



## Prince Edward Island: Transition to the Harmonized Sales Tax – Tour Packages

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 how registrant tour operators would calculate the goods and services tax (GST) and the HST on a tour package sold on or after February 1, 2013 and before April 2013, where all or some of the elements included in the tour package, if sold separately, would be delivered, performed, etc. during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

**Note:** This info sheet should be read together with the following publications:

- GST/HST Memorandum 27.1, *Calculating the GST/HST on Tour Packages*, which explains what a tour package is for GST/HST purposes and how to calculate the tax on tour packages; and
- 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*, which explains the place of supply rules.

### Meaning of significant terms used in this info sheet

“Element” means any property or service included in a tour package that can reasonably be sold on its own.

“Exempt” means not subject to the GST/HST.

“First supplier” of a tour package means the registrant that first sells the package in Canada. Subsequent registrant suppliers may also act as a “first supplier” under certain conditions. For more information, refer to “Resale of tour packages.”

“Not subject to tax” means not subject to the GST/HST because the property or service is sold outside Canada.

“Registrant” means a person who is registered, or is required to be registered, for GST/HST purposes.

“Zero-rated” means subject to the GST/HST at 0%.

### Introduction

Generally, tour operators purchase property and services such as accommodation, transportation, and sightseeing excursions, which they assemble together into tour packages that they sell for an all-inclusive price.

To determine the amount of tax that registrant tour operators have to charge on the sale of a tour package, the existing GST/HST rules require registrant tour operators to prorate the selling price of a tour package based on the value of the taxable and the non-taxable portions of the tour package. Generally, the calculations are made by the first supplier of a tour package, but in some cases, the calculations are made



by a subsequent supplier of the tour package. For more information, refer to “Resale of tour packages.”

These existing GST/HST rules would also apply under the proposed HST for Prince Edward Island. Specifically, registrant tour operators would still have to:

- identify the elements included in the tour package;
- determine which elements would be exempt, zero-rated, or not subject to tax, if they were sold separately; and
- determine which elements would be subject to either the GST or the HST (including which elements would be subject the proposed HST for Prince Edward Island) if the elements were sold separately.

To do this, registrant tour operators would have to determine in which province each element would be sold (i.e. the place of supply) if the elements were sold separately. For more information, 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*.

## Tour packages sold on or after February 1, 2013 and before April 2013

When a tour package is sold on or after February 1, 2013 and before April 2013, and the tour package includes elements that would be sold in Prince Edward Island, if the elements were sold separately, registrant tour operators would have to consider the HST transitional rules to determine which tax would apply to those elements.

This info sheet does not explain the HST transitional rules for each of the elements included in a tour package. For information on the HST transitional rules concerning the most common elements included in a tour package, refer to the following GST/HST Info Sheets:

- *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods* which will be published soon;
- GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*;

- GI-138, *Prince Edward Island: Transition to the Harmonized Sales Tax – Passenger Transportation Services*; and
- GI-139, *Prince Edward Island: Transition to the Harmonized Sales Tax – Admissions*.

The following is an example of a tour package sold to a non-resident visitor to Canada. We will use this example throughout this info sheet to explain how the first supplier would calculate the tax on a tour package sold on or after February 1, 2013 and before April 2013.

### Example 1

A registrant tour operator incurs the following costs when acquiring elements, which are assembled together in a tour package:

Flight from London (England) to Charlottetown on March 30, 2013 .....	\$550
4 nights’ accommodation in Charlottetown March 30 – April 2, 2013 (\$ 100/night).....	\$400
Admission to a two-day event in Charlottetown March 31 – April 1, 2013 .....	\$150
Bus transportation from Charlottetown to Halifax on April 3, 2013 .....	\$100
2 nights’ accommodation in Halifax April 3 and 4, 2013 (\$ 150 per night) .....	\$300
Flight from Halifax to London (England) on April 5, 2013 .....	\$500
Total .....	<u>\$2,000</u>

The registrant tour operator adds a 10% mark-up (\$ 2,000 × 10% = \$200). On February 2, 2013, the registrant tour operator sells the tour package to a non-resident visitor to Canada for \$ 2,200.

### Step 1: Determining the taxable and non-taxable portions

The first step is to identify the elements that form the taxable portion and non-taxable portion of the tour package, respectively.

The taxable portion of a tour package includes elements that, if sold separately, would be subject to the 5% GST or to the HST rate in effect in a particular province. Generally, this includes elements such as

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short-term accommodation in Canada, domestic passenger transportation services, excursions in Canada, and admissions to events in Canada.

The non-taxable portion includes elements that, if sold separately, would be exempt, zero-rated, or not subject to tax. Generally, this includes elements such as international passenger transportation services, and property and services sold outside Canada.

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### **Example 2**

From Example 1, the registrant tour operator determines that the taxable portion of the tour package consists of the accommodation in Canada, the bus transportation service, and the admission to the event. In this example, the bus transportation service is not part of a continuous journey with either flight.

The non-taxable portion of the tour package consists of the two flights (i.e., the flight from London to Charlottetown, and the flight from Halifax to London) because each flight is a zero-rated sale of a passenger transportation service.

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## **Step 2: Determining the GST-taxable and the HST-taxable portions**

The next step is to break the taxable portion of the tour package into the GST-taxable and the HST-taxable portions, respectively.

The GST-taxable portion includes the elements in the taxable portion that, if sold separately, would be subject to GST.

The HST-taxable portion(s) include the elements in the taxable portion that, if sold separately, would be subject to the HST in effect in a particular province.

To determine which elements form the GST-taxable portion and which elements form the HST-taxable portion(s), the registrant tour operator must determine in which province each element would be sold, if it were sold separately. If some of the elements would be sold in Prince Edward Island, then the registrant tour operator would have to consider when the element would be delivered, performed, etc. to determine if an HST transitional rule would apply to the element.

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### **Example 3**

For each element included in the tour package sold in Example 1, the registrant tour operator determines the following:

#### ***Accommodation in Charlottetown:***

If the accommodation in Charlottetown were sold separately, it would be a sale made in Prince Edward Island, based on the place of supply rules. Since each night of accommodation would be a separate lease interval for purposes of the HST transitional rules, the registrant tour operator determines that the accommodation provided for:

- the nights of March 30 – 31, 2013, (i.e., \$200) would form part of the GST-taxable portion, because each lease interval begins before April 2013 and ends before May 1, 2013; and
- the nights of April 1 – 2, 2013, (i.e., \$200) would form part of the 14% HST-taxable portion, because each lease interval begins on or after April 1, 2013.

#### ***Admission to the event:***

If the admission to the event were sold separately, it would be a sale made in Prince Edward Island, based on the place of supply rules. The HST transitional rules for admissions to an event provide that when more than 10% of the event to which the admission relates takes place on or after April 1, 2013:

- GST would apply to any amount that relates to the portion of the event that takes place before April 1, 2013; and
- HST would apply to any amount that relates to the portion of the event that takes place on or after April 1, 2013.

Therefore, 50% of the amount for the admission (i.e., \$75 for March 31, 2013) would form part of the GST-taxable portion and 50% (i.e., \$75 for April 1, 2013) would form part of the 14% HST-taxable portion.

#### ***Bus transportation service to Halifax:***

If the bus transportation service to Halifax were sold separately, it would be a sale made in Prince Edward Island, based on the place of supply rules. The HST transitional rules for passenger transportation services provide that the HST would apply to a passenger transportation service that begins on or after April 1, 2013. Therefore, the bus transportation service would form part of the 14% HST-taxable

portion of the tour package since it begins on April 3, 2013.

**Accommodation in Halifax:**

If the accommodation in Halifax were sold separately, it would be a sale made in Nova Scotia, based on the place of supply rules. Consequently, the accommodation would be subject to the 15% HST in effect in Nova Scotia and would form part of the 15% HST-taxable portion of the tour package.

**In summary:**

The cost of each element included in the taxable portion of the tour package is as follows:

Element	GST taxable portion	14% HST taxable portion	15% HST taxable portion
Accommodation in Charlottetown	\$200	\$200	
Admission to the event	\$75	\$75	
Bus transportation service		\$100	
Accommodation in Halifax			\$300
Total	\$275	\$375	\$300

**Step 3: Calculating the taxable percentages**

The next step is to calculate the taxable percentages of each taxable portion of the tour package.

The taxable percentage for the GST-taxable portion of the tour package is calculated by dividing the total cost attributable to the GST-taxable portion by the total cost of all the elements included in the tour package.

The taxable percentage for the 14% HST-taxable portion of the tour package is calculated by dividing the total cost attributable to the 14% HST-taxable portion by the total cost of all the elements included in the tour package.

The taxable percentage for any other HST-taxable portion of the tour package is calculated by dividing the total cost attributable to that HST-taxable portion by the total cost of all the elements included in the tour package.

**Example 4**

From Example 1, the registrant tour operator calculates the taxable percentages for the GST-taxable portion and the HST-taxable portions as follows:

- GST – taxable portion:  $\$275 \div \$2,000 = 3.75\%$
- 14% HST – taxable portion:  $\$375 \div \$2,000 = 18.75\%$
- 15% HST – taxable portion:  $\$300 \div \$2,000 = 15.00\%$

**Step 4: Determining the consideration for each taxable portion**

The next step is to determine the consideration for each taxable portion of the tour package. The registrant tour operator determines this by multiplying the selling price of the tour package by the taxable percentage of each taxable portion.

**Example 5**

From Example 1, the registrant tour operator sells the tour package to a non-resident visitor to Canada on February 2, 2013, for a price of \$2,200.

The registrant tour operator determines the consideration for the GST-taxable portion and the HST-taxable portions of the tour package as follows:

	GST taxable portion	14% HST taxable portion	15% HST taxable portion
Selling price	\$2,200	\$2,200	\$2,200
Taxable percentage	13.75%	18.75%	15.00%
Consideration for each portion	\$302.50	\$412.50	\$330.00

**Step 5: Calculating the GST and the HST**

The next step is to calculate the GST/HST to be charged on the sale of the tour package.

The registrant tour operator calculates the GST on the tour package by applying the 5% GST on the part of the consideration for the tour package that is attributable to the GST-taxable portion.

The registrant tour operator then calculates the 14% HST on the tour package by applying the 14% HST on the part of the consideration for the tour package that is attributable to the 14% HST-taxable portion.

If any of the elements in the tour package are subject to HST at another rate, the registrant tour operator would calculate any other HST on the tour package by applying the HST in effect on the part of the consideration for the tour package that is attributable to that HST-taxable portion.

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### Example 6

From Example 1, the registrant tour operator calculates the GST and the HST on the tour package as follows:

Selling price for the tour package.....	\$2,200.00
GST ( $\$302.50 \times 5\%$ ) .....	\$15.13
14% HST ( $\$412.50 \times 14\%$ ).....	\$57.75
15% HST ( $\$330.00 \times 15\%$ ).....	<u>\$49.50</u>
Total .....	<u>\$2,322.38</u>

Consequently, the registrant tour operator would charge the non-resident visitor to Canada a total GST/HST amount of \$122.38 ( $\$15.13 + \$57.75 + \$49.50 = \$122.38$ ).

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### Resale of tour packages

The previous calculations are made by the first supplier of the tour package. However, the calculations would also have to be made by any subsequent registrant supplier when elements of the tour package that were previously subject to the GST become subject to HST because they are sold during or after the transitional period for the proposed HST for Prince Edward Island. The subsequent registrant supplier would then be considered the first supplier of the tour package.

This would apply where the first supplier sells a tour package, before February 2013, to another registrant tour operator who, in turn sells the package on or after February 1, 2013, and that tour package includes elements that would now be subject to the proposed HST for Prince Edward Island.

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### Example 7

The registrant tour operator in Example 1 sells the tour package to another registrant tour operator (the second tour operator) in January 2013.

Because the sale is made before February 2013, all of the elements of the tour package that would be sold in Prince Edward Island if they were sold separately (i.e., all of the accommodation in Charlottetown, all of the admission to the event, and the bus transportation service) form part of the GST-taxable portion of the tour package. The accommodation in Halifax forms part of the 15% HST-taxable portion of the tour package, and the zero-rated passenger transportation services (i.e., the flights) form part of the non-taxable portion of the tour package.

Using the amounts provided in Example 1, the registrant tour operator determines that:

- the taxable percentage of the GST-taxable portion of the tour package is 32.5% ( $\$650 \div \$2,000 = 32.5\%$ ) and the consideration for the GST-taxable portion is \$715 ( $\$2,200 \times 32.5\% = \$715$ ); and
- the taxable percentage of the 15% HST-taxable portion of the tour package is 15% ( $\$300 \div \$2,000 = 15.0\%$ ) and the consideration for the 15% HST taxable portion is \$715 ( $\$2,200 \times 15\% = \$330.00$ ).

The registrant tour operator charges tax as follows:

Selling price for the tour package .....	\$2,200.00
GST ( $\$715 \times 5\%$ ).....	\$35.75
15% HST ( $\$330 \times 15\%$ ) .....	<u>\$49.50</u>
Total .....	<u>\$2,285.25</u>

The second tour operator sells the tour package to a non-resident visitor to Canada in March 2013. Because the HST transitional rules would apply to this sale, and the proposed 14% HST for Prince Edward Island had not been charged on the original sale of the tour package, the second tour operator is considered to be the first supplier of the tour package. Consequently, the second tour operator must do all of the calculations, as indicated in Examples 1 to 6, to calculate the tax to be charged on the sale of the tour package to the non-resident visitor to Canada.

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## ***GST/HST rebates for non-resident purchasers of tour packages***

Non-residents purchasing an eligible tour package may receive a GST/HST rebate amount, at the point of sale, from the registrant tour operator that sold them the package. The rebate amount that a registrant tour

operator can pay or credit is usually equal to 50% of the tax paid. For more information, refer to GST/HST Info Sheet GI-032, *Foreign Conventions and Tour Incentive Program – Non-Residents Purchasing Tour Packages: Rebate for Eligible Tour Packages*.

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