, in the examples:

- all suppliers are GST/HST registrants;
- all supplies are taxable supplies made in Prince Edward Island; and
- no amount is paid without having become due.

In this info sheet, “taxable” means subject to the 5% GST or to the proposed 14% HST.

When 90% or more of the service is performed before April 2013

When 90% or more of the service is performed before April 2013, only GST would apply to any amount that becomes due or is paid without having become due for the service. Suppliers would account for the GST in their GST/HST returns according to the normal rules.

Example 1

A couple hires a painter to paint their house. The service is performed from March 2, 2013, to March 25, 2013, and costs \$2,000. The painter invoices the total amount on April 2, 2013.

Because all of the service is performed before April 2013, the painter would charge the GST and account for the tax in the painter’s GST/HST return for the reporting period that includes April 2, 2013.

Example 2

A plumber is hired to perform a service from March 25, 2013, to April 2, 2013. The plumber determines that 93% of the service is performed before April 2013. On April 3, 2013, the plumber issues an invoice for \$800.

Because 90% or more of the service is performed before April 2013, the plumber would charge the GST and account for the tax in the plumber’s GST/HST return for the reporting period that includes April 3, 2013.

When more than 10% of the service is performed on or after April 1, 2013

The following rules would apply when more than 10% of a service is performed on or after April 1, 2013:

- GST would apply to any amount that becomes due or is paid without having become due on or before November 8, 2012.
- GST would apply to any amount that becomes due or is paid without having become due after November 8, 2012 and before February 2013. However, certain purchasers would have to self-assess the 9% provincial part of the HST. For more information, refer to “Self-assessing the provincial part of the HST”.
- When an amount becomes due or is paid without having become due on or after February 1, 2013:
 - GST would apply to any amount that relates to the portion of the service performed before April 2013; and
 - HST would apply to any amount that relates to the portion of the service performed on or after April 1, 2013.

Example 3

On February 20, 2013, a business enters into an agreement with a software designer for the design and development of custom software. Under the terms of the agreement, the business is required to pay the total amount on February 28, 2013. The software designer agrees to begin designing and developing the custom software in March 2013, but 60% of the work takes place in April 2013. The software designer does not retain any rights to the custom software.

In this situation, the software designer is performing a service for GST/HST purposes because the designer is designing and developing custom software for the needs of a particular person and the designer does not retain any rights to the custom software.

The software designer would charge the GST on the portion of the service performed in March (40%) and the HST on the portion of the service performed in April (60%).

Accounting for the GST/HST charged on services

The previous rules explained whether GST or HST would apply to a service. The following rules explain who would account for the tax, and when it would be accounted for, when more than 10% of the service is performed on or after April 1, 2013.

After November 8, 2012 and before February 2013

When an amount becomes due or is paid without having become due after November 8, 2012 and before February 2013, the supplier would charge the purchaser GST and would account for the GST in its GST/HST return according to the normal rules. Certain purchasers would have to self-assess the 9% provincial part of the HST. For more information, refer to “Self-assessing the provincial part of the HST”.

Example 4

In January 2013, a consultant enters into an agreement with a non-profit organization for a service to be performed in May 2013 for the amount of \$10,000. The consultant issues two invoices: one dated January 10, 2013, for the amount of \$2,000, and one dated May 10, 2013, for the amount of \$8,000.

For the amount that becomes due on January 10, 2013, the consultant would charge the GST and would account for the GST in the consultant’s GST/HST return for the reporting period that includes January 10, 2013. The organization may have to self-assess the 9% provincial part of the HST (for more information, refer to “Self-assessing the provincial part of the HST”).

For the amount that becomes due on May 10, 2013, the consultant would charge the HST and would account for the HST in the consultant’s GST/HST return for the reporting period that includes May 10, 2013.

On or after February 1, 2013 and before April 2013

When an amount becomes due or is paid without having become due on or after February 1, 2013 and before April 2013, the supplier would account for the tax in the following manner.

When GST would apply to a service or a portion of a service, the supplier would account for the GST in its GST/HST return according to the normal rules.

When HST would apply to a service or a portion of a service, the supplier would account for:

- the 5% federal part of the HST in its GST/HST return according to the normal rules; and
- the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013. The purchaser, if a registrant, would be able to claim any eligible input tax credit in respect of the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

Example 5

A business hires a consultant to perform a service in May 2013. The service costs \$3,000. The consultant invoices the business \$1,000 on March 25, 2013, and \$2,000 on May 13, 2013. HST would apply to both amounts because all of the service is performed on or after April 1, 2013.

For the amount due in March, the consultant would account for:

- the 5% federal part of the HST in the consultant’s GST/HST return for the reporting period that includes March 25, 2013; and
- the 9% provincial part of the HST in the consultant’s GST/HST return for the reporting period that includes April 1, 2013.

For the amount due in May, the consultant would account for the HST in the consultant’s GST/HST return for the reporting period that includes May 13, 2013.

Example 6

A non-profit organization runs a week-long overnight children’s camp from March 29, 2013 to April 4, 2013. The organization charges \$300 and the full amount becomes due on February 15, 2013.

The non-profit organization would charge the GST on the portion of the service performed in March (3 days) and the HST on the portion of the service performed in April (4 days). Therefore, the organization would charge the GST on \$128.57 ($\$300 \times 3/7$) and the HST on \$171.43 ($\$300 \times 4/7$).

The organization would account for:

- the GST charged on the portion of the service performed in March and the 5% federal part of the HST charged on the portion of the service performed in April in its GST/HST return for the reporting period that includes February 15, 2013; and
- the 9% provincial part of the HST charged on the portion of the service performed in April in its GST/HST return for the reporting period that includes April 1, 2013.

Note: To determine whether children's camp fees are subject to GST/HST or are exempt, refer to GST/HST Info Sheet GI-037, *Children's Camps Operated by Public Sector Bodies*.

On or after April 1, 2013

When an amount becomes due or is paid without having become due on or after April 1, 2013, the supplier would account for the GST/HST in its GST/HST return according to the normal rules.

Example 7

A professional charges \$2,000 for a service performed from March 20, 2013 to April 30, 2013. 40% of the service is performed in March and 60% of the service is performed in April. On May 6, 2013, the professional issues an invoice for the total amount.

The professional would charge the GST on the portion of the service performed in March and the HST on the portion of the service performed in April. Therefore, the professional charges the GST on \$800 ($\$2,000 \times 40\%$) and the HST on \$1,200 ($\$2,000 \times 60\%$). The professional would account for the GST and the HST in the professional's GST/HST return for the reporting period that includes May 6, 2013.

Combination of property and services

The following rule would apply to any combination of property or services supplied together as a single supply where one of the items is property that would not be subject to HST if it were supplied separately. In this case, the property is considered to have been sold separately from the other items but only for the purposes of determining whether GST or HST would

apply during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

For information on the general transitional rules for sales of goods in Prince Edward Island during the period that includes April 1, 2013, refer to GST/HST Info Sheet *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods* which will be published soon.

Example 8

In March 2013, a supplier sells restaurant equipment to a client and installation of the equipment is part of the supply. The equipment is delivered to the client on March 30, 2013, and installed on April 2, 2013.

GST would apply to the portion of the amount attributable to the equipment because it is delivered and ownership is transferred to the client before April 2013. However, HST would apply to the portion of the amount attributable to the installation service since the service is performed on April 2, 2013 (i.e., on or after April 1, 2013).

Example 9

On March 26, 2013, a vendor sells an off-the-shelf computer software package. Training is provided to the client's employees in April 2013 as part of the supply.

GST would apply to the portion of the amount attributable to the software package because ownership is transferred to the client before April 2013. However, HST would apply to the portion of the amount attributable to the training service since the service is performed on or after April 1, 2013.

Self-assessing the provincial part of the HST

Certain non-consumers would have to self-assess the 9% provincial part of the HST when:

- a service, or a portion of a service (i.e., more than 10% of the service) is performed on or after April 1, 2013; and
- an amount that relates to the service or the portion, as the case may be, becomes due or is paid without having become due after November 8, 2012 and before February 2013.

Note: Consumer generally means an individual who acquires the service for the individual's personal consumption or use, or for the personal consumption or use of another individual.

This self-assessment rule may apply to a person that is a sole proprietor, a partnership, a corporation, an organization, a public service body, or any other entity.

A non-consumer that purchases a service would have to self-assess the 9% provincial part of the HST if:

- the non-consumer does not purchase the service for consumption, use or supply exclusively in its commercial activity;
- the service is subject to an input tax credit recapture (including if the service would be subject to a proposed temporary recapture of an input tax credit in respect of the 9% provincial part of the HST);
- the non-consumer is a GST/HST registrant using a simplified method to calculate its net tax (including the net tax calculation for charities); or
- the non-consumer is a GST/HST registrant selected listed financial institution.

The non-consumer would account for the 9% provincial part of the HST either:

- on line 405 of its GST/HST return for the reporting period that includes April 1, 2013, if the due date for that return is before August 2013; or
- in any other case, by completing *Form GST489, Return for Self-Assessment for the Provincial Part of Harmonized Sales Tax (HST)*, and paying that amount before August 2013.

This info sheet does not replace the law found in the *Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation* explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec at 1-800-567-4692. You may also visit the Revenu Québec Web site to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthstech.

Example 10

In January 2013, a consultant enters into an agreement with a non-profit organization for a service to be performed in May 2013 for the amount of \$10,000. The consultant issues two invoices: one dated January 10, 2013 for the amount of \$2,000, and one dated May 10, 2013 for the amount of \$8,000. The organization is a GST/HST registrant who files quarterly GST/HST returns based on the calendar year. The service will not be used exclusively in the organization's commercial activities.

GST would apply to the amount that becomes due on January 10, 2013. Therefore, the consultant would charge and account for the GST in the consultant's GST/HST return that includes January 10, 2013.

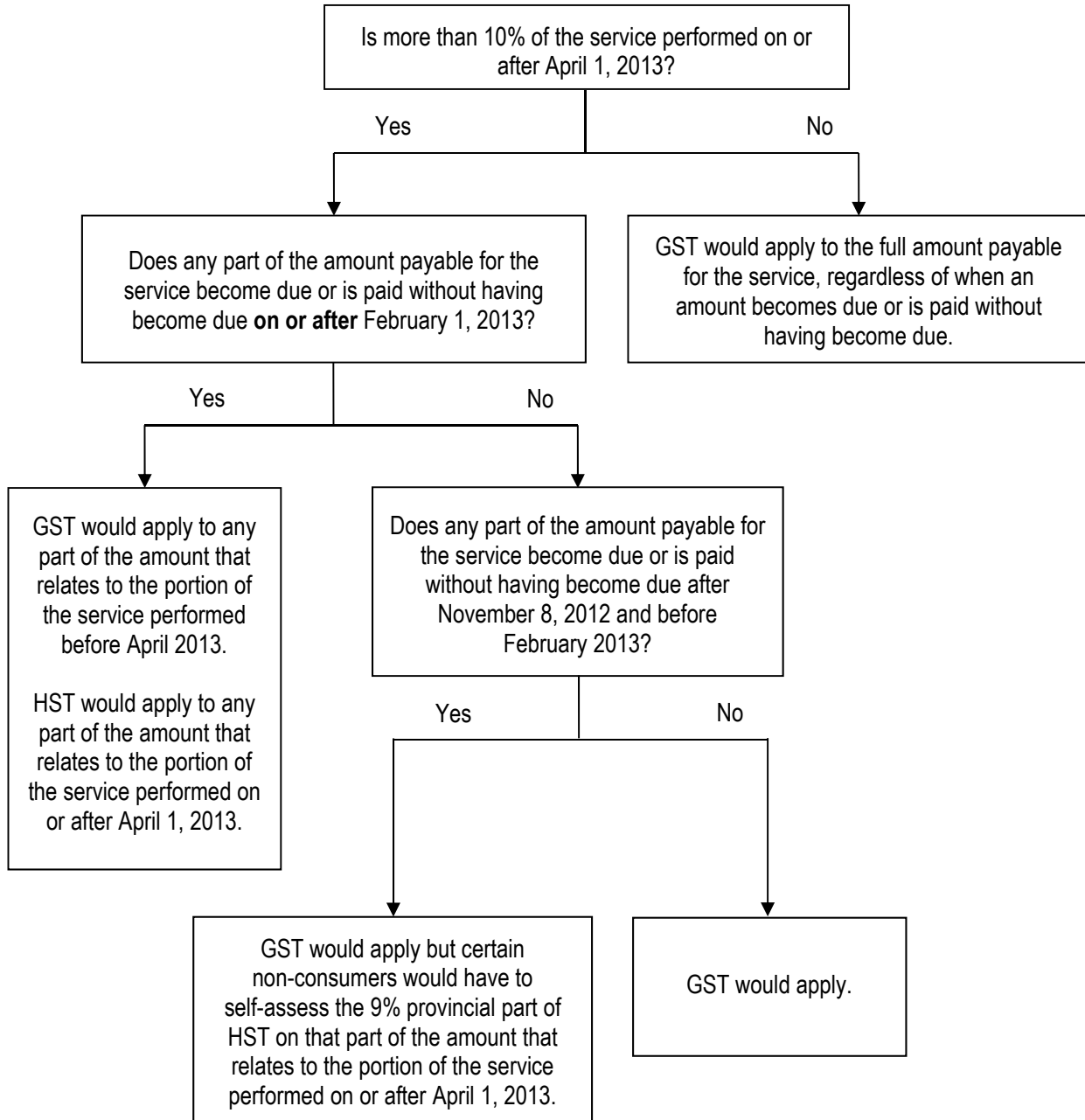
The non-profit organization would have to self-assess the 9% provincial part of the HST on the amount of \$2,000 because:

- the organization is not a consumer;
- the service is performed on or after April 1, 2013;
- the amount is paid after November 8, 2012 and before February 2013; and
- the service is not used exclusively in the organization's commercial activities.

The organization would account for the 9% provincial part of HST in the organization's GST/HST return for the reporting period that includes April 1, 2013.

Appendix A – Transitional rules for services

The following illustrates the general transitional rules for services performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.



Appendix B – When an amount becomes due or is paid without having become due

The following rules explain when an amount becomes due and when an amount is paid without having become due. These rules apply to services and supplies of tangible and intangible personal property.

Amount becomes due

An amount payable for a supply becomes due on the earliest of the following days:

- the date of an invoice for that amount;
- the day the supplier first issues that invoice for the amount;
- if there is an undue delay in issuing that invoice, the day the supplier would have issued the invoice; and
- the day the purchaser is required to pay that amount under a written agreement.

Example 1

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount on January 31. On January 15, the supplier issues an invoice which is dated January 15.

The amount becomes due on January 15 because it is the earliest of the date of the invoice, the day the invoice was issued, and the day the client is required to pay the amount under the written agreement.

Amount is paid without having become due

An amount is paid without having become due when a purchaser pays an amount for a supply:

- before the date of an invoice, or before a supplier issues, or would have issued, the invoice; or
- before the purchaser is required to pay the amount under a written agreement and no invoice has been issued.

Example 2

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount due on January 31. No invoice is issued. The client pays the amount due on January 15. In this case, January 31 is the day the amount becomes due and January 15 is the day the amount is paid without having become due.

More than one invoice or payment

Sometimes, more than one amount becomes due or is paid without having become due. This could happen when, for example, a supplier issues more than one invoice or when the purchaser is required to make more than one payment under a written agreement. In this case, for each amount, the supplier must determine whether GST or HST applies. The supplier cannot, for example, just apply the HST on the final amount or on the total amount payable for the supply.

Example 3

A supplier enters into a written agreement with a client for a supply. Under the agreement, the client is required to make two payments. The supplier has to consider each payment separately to determine whether GST or HST applies to the amount paid.
