



## Ontario and British Columbia: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements

The Government of Ontario and the Government of British Columbia are each introducing a harmonized sales tax (HST) that will come into effect on July 1, 2010.

The HST rate in Ontario will be 13% of which 5% will represent the federal part and 8% the provincial part.

The HST rate in British Columbia will be 12% of which 5% will represent the federal part and 7% the provincial part.

This info sheet reflects the proposed tax changes as announced in:

- the 2009 Ontario Budget and in the Information Notice No. 3, *General Transitional Rules for Ontario HST* released by the Government of Ontario on October 14, 2009;
- the News Release issued by the Government of British Columbia on July 23, 2009 and the Tax Information Notice – HST Notice #1, *General Transitional Rules for British Columbia HST* released by the Government of British Columbia on October 14, 2009; and
- the News Release issued by the Department of Finance on February 25, 2010, *Place of Supply, Self-Assessment and Rebate Rules for the Harmonized Sales Tax (HST)*.

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 applies to continuous supplies, and supplies made under a budget payment arrangement, during a period that includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia.

**Note:** In this info sheet, all suppliers referred to in the examples are GST/HST registrants and the sales are taxable. “Taxable” means subject to the 5% GST or to the HST rate in effect in a particular province.

In this info sheet, “continuous supply” means a supply of property or service that is delivered,

performed or made available on a continuous basis by means of a wire, pipeline or other conduit, or satellite or other telecommunications facility, and for which the supplier invoices the recipient on a regular or periodic basis. Examples of continuous supplies of property include water, electricity, natural gas or steam. Continuous supplies of services include cable television and home telephone services.

Before determining which tax applies to continuous supplies, or supplies made under a budget payment arrangement, suppliers must first determine if the property or the service is supplied in Ontario or British Columbia. For information, refer to GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of supply rules for determining whether a supply is made in a province*.

### Continuous supplies

To determine whether GST or HST applies to continuous supplies provided during the period that includes July 1, 2010, suppliers must determine:

- when the property or service is delivered, performed or made available;
- when an amount for the continuous supply becomes due; and
- whether an amount is paid without having become due.

The Appendix to this info sheet contains information on when an amount becomes due and when an amount is paid without having become due.

La version française du présent document est intitulée *Transition à la taxe de vente harmonisée de l'Ontario et de la Colombie-Britannique – Fournitures continues et plans à versements égaux*.



**When the property or service is delivered, performed or made available**

When property or a service is supplied on a continuous basis during the period that includes July 1, 2010, the supplier must determine the part of the property or service that is delivered, performed or made available before July 2010, and the part of the property or service that is delivered, performed or made available on or after July 1, 2010.

If the supplier cannot reasonably determine when the property or service is delivered, performed or made available during a period that includes July 1, 2010, then the continuous supply is prorated in equal parts according to the number of days in the period.

**Example 1**

An electricity company provides continuous supplies of electricity to its clients and invoices them every two months. The invoice issued on July 27, 2010 covers the billing period of May 22, 2010 to July 21, 2010. A meter reading was not done on June 30, 2010 and the invoice does not indicate when the electricity was delivered. The electricity is not sold under an equal billing plan.

Because the company cannot reasonably determine when the electricity is delivered, the supply is prorated in equal parts according to the number of days in the period. Therefore:

- an equal part of the electricity is supplied for each of the 40 days for the period before July 2010; and
- an equal part of the electricity is supplied for each of the 21 days for the period on or after July 1, 2010.

**Transitional rules for continuous supplies of property or service**

The following rules apply to continuous supplies provided during the period that includes July 1, 2010:

- Regardless of when the property or service is delivered, performed or made available, GST applies to any amount that becomes due or is paid without having become due on or before October 14, 2009.
- Regardless of when the property or service is delivered, performed or made available, GST applies to any amount that becomes due or is paid without having become due after October 14, 2009 and before May 2010. However, certain purchasers have to self-assess the provincial part of the HST on any amount

that relates to the part of the property or service that is delivered, performed or made available on or after July 1, 2010.

- When an amount becomes due or is paid without having become due on or after May 1, 2010:
  - GST applies to any amount that relates to the part of the property or service that is delivered, performed or made available before July 2010; and
  - HST applies to any amount that relates to the part of the property or service that is delivered, performed or made available on or after July 1, 2010.

**Note:** Generally, when 90% or more of a service is performed before July 2010, only the GST applies to any amount that becomes due or is paid without having become due for the service. This rule does not apply to continuous supplies of services.

Refer to the following publications for more information on these transitional rules, including information on accounting for the GST/HST and self-assessing the provincial part of the HST:

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods (GI-070)*; and
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Services (GI-056)*.

**Example 2**

A telephone company provides continuous supplies of telephone services to its clients and invoices them on a monthly basis. The invoice issued on July 15, 2010 covers the billing period of June 15, 2010 to July 14, 2010. The invoice also includes two long-distance calls: one made on June 17, 2010 and the other made on July 2, 2010. The company cannot reasonably determine when the continuous supply of the service is performed. The invoice shows the following:

Continuous service from June 15 to July 14, 2010	\$65.00
Long-distance call June 17, 2010	2.50
Long-distance call July 2, 2010	<u>2.75</u>
Total	\$70.25

**Long distance calls:**

The two long distance calls are not part of the continuous supplies of the services. In applying the transitional rules for services, the telephone company determines that the call made on June 17 is subject to the GST while the call made on July 2, 2010 is subject to the HST.

### **Continuous supply of telephone service:**

Since the telephone company cannot reasonably determine when the continuous service is performed, the supply is prorated in equal parts according to the number of days in the period.

Therefore, the company determines that

- \$34.67 is subject to GST ( $\$65 \times 16 \text{ days}/30 \text{ days}$ ) which is the amount that relates to the part of the service performed before July 2010; and
- \$30.33 is subject to HST ( $\$65 \times 14 \text{ days}/30 \text{ days}$ ) which is the amount that relates to the part of the service performed on or after July 1, 2010.

### **Example 3**

An Internet service provider invoices its clients in advance for one year of continuous supplies of Internet services. An invoice that covers the period of May 1, 2010 to April 30, 2011 is issued on April 3, 2010 to a consultant who will not use the Internet service exclusively in commercial activities.

The Internet service provider charges the GST on the full amount charged for the service. GST applies because the amount becomes due before May 2010.

However, the consultant has to self-assess the provincial part of the HST on the amount that relates to the part of the service that is made available on or after July 1, 2010 (304 days/365 days). The consultant has to self-assess the provincial part of the HST because:

- it is not a consumer;
- part of the service is performed on or after July 1, 2010;
- the amount is paid after October 14, 2009 and before May 2010; and
- the service is not used exclusively in the consultant's commercial activities.

### **Budget payment arrangements**

The following rules apply to:

- property or services that are provided under a budget payment arrangement (such as natural gas or electricity supplied under an equal payments billing plan) during a period that includes the July 1, 2010; and
- the reconciliation of payments for that period of the budget payment arrangement occurs before July 2011.

Generally, under a budget payment arrangement, the supplier invoices the client the same amount throughout a period (usually one year). The supplier also issues, on a regular basis, an account summary

that shows the year-to-date amount paid by the client and the year-to-date consumption of property or service.

At the time of reconciliation at the end of the billing period, the supplier makes an adjustment to account for any difference between the total amount paid by the client and the total amount the client should have paid if there was no budget payment arrangement. This reconciliation also takes into account any difference between the amount of tax paid by the client and the amount of tax the client should have paid.

### ***Transitional rules for property or service under a budget payment arrangement***

When property or a service is supplied under a budget payment arrangement during the period that includes July 1, 2010, the supplier must determine which part of the property or service is subject to the GST and which part is subject to the HST. If the property or service is a continuous supply, such as electricity or natural gas, the supplier must use the rules discussed under the heading "When the property or service is delivered, performed or made available" to determine each part.

Where a reconciliation of an account takes place before July 2011, the supplier must make an adjustment to account for any difference between:

- (a) the amount of the provincial part of the HST that would have been paid on the property or service delivered, performed or made available on or after July 1, 2010 if there was no budget payment arrangement; and
- (b) the actual amount of the provincial part of the HST that was paid on the property or service during the plan period.

When the amount in (a) is greater than the amount in (b), the supplier collects the difference from the client and includes the amount in the GST/HST return for the reporting period that includes the day on which the invoice for the reconciliation is issued.

When the amount in (b) is greater than the amount in (a), the supplier refunds or credits the difference to the client and issues a credit note for the amount refunded or credited. For more information, refer to

#### Example 4

An individual in Ontario has an equal billing plan for electricity that covers the period from September 24, 2009 to September 24, 2010. During the plan period, the customer pays a monthly charge of \$100 plus tax. Every second month, the utility company provides an account summary that shows the electricity consumed by the client during the past two months, the charges (plus tax) for that consumption and the customer's balance under the budget plan.

On July 23, 2010, the utility company issues a summary statement that covers the period from May 26, 2010 to July 22, 2010 (58 days). Because a meter reading was not done on June 30, 2010, an equal part of the electricity was provided during each of the:

- 36 days before July 2010; and
- 22 days on and after July 1, 2010.

#### What the client paid under the equal billing plan:

The summary indicates that, for that two-month period, the client had paid \$200 which was prorated in equal parts according to the number of days in the period:

- \$124.14 was subject to GST:  $\frac{\$200 \times 36 \text{ days}}{58 \text{ days}}$
- \$75.86 was subject to HST:  $\frac{\$200 \times 22 \text{ days}}{58 \text{ days}}$

Therefore, for that two-month period, the client paid the following taxes:

- \$6.21 GST ( $\$124.14 \times 5\%$ ); and

- \$9.86 HST ( $\$75.86 \times 13\%$ ). From that amount, \$6.07 ( $\$9.86 \times 8/13$ ) represents the provincial part of the HST.

#### What the client should have paid:

The summary statement also indicates that, based on the actual consumption of electricity during the two-month period, the client should have paid \$260. Since a meter reading was not done on June 30, 2010, the amount for the electricity is prorated in equal parts according to the number of days in the period to which the amount is attributable. Therefore, the utility company determines that, if there had been no budget payment arrangement:

- \$161.38 would have been subject to GST:  $\frac{\$260 \times 36 \text{ days}}{58 \text{ days}}$
- \$98.62 would have been subject to HST:  $\frac{\$260 \times 22 \text{ days}}{58 \text{ days}}$

Therefore, for that period, the utility company determines the amount of tax that the client should have paid:

- \$8.07 GST ( $\$161.38 \times 5\%$ ); and
- \$12.82 HST ( $\$98.62 \times 13\%$ ). From that amount, \$7.89 ( $\$12.82 \times 8/13$ ) represents the provincial part of the HST.

#### Reconciliation:

In the invoice issued at the time of reconciliation on September 30, 2010, the utility company adds a tax amount payable of \$1.82 which is the difference between:

- \$7.89 which is the amount of the provincial part of the HST that the client would have paid on the electricity delivered on or after July 1, 2010 if there had been no budget payment arrangement; and
- \$6.07 which is the amount of the provincial part of the HST that was paid on the electricity during the period.

If the figures had been reversed, the utility company would have credited \$1.82 on the invoice.

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 by calling 1-800-567-4692. You may also visit their Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) 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).

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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 sales of tangible and intangible personal property.

### ***Amount becomes due***

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

- the date of an invoice for that amount for the supply;
- 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 client is required to pay that amount under a written agreement.

For information on what is a written agreement for GST/HST purposes, refer to GST Memorandum 300-6-4, *Agreements in Writing*.

### **Example**

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount on April 30. The supplier issues an invoice dated April 15.

The amount becomes due on April 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 an amount under a written agreement.

### ***Amount is paid without having become due***

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

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

### **Example**

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount due on April 30. No invoice is issued. The client pays the amount due on April 15. In this case, April 30 is the day the amount becomes due and April 15 is the day the amount is paid.

### ***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 client 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**

A supplier enters into a written agreement with a client for a supply. Under the written 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.