

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

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 sales of memberships and lifetime memberships made in Prince Edward Island where the membership period 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*.

This info sheet does not apply to a right to purchase a membership. Such rights are intangible personal property for GST/HST purposes. For more information on such rights, refer to GST/HST Info Sheet GI-136, *Prince Edward Island: Transition to the Harmonized Sales Tax – Intangible Personal Property*.

For information on memberships sold outside Canada or in a province other than Prince Edward Island to a resident of Prince Edward Island for consumption, use or supply in 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*.

Memberships

A membership includes a right granted by a club, organization or association that entitles its members to services provided by the club, organization or association, or to the use of its facilities, that are not available, or are not available to the same extent or for the same fee to other persons. It also includes a right that is conditional on the acquisition or ownership of a share, bond, debenture or other security.

Introduction

To determine whether GST or HST would apply to sales of memberships where the membership period includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island, suppliers would have to consider:

- the membership period;
- when an amount payable for the membership 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 memberships (other than lifetime memberships) that include 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.

La version française de la présente publication est intitulée *Transition à la taxe de vente harmonisée de l'Île-du-Prince-Édouard – Droits d'adhésion*.



For information on whether GST or HST would apply to lifetime memberships, refer to “Lifetime memberships”.

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

- all suppliers are GST/HST registrants;
- all sales are taxable sales 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 membership period is before April 2013

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

Example 1

On January 3, 2013, a fitness club sells a membership that entitles the member to use the club’s facilities from January 3, 2013 to April 5, 2013. The membership fee is payable in full when the agreement is signed on January 3, 2013.

Because 90% or more of the membership period is before April 2013, the fitness club would charge only the GST and account for the tax in its GST/HST return for the reporting period that includes January 3, 2013.

When more than 10% of the membership period is on or after April 1, 2013

The following rules would apply when more than 10% of the membership period is 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.

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 membership period that is before April 2013; and
 - HST would apply to any amount that relates to the portion of the membership period that is on or after April 1, 2013.

Accounting for the GST/HST charged on memberships

The previous rules explained whether GST or HST would apply to a membership. The following rules explain who would account for the tax, and when it would be accounted for, when more than 10% of the membership period is 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 2

A professional association issues invoices dated December 1, 2012 for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The invoice specifies that the membership period is from January 1, 2013 to December 31, 2013.

Because the membership fee becomes due after November 8, 2012 and before February 2013, the association would charge GST on the full amount and would account for the GST in its GST/HST return for the reporting period that includes December 1, 2012. Members may have to self-assess the 9% provincial part of the HST for the nine-month portion of the

membership that relates to the period of April 1, 2013 to December 31, 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 membership or a portion of a membership, the supplier would account for the GST in its GST/HST return according to the normal rules.

When HST would apply to a membership or a portion of a membership, 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 3

An association issues invoices for \$600 dated February 8, 2013. This amount is for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The annual membership period is from March 1, 2013 to February 28, 2014.

GST would apply to the amount for the portion of the membership that relates to the period before April 2013. The association would charge the GST on \$50 which represents the portion of the membership for March 2013 ($\$600 \times 1/12$). The association would account for the GST in its GST/HST return for the reporting period that includes February 8, 2013.

HST would apply to the amount for the portion of the membership that relates to the period on or after April 1, 2013. The association would charge the HST on \$550 ($\$600 \times 11/12$).

The association would account for:

- the 5% federal part of the HST in its GST/HST return for the reporting period that includes February 8, 2013; and
 - the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.
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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/the HST in its GST/HST return according to the normal rules.

Example 4

An association issues invoices dated April 2, 2013 for the renewal of annual memberships. The membership period is from April 1, 2013 to March 31, 2014.

The association would charge HST and would account for the HST in its GST/HST return for the reporting period that includes April 2, 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 membership period, or a portion of a membership period (i.e., more than 10% of the membership period) is on or after April 1, 2013; and
- an amount that relates to the membership 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 property or services 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 membership would have to self-assess the 9% provincial part of the HST if:

- the non-consumer does not purchase the membership for consumption, use or supply exclusively in its commercial activity;
- the membership is subject to an input tax credit recapture (including if the membership 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.

Example 5

A professional association issues invoices dated December 1, 2012, for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The invoice specifies that the membership period is from January 1, 2013 to December 31, 2013. A self-employed professional, who makes both exempt and taxable supplies, pays the membership fee in December 2012.

Because the membership fee becomes due after November 8, 2012 and before February 2013, the association would charge GST on the full amount and would account for the tax in its GST/HST return for the reporting period that includes December 1, 2012.

The self-employed professional would have to self-assess the 9% provincial part of the HST for the portion of the membership that relates to the period of April 1, 2013 to December 31, 2013, because:

- the self-employed professional is not a consumer;
- the amount is paid after November 8, 2012 and before February 2013; and

- the professional does not purchase the membership for use exclusively in commercial activities.
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Lifetime memberships

The CRA considers a lifetime membership to be a membership that entitles a member to rights in a club, organization or association during the member's life.

Special rules would apply to lifetime memberships in a club, organization or association when an amount becomes due or is paid without having become due after November 8, 2012 and before April 2013. In this case, HST would apply to the amount that exceeds 25% of the total amount for the lifetime membership.

When HST would apply, the club, organization or association would account for the 5% federal part of the HST in its GST/HST return according to the normal rules. It would account for the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

The recipient, 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 6

An association sells lifetime memberships. The membership fees are payable in three installments of \$1,000 each. A person buys a lifetime membership on December 1, 2012 and pays the first installment at this time. The other payments are due December 1, 2013 and December 1, 2014.

The \$1,000 amount payable in December 2012 exceeds 25% of the total amount for the membership ($25\% \times \$3,000 = \750). Since HST would apply to the portion of the amount that exceeds \$750, the association would charge HST on \$250 ($\$1,000 - \$750 = \250).

The association would account for the 5% federal part of the HST in its GST/HST return for the reporting period that includes December 1, 2012. It would account for the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

The association would also charge and account for the HST on the total amounts payable in 2013 and 2014.

Example 7

An association sells lifetime memberships. The membership fees are payable in five monthly installments of \$1,000 each. A person buys a lifetime membership on March 1, 2013 and pays the first installment at that time.

The \$1,000 amount payable in March 2013 does not exceed 25% of the total amount for the membership ($25\% \times \$5,000 = \$1,250$). Therefore, HST would not apply to the amount payable in March 2013. HST would apply to the four other amounts payable for the lifetime membership.

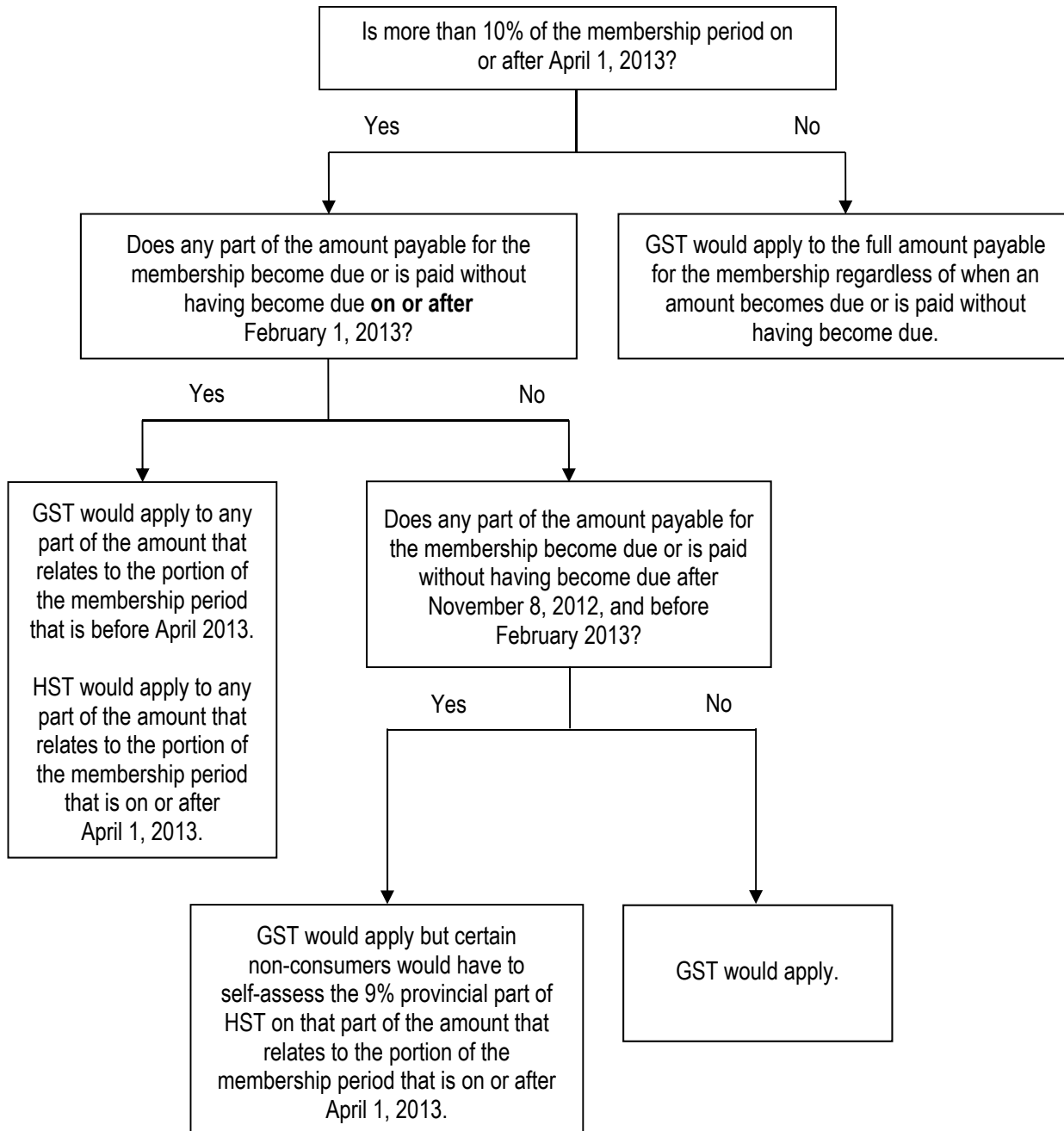
This info sheet does not replace the law found in the *Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for 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.

Appendix A – Transitional rules for memberships

The following illustrates the general transitional rules for memberships (other than lifetime memberships) where the membership period 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.
