



## Prince Edward Island: Transition to the Harmonized Sales Tax – Transportation Passes

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 a taxable sale of a transportation pass made in Prince Edward Island where the pass 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*.

**Note:** The information in this info sheet does not apply to transportation passes that entitle passengers to exempt municipal transit services.

The information provided in this info sheet does not apply to passenger transportation services. For information on passenger transportation services, refer to GST/HST Info Sheet GI-138, *Prince Edward Island: Transition to the Harmonized Sales Tax – Passenger Transportation Services*.

### Meaning of pass period

Before explaining the rules that determine whether GST or HST would apply to sales of transportation passes, it is important to understand the meaning of “pass period”.

“Pass period” means the period throughout which the transportation pass entitles a person to transportation services. Generally, it begins and ends on the dates specified on the pass. If the transportation pass does not specify the beginning and end dates of the pass period, the period:

- begins on the day the pass is delivered or made available to the purchaser; and
- ends on the day the pass expires (if there is no expiry date, the period ends on April 1, 2015).

### Introduction

The following rules would apply to a transportation pass that entitles a person to receive transportation services without having to pay an additional amount each time that the person uses the pass to obtain a transportation service.

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

- when the pass period begins and ends;
- when an amount payable for the pass becomes due; and
- whether an amount is paid without having become due.



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Refer to the Appendix 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 sales of transportation passes. Unless otherwise indicated, in the examples:

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

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

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### ***When pass period begins before April 2013 and ends before May 2013***

GST would apply to a transportation pass if the pass period begins before April 2013 and ends before May 2013. Suppliers would account for the GST in their GST/HST returns according to the normal rules.

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#### **Example 1**

On March 10, 2013, a bus company sells a pass that entitles the passenger to unlimited intercity travel on its buses in Prince Edward Island from March 15, 2013 to April 15, 2013.

Because the pass covers a period that begins before April 2013 and ends before May 2013, the bus company would charge only the GST and account for the tax in its GST/HST return for the reporting period that includes March 10, 2013.

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### ***When pass period begins before April 2013 and ends after April 2013***

The following rules would apply when the pass period begins before April 2013 and ends after April 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 the portion of the transportation pass that covers the period before April 2013; and
  - HST would apply to the portion of the transportation pass that covers the period on or after April 1, 2013.

For information on who would account for the tax and when it would be accounted for, refer to “Accounting for the GST/HST charged on transportation passes”.

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#### **Example 2**

On February 21, 2013, a bus company sells a transportation pass for \$200. The pass entitles the passenger to unlimited intercity travel on its buses in Prince Edward Island from March 1, 2013, to July 31, 2013. The company determines that 25% of the service to which the pass relates will be performed before April 2013, (i.e., one of the four months included in the pass) and 75% will be performed on and after April 1, 2013 (i.e., three of the four months included in the pass). As a result, the company would charge:

- GST on \$50 (25% × \$200); and
- the 14% HST on \$150 (75% × \$200).

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### ***When pass period begins on or after April 1, 2013***

HST would apply to transportation passes if the pass period begins on or after April 1, 2013, and the amount becomes due or is paid without having become due on or after February 1, 2013.

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#### **Example 3**

In March 2013, a bus company sells a pass that entitles the passenger to unlimited intercity travel on its buses in Prince Edward Island from April 1, 2013 to April 30, 2013.

HST would apply to the transportation pass because the pass covers a period that begins on or after April 1, 2013 and the payment is due on or after February 1, 2013.

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## Accounting for the GST/HST charged on transportation passes

The previous rules explained whether GST or HST would apply to a transportation pass. The following rules explain who would account for the tax, and when it would be accounted for, when the pass period begins:

- on or after April 1, 2013; or
- before April 2013 and ends after April 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”.

### ***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 transportation pass or a portion of a pass, the supplier would account for the GST in its GST/HST return according to the normal rules.

When HST would apply to a transportation pass or a portion of a pass, 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 the 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.

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### **Example 4**

On March 15, 2013, a bus company sells a pass that entitles the passenger to unlimited intercity travel on its buses in Prince Edward Island from April 1, 2013 to June 30, 2013. The bus company would charge HST because the pass period begins on or after April 1, 2013, and the payment is due on or after February 1, 2013.

The bus company would account for the 5% federal part of the HST in its GST/HST return for the reporting period that includes March 15, 2013. The bus company would account for 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 HST in its GST/HST return according to the normal rules.

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### **Example 5**

On April 2, 2013, a bus company sells a pass that entitles the passenger to unlimited intercity travel on its buses in Prince Edward Island from April 5, 2013 to May 5, 2013. The bus company would charge HST because the pass period begins on or after April 1, 2013.

The bus company would account for the HST in its GST/HST return for the reporting period that includes April 2, 2013.

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## **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 pass period (i) begins on or after April 1, 2013, or (ii) begins before April 2013 and ends after April 2013; and
- an amount that relates to the pass period or the portion of the pass period that occurs on or after April 1, 2013, 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 passenger transportation service would have to self-assess the 9% provincial part of the HST if:

- the non-consumer does not purchase the transportation pass for consumption, use or supply exclusively in its commercial activity;
- the transportation pass is subject to an input tax credit recapture (including if the transportation pass 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 the 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 6

On January 31, 2013, a bus company sells transportation passes to a registrant business that is using the Quick Method of Accounting. The passes entitle the registrant business's employees to unlimited intercity travel in Prince Edward Island from April 1, 2013 to June 30, 2013, for business purposes.

GST would apply to the amount that becomes due on January 31, 2013. Therefore, the bus company would account for the GST in its GST/HST return for the reporting period that includes January 31, 2013.

The registrant business would have to self-assess the 9% provincial part of the HST on the total amount paid on January 31, 2013, because:

- the registrant business is not a consumer;
- the passes relate to a period that begins on or after April 1, 2013;
- the amount is paid after November 8, 2012 and before February 2013; and
- the registrant business is using a simplified accounting method to calculate its net tax.

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/gsthsttech](http://www.cra.gc.ca/gsthsttech).

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## **Appendix – 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.

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#### **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.

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### ***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.

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#### **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.

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### ***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.

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#### **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.

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