



## Harmonized Sales Tax – Temporary Recapture of Input Tax Credits in Ontario and British Columbia

The information in this bulletin does not replace the law found in the *Excise Tax 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 *Excise Tax Act* or its Regulations, or contact a Canada Revenue Agency (CRA) GST/HST rulings office for more 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 obtain a ruling related to the GST/HST, please contact Revenu Québec at 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.

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**Overview**

The Government of Ontario and the Government of British Columbia are each introducing a harmonized sales tax (HST) which 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 bulletin provides a general description of a temporary restriction on certain input tax credits (ITCs) for large businesses, which in this Bulletin will be referred to as the recapture of input tax credits (RITC) requirement, or recaptured ITCs, that will be implemented under Part IX of the *Excise Tax Act* (the Act). The RITC requirement will be similar to the existing restriction on input tax refunds (ITRs) for large businesses under *An Act Respecting the Québec Sales Tax*.

From July 1, 2010, until June 30, 2018, with the introduction of the HST in Ontario and British Columbia, large businesses – generally those making taxable supplies worth more than \$10 million annually, and certain specified financial institutions – will be required to repay or “recapture” the portion of any available input tax credits (ITCs) that is attributable to the provincial part of the HST that becomes payable, or is paid without having become payable, in respect of a specified property or service that is acquired, or brought into one of these provinces, by a large business for consumption or use by that business in those provinces.

Persons subject to the RITC requirement will not be allowed to simply forego claiming these recaptured ITCs in their calculation of net tax. Instead, they will be required to separately identify any recaptured ITCs in their GST/HST NETFILE returns. It is important to note that, in this particular respect, the RITC requirement will be different from the existing restriction on ITRs in Quebec.

The rate of ITC recapture will be 100% for the first five years that the HST is in effect in Ontario and British Columbia. The RITC requirement will then be phased out by reducing the rate of recapture in equal increments over the following three years. The ITC recapture rates will be as follows:

Period	ITC recapture rates
July 1, 2010 to June 30, 2015	100%
July 1, 2015 to June 30, 2016	75%
July 1, 2016 to June 30, 2017	50%
July 1, 2017 to June 30, 2018	25%
On or after July 1, 2018	0%

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## **Interpretation**

Unless otherwise noted, the terms and concepts used in this bulletin generally have the same meaning as they do for the purposes of Part IX of the Act. In addition, the following terms have the following meanings:

- **“recapture period”** means a one-year period that (a) begins immediately after June 30 of a particular calendar year and ends immediately before July 1 of the following calendar year, and (b) occurs during the period that the RITC requirement is in effect (i.e., during the period on or after July 1, 2010 and before July 1, 2018); and
- **“specified property or service”** generally means a qualifying motor vehicle, energy, a telecommunication service, a meal or entertainment, that is acquired, or brought into Ontario or British Columbia, by a large business for consumption or use by that business in those provinces, and for Ontario only, fuel (other than diesel) that is acquired or brought into Ontario by a large business for consumption or use by that business in Ontario. The particular circumstances in which the RITC requirement will apply to specified property and services are described in other parts of this bulletin.

## **Large businesses**

In general, only a person that is considered to be a large business will be subject to the RITC requirement. For the purposes of the RITC requirement, a person is considered to be a large business during a particular recapture period if the person is a GST/HST registrant and:

- the person’s RITC threshold amount (which is explained below under the heading The RITC Threshold Amount) for that recapture period is greater than \$10 million, or
- the person is one of the following financial institutions (other than a selected listed financial institution), or a person that is related (for purposes of the Act) to one of the following financial institutions (hereafter a “specified financial institution”): a bank; a corporation that is licensed or otherwise authorized under the laws of Canada or a province to carry on in Canada the business of offering to the public its services as a trustee; a credit union; an insurer or any other person whose principal business is providing insurance under insurance policies; a segregated fund of an insurer; an investment plan or the Canada Deposit Insurance Corporation.

A selected listed financial institution will not be considered a large business.

A person that otherwise meets the criteria would be considered to be a large business regardless of whether the person has a permanent establishment in Ontario or British Columbia.

A public service body will not be considered to be a large business. Similarly, a person whose chief source of income is farming, as defined in the federal *Income Tax Act*, will generally not be considered to be a large business to the extent that the person is acquiring, or bringing into Ontario or British Columbia, a specified property or service for use or consumption in farming activities.

The following government entities will not be considered large businesses:

- An entity of the government of Canada that is not listed in Schedule I of the *Federal Provincial Fiscal Arrangement Act*,
- a department (as defined in section 2 of the *Financial Administration Act*) or
- an entity of the government of a province, that is eligible, pursuant to a provision of a sales tax harmonization agreement with that province, for a rebate of the GST/HST.

If a partnership is a large business and a member of the partnership (other than an individual) acquires, or brings into Ontario or British Columbia, a specified property or service for use in one of these provinces, and that use is in respect of the activities of the partnership (but not on account of the partnership), the member will

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generally be considered to be a large business in respect of that acquisition or bringing in, if at that time, the member is a GST/HST registrant.

If a participant in a joint venture is a large business that has made a joint venture election with the operator of the joint venture, and the operator acquires, or brings into Ontario or British Columbia, a specified property or service on behalf of the participant for consumption or use in one of these provinces, the operator will generally be considered to be a large business in respect of that acquisition or bringing in.

**The RITC threshold amount**

For the purposes of determining whether a particular person is a large business for a particular recapture period, the RITC threshold amount of the person for that particular recapture period will include the following amounts:

- (a) the total of all consideration for taxable supplies made in Canada, or outside Canada through a permanent establishment in Canada, by the person that became due, or was paid without having become due, in the last fiscal year of the person that ended before the recapture period;
- (b) the total of all consideration for taxable supplies made in Canada, or outside Canada through a permanent establishment in Canada, by a GST/HST registrant that is associated (for purposes of the Act) with the particular person, that became due, or was paid without having become due, in the last fiscal year of the associated person that ended before the recapture period, and
- (c) where, at any time in the 12-month period before the recapture period, the particular person purchased a business from another person that would be a large business in the absence of paragraph (b), and under the agreement for the supply, acquired all or substantially all the property necessary for the particular person to carry on that business, the total of all amounts as determined by the following formula:

$$(E/F) \times (365 - G)$$

where

“E” is the total of all consideration for taxable supplies made in Canada or made outside Canada through a permanent establishment in Canada by that particular person that became due or was paid to the person in relation to that business acquired by the person,

“F” is the number of days in the 12-month period immediately preceding the recapture period that are after that time, and

“G” is the number of days in the 12-month period immediately preceding the recapture period that are after that time and that are in the fiscal year referred to in paragraph (a).

In calculating the amount of consideration described in (a), (b) and (c) above, the following amounts should be included:

- any amount by which consideration for a supply is reduced because of a trade-in of tangible personal property by the recipient of the supply,
- consideration that is attributable to a supply made by a specified member of a qualifying group to another specified member of the same qualifying group, to the extent that the supply is deemed under the Act to have been made for no consideration, and
- the fair market value of a supply made between persons not dealing at arms length, to the extent that the consideration for the supply is less than fair market value.

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However, in calculating the amount of consideration described in (a), (b) and (c) above, the following amounts should not be included:

- an amount attributable to the GST/HST, or to a provincial levy that is prescribed for the purposes of the Act (e.g., a provincial retail sales tax);
- an amount attributable to a supply by way of sale of real property that is capital property of the supplier;
- an amount attributable to a supply of a financial service; and
- an amount that is attributable to goodwill that is supplied as part of the supply of a business.

In calculating the amount of consideration described in (b) above, a person must include consideration attributable to taxable supplies made by an associated person that is not itself considered to be a large business (e.g., an associated person whose chief source of income is farming).

If a person or its associates has a fiscal year that is shorter or longer than 365 days, the \$10 million threshold will be adjusted to reflect the length of the fiscal year.

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#### **Example 1**

Business D is associated with Business Y, whose chief source of income is farming as defined in the *Income Tax Act* and who engages exclusively in farming activities. Both companies have a December 31 fiscal year end, and their RITC threshold amount for the 2010 fiscal year is \$12 million. To the extent that Business Y engages exclusively in farming activities, only Business D would be considered a large business for the recapture period of July 1, 2011 to June 30, 2012.

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#### **Example 2**

Company C has a fiscal year ending December 31, 2010. However, that fiscal year was only 182 days long, and its RITC threshold for that fiscal year was \$6 million. Company C would need to adjust this amount to determine what the RITC threshold would be for a full fiscal year. Since this amount exceeds \$10 million ( $\$6 \text{ million} \times 365/182 \text{ days} = \$12 \text{ million}$ ), Company C would be a large business for the recapture period of July 1, 2011 to June 30, 2012.

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#### **Example 3**

Corporation X has a fiscal year end of April 30, 2010. Its RITC threshold for that fiscal year was \$11 million. In August 2010, it sells one of its divisions that had taxable supplies of \$3 million. Corporation X is a large business for the recapture period of July 1, 2010 to June 30, 2011. For the fiscal year ending April 30, 2011, Corporation X's RITC threshold is \$9 million. Corporation X will not be a large business for the recapture period of July 1, 2011 to June 30, 2012.

#### **Changes during a recapture period**

If a person that is not a large business at the beginning of a particular recapture period has a fiscal year end during that recapture period and its threshold amount exceeds \$10 million at that point, the person will generally not be considered to become a large business until the beginning of the next recapture period. Conversely, if a person that is a large business at the beginning of a particular recapture period has a fiscal year end during that recapture period and its threshold amount is below \$10 million at that point, the person will generally continue to be considered to be a large business until the end of that recapture period.

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#### **Example 4**

Company XYZ has a fiscal year that ends on December 31, 2010 and its threshold amount during that fiscal year is \$7 million. Company XYZ would not be a large business during the recapture period of July 1, 2011 to June 30, 2012. At the end of its 2011 fiscal year, Company XYZ's RITC threshold is \$11 million. Company XYZ would be a large business beginning July 1, 2012, for the recapture period of July 1, 2012 to June 30, 2013.

If the threshold amount of a person that becomes a GST/HST registrant is greater than \$10 million at the time when it becomes a registrant, due to the taxable supplies of its associated persons, the person will generally be

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considered to become a large business, and will be required to begin recapturing ITCs, at that time. It would remain a large business until the end of the current recapture period.

#### **Example 5**

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ABC Company incorporated on June 1, 2011, and registered for GST/HST on June 15, 2011. At the time of registration on June 15, ABC is associated with other companies whose RITC threshold amount is \$15 million dollars. ABC is a large business beginning June 15, 2011, and would begin recapturing ITCs at that time. It would remain a large business until the end of the current recapture period.

If a particular corporation that is a large business acquires control of another corporation that is not a large business, the other corporation (and any associated persons) will generally be considered to become a large business when that control is acquired and will be required to begin recapturing ITCs at that time. It would remain a large business until the end of the current recapture period

#### **Example 6**

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All the shares of Corporation C, which is not a large business, are purchased by Large Business A. At the time of this purchase, Corporation C becomes a large business and would begin recapturing RITCs at that time. It would remain a large business until the end of the current recapture period.

If two or more corporations amalgamate and the combined threshold amounts of those corporations are greater than \$10 million at that time, the amalgamated corporation will generally be considered to become a large business upon amalgamation and will be required to begin recapturing ITCs at that time. It would remain a large business until the end of the current recapture period

#### **Example 7**

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Corporation Y and Corporation Z amalgamate on June 15, 2011, to become Corporation YZ. The combined RITC threshold amounts of both corporations exceed \$10 million. Therefore, Corporation YZ is a large business on June 15, 2011, and would begin recapturing RITCs at that time. It would remain a large business until the end of the current recapture period.

If a particular person that is not a large business purchases a business of another person that would be a large business in the absence of paragraph (b) of the RITC threshold, and under the agreement for the supply of the business, the particular person acquires all or substantially the property necessary for the particular person to continue to carry on the business of that other person, the particular person will generally be considered to become a large business at the earlier of (a) the time that it begins to carry on the business, and (b) the time that it acquires substantially all of the property, and will be required to begin recapturing ITCs at that earlier time.

#### **Example 8**

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On August 15, 2012, Company B that is not a large business acquires a business from Company A, that would be a large business, without reference to its associate's taxable supplies. Under the agreement for the supply of this business, Company B has acquired all or substantially all the property needed to carry on the business starting September 15, 2012. Company B will be considered a large business effective August 15, 2012 and would begin recapturing ITCs at that time. It would remain a large business until the end of the current recapture period.

Before the beginning of the next recapture period, Company B would take the value of the taxable supplies it made from this business into account in determining its RITC threshold for that next recapture period. For example, assume that in the 12-month period before the recapture period beginning July 1, 2013, Company B's taxable supplies from this new business, as determined under paragraph (c) of the definition of the RITC threshold, is \$6 million. If company B's fiscal year end for 2012 is December 31, it would include \$4.27million\* when calculating its RITC threshold for the recapture period of July 1, 2013 to June 30, 2014.

\*  $\{\$6\text{million} / 319 \text{ days (August 16, 2012 to June 30, 2013)} \times [365 - 138 \text{ days (August 16, 2012 to Dec. 31, 2012)}]\}$

#### **Example 9**

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Company A, Company B, and Company C are associated and have a combined RITC threshold amount of \$12 million. Company X, which is not a large business and has an RITC threshold amount of \$4 million, purchases a business of Company A (whose threshold amount alone (i.e.,

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without reference to paragraph (b) of the RITC threshold) is \$3 million). Under the agreement for the supply of the business, Company C has acquired all or substantially all the property needed for Company X to carry on that business. Company X will not be considered a large business at that time. However, Company B and Company C will remain large businesses until the end of the recapture period.

#### **Example 10**

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In May 2010, Company A, a large business with a December 31 year-end, sells property of one of its branches to Company B, which is not a large business. Under the agreement for the supply of the business, Company B is not acquiring all or substantially all of the property needed by Company B to carry on the business. Company A will remain a large business for the recapture period of July 1, 2010 to June 30, 2011. If, for the fiscal year ending December 31, 2010, Company A's RITC threshold is \$9 million, Company A will not be a large business for the recapture period of July 1, 2011 to June 30, 2012.

At the time of the purchase of the property of Company A's branch, Company B was not a large business, and will continue not to be a large business, until the recapture period following a fiscal year when its RITC threshold amount exceeds \$10 million.

If a person becomes a specified financial institution (which does not include selected listed financial institutions), or becomes related to one at a particular time, the person would generally be considered to become a large business at that time (and continue to be one until it ceases to be a specified financial institution or ceases to be related to one), and would be required to begin recapturing ITCs at that time.

#### **Example 11**

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Corporation F is a newly incorporated company. All the shares of Corporation F are owned by Corporation B, a company whose principal business is selling insurance. Since Corporation F is related to Corporation B, a specified financial institution, Corporation F is a large business.

### **Specified property and services**

The RITC requirement will generally apply to specified property and services that are acquired, or brought into Ontario or British Columbia, by a large business for consumption or use by that business in these provinces. Property and services that are acquired in Ontario or British Columbia for consumption or use outside these provinces will generally not be subject to the RITC requirement.

In general, specified property and services include:

- qualifying motor vehicles, including certain vehicle parts and services, and in Ontario, motive fuel (other than diesel fuel) for use in motor vehicles;
- specified energy;
- specified telecommunication services; and
- specified meals and entertainment that are currently subject to an ITC repayment requirement of 50% under the Act.

However, the RITC requirement would generally not apply to the following specified property and services:

- specified property acquired by a large business for the sole purpose of being resupplied by that large business (i.e., either by way of sale, or by way of lease, licence or similar arrangement),
- specified property acquired by a large business for the sole purpose of it becoming a component part of other tangible personal property that is to be supplied by the large business, or
- a specified service that is acquired by a large business for the sole purpose of being resupplied by that business.

The particular circumstances in which the RITC requirement will apply to specified property and services are described in more detail below.

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### **Qualifying motor vehicles**

A qualifying motor vehicle will generally mean a vehicle that:

- is a motor vehicle;
- is licensed, or required to be licensed, under applicable provincial laws for use on a public highway (a vehicle that is licensed, or required to be licensed, exclusively for use elsewhere than on a public highway would generally not be considered to be a qualifying motor vehicle); and
- weighs while carrying its maximum capacity of fuel, lubricant and coolant, less than 3,000 kg at the time that the vehicle is first licensed or required to be licensed in Ontario or British Columbia, as the case may be.

For the purposes of the definition of a qualifying motor vehicle, a motor vehicle means a motorized vehicle designed for the transportation of individuals or of tangible personal property, but does not include:

- a power-assisted bicycle;
- a snow vehicle;
- an all-terrain vehicle;
- an electrically propelled wheelchair;
- a street car;
- a vehicle that runs only on rails, or
- a farm tractor, or other farm machinery, acquired, or brought into a province, exclusively for use in farming activities.

Qualifying motor vehicles will include vehicles that are acquired by way of sale, or by way of lease, licence or similar arrangement (including short-term rentals). However, a taxi permit-holder entrusting the operation and custody of a taxi to another person would not be considered to be an acquisition of a qualifying motor vehicle by that other person.

#### **Example 12**

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A pick-up truck, that weighs less than 3,000 kg, is required to be licensed in Ontario for use on public highways. The pick-up truck is a qualifying motor vehicle.

An all-terrain recreational vehicle is not a motor vehicle for the purposes of RITCs and consequently it is not a qualifying motor vehicle.

#### **Parts and services**

The RITC requirement will apply to vehicle parts and services that are acquired, or brought into Ontario or British Columbia, by a large business in respect of a qualifying motor vehicle if the parts and services are acquired or brought in within 12 months of the acquisition, or bringing into one of these provinces, of the vehicle itself (even if the vehicle was acquired or brought into these provinces before July 1, 2010), for example, the acquisition and installation of a vehicle anti-theft system. However, the RITC requirement will generally not apply to vehicle parts and services that are acquired, or brought into these provinces for the routine repair or maintenance of a qualifying motor vehicle of the business.

#### **Example 13**

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In October 2010, a large business purchases an automobile that is a qualifying motor vehicle. In May 2011, air conditioning is installed in the automobile. The RITC requirement will apply to the installation of the air conditioning.



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**Example 14**

In May 2010, a large business purchases an automobile that is a qualifying motor vehicle. In July 2011, air conditioning is installed in the automobile. Since the installation of the air conditioning does not occur within 12 months of the purchase of the qualifying motor vehicle, the RITC requirement does not apply to the installation.

**Example 15**

In October 2010, a large business purchases an automobile that is a qualifying motor vehicle. Six months later, the large business pays for an oil change for the vehicle. The RITC requirement does not apply to the oil change.

**Use of qualifying motor vehicles before resupply**

The RITC requirement will generally not apply in cases where a large business acquires, or brings into Ontario or British Columbia, a qualifying motor vehicle for the sole purpose of resupplying the vehicle. However, if the large business uses such a vehicle before resupplying it, the large business will generally be required to recapture a portion of the ITCs that it was entitled to claim in respect of the acquisition or bringing in of that vehicle. The large business will be required, for each month or part thereof that it uses the vehicle in a fiscal year to recapture the portion of the provincial part of the ITC that is attributable to 2% of the cost of the vehicle. This recapture is to be reported in the GST/HST return for the reporting period that includes the last day of that fiscal year.

**Example 16**

A large business acquires a vehicle in British Columbia for the purpose of leasing the vehicle to other persons. The ITC available on the acquisition of the vehicle is not subject to recapture.

**Example 17**

In April 2011, a car dealership in British Columbia that is a large business acquires, for the purpose of resale, a vehicle that costs \$20,000 and claims ITCs in respect of that acquisition (i.e., with no recapture). The dealership subsequently uses the car as a demo vehicle for two months before selling it. In its GST/HST return for the reporting period that includes the last day of that fiscal year, the dealership must recapture \$56 of the ITCs claimed in respect of the acquisition of that vehicle:  $\$20,000 \text{ (cost)} \times 2\% \times 7\% \text{ (provincial part of HST)} \times 2 \text{ months} = \$56$ .

**Fuel for use in qualifying motor vehicles in Ontario**

The RITC requirement will also generally apply to fuel (other than diesel fuel) that is acquired, or brought into Ontario, by a large business, to the extent that the fuel is for use by that business in the engine of a qualifying motor vehicle (even if the that vehicle was acquired, or brought into Ontario, prior to July 2010).

**Example 18**

A large business in Ontario operates a parcel delivery business. All of the motor vehicles that it owns are qualifying motor vehicles, and these vehicles use gasoline as fuel. The RITC requirement applies to the purchase of the gasoline as fuel for these vehicles.

**Example 19**

A car dealership in Ontario that is a large business acquires motor vehicles for the purposes of resale. The RITC requirement does not apply to the acquisition of these vehicles. In addition, when the car dealership purchases gasoline for these vehicles (for example, in order for customers to take these vehicles for test drives), the RITC requirement will not apply to these gasoline purchases.

**Specified energy**

Specified energy will generally include the following when acquired, or brought into Ontario or British Columbia, for consumption or use in these provinces by a large business:

- electricity, gas, steam, and

- 
- anything (other than fuel for use in a propulsion engine)<sup>1</sup> that can be used to generate energy
    - by way of combustion or oxidization, or
    - by undergoing a nuclear reaction in a reactor for the generation of energy.

For purposes of the RITC requirement, consideration for a single supply of specified energy will include the consideration attributable to transportation services and fees (e.g., delivery charges or regulatory fees) that are incidental to the supply of energy itself. Conversely, consideration for a supply of specified energy will generally not include consideration for transportation services that are not incidental to the supply of energy itself.

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**Example 20**

A large business purchases natural gas from a supplier in British Columbia for use in British Columbia. The invoice for the natural gas also includes delivery charges. Since the delivery charges are incidental to the purchase of the natural gas, the total consideration for the supply of the natural gas will include the consideration attributable to the delivery charge.

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**Example 21**

A large business purchases electricity in Ontario for use in Ontario. The invoice for the electricity is issued from a local distribution company, and shows the separate supplies of electricity made by the retailer of the electricity and the supplies of distribution services made by the local distribution company, both of which occur simultaneously. Since the supplies are made by different suppliers, the tax payable for the consideration for the supply of electricity from the retailer will be subject to the RITC requirement. However, the consideration payable for the distribution services is not part of the consideration payable for the energy, and consequently, the tax payable for this consideration is not subject to the RITC requirement.

The RITC requirement will generally not apply to specified energy acquired by a sponsor or organizer of a convention for use exclusively at that convention. In addition, the RITC requirement will generally not apply to specified energy used to heat asphalt that is for use in the construction or maintenance of an eligible roadway.

An eligible roadway is a road, highway, bridge, tunnel, ferry landing or ferry approach that is for the passage of vehicles, but does not include a dedicated parking area, an airport runway, a shipyard, a driveway or a bicycle or pedestrian pathway.

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**Example 22**

An organizer of a domestic convention pays for electricity that will be for use exclusively at the convention held in Toronto. The RITC requirement does not apply to the purchase of the electricity.

Specified energy acquired by a lessee as part of a single supply of a real property lease will not be subject to the RITC requirement (as the lessee will not, for purposes of the GST/HST, be acquiring a supply of energy). Conversely, a lessor that provides energy to a lessee as part of a single supply of a real property lease will not be able to claim relief from the RITC requirement on the basis of the manner in which the lessee uses that energy, for example, if the lessee uses the energy directly in the production of tangible personal property for sale.

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**Example 23**

A lessor that is a large business leases a building to a lessee, also a large business. The lessee uses the building to produce widgets for sale. As part of the supply of the lease for the building, the lessor charges the lessee an amount for heat (natural gas). Since the lessor is providing the heat as part of a single supply of a lease of real property, the lessee is not subject to the RITC requirement. In addition the lessor will not be able to claim relief for the RITC requirement for specified energy, even though the lessee uses part of this energy directly in the production of widgets for sale.

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<sup>1</sup> However, fuel for use in the engine of a motor vehicle may be subject to the RITC requirement for Ontario. Please see the section entitled “Qualifying Motor Vehicles” in this bulletin.

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## Production for sale

The RITC requirement will generally not apply to specified energy used by a large business directly in the production of:

- tangible personal property for sale, or
- production equipment or conditioning materials used by the large business in the production of tangible personal property for sale.

The RITC requirement will, however, generally apply to specified energy that is used by the large business to facilitate such production (i.e., and not directly in the production process), including specified energy that is used to light, heat, air condition or ventilate a production facility.

### Example 24

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Large Business A (LBA), which sells widgets, acquires electricity for use in one of its production facilities in British Columbia. The electricity is used to operate the widget producing machines, to provide light, heat and ventilation in the building, to operate a building security system, to run appliances in a dining area in the building, and to control the temperature in a storage area for the widgets.

The RITC requirement will not apply to the electricity used in the production building to the extent that the electricity was used to operate the widget producing machines (because that electricity is used directly in the production process). However, the RITC requirement will apply to the portion of the electricity used otherwise than in the operation of the widget producing machines (because that electricity is not used directly in the production process).

The RITC requirement will generally apply to specified energy that is used by a large business to produce tangible personal property that is used:

- otherwise than for sale, such as energy used by the large business to produce furniture that is used as capital personal property by the large business;
- in the construction of real property (including mobile homes and floating homes) of the large business, including real property that is (a) capital property of the large business or (b) for sale by the large business; or
- in the course of supplying services or intangible personal property.

### Example 25

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A large business supplies catering services. The specified energy that it uses in preparing the meals, etc., is subject to the RITC requirement.

The RITC requirement will generally not apply to specified energy used by a large business to produce another form of energy that is used in a manner whereby the RITC requirement would not apply if the energy were used directly.

### Example 26

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If, in Ontario, diesel fuel was used in a generator to produce electricity that was used directly in the production of tangible personal property for sale, the RITC requirement will generally not apply to the portion of the diesel fuel that is attributable to the electricity subsequently used directly in the production of tangible personal property for sale.

## Production and production equipment

For purposes of the RITC requirement, “production” will generally mean the assembling, processing or manufacturing of tangible personal property to make other tangible personal property that is different from the first property by its nature or characteristics, and will include:

- the restoring of tangible personal property by its owner,
- the recording of images or sounds on media,
- the generation of any form of energy or its transformation into another form of energy ,

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- the cutting, transformation and handling of timber in a forest, including the building and maintenance of forest access roads in the course of carrying on a timber business,
  - the extraction and processing of minerals to the first stage of concentration or the equivalent, and
  - the transformation of toxic industrial waste into a non-toxic product.

Production will also generally include the following activities when performed in conjunction with one of the production activities described above:

- the cleaning, screening, sifting, wrapping, packing or putting into containers of personal property;
- the transportation of refuse or waste derived from producing personal property,
- the quality control of personal property being produced or of production equipment, and
- the detection, measurement, treatment, reduction or elimination of water, soil or air pollutants that are attributable to producing personal property.

However, “production” will generally not include (a) the storage of finished products or (b) the assembly, processing or manufacturing of tangible personal property in a retail establishment. For purposes of the RITC requirement, “production equipment” will generally mean

- (a) machinery, tools, equipment and accessories used directly in the production of tangible personal property,;
- (b) moulds and dies,
- (c) media for recording images or sounds,
- (d) plans, drawings, models and prototypes,
- (e) components or spare parts of the property described in paragraphs (a) to (d),
- (f) materials used to produce or repair the property described in paragraphs (a) to (e), and
- (g) explosives and the material to manufacture them.

For purposes of the RITC requirement, specified energy used by the following kinds of businesses will generally not be considered to be used in the production of tangible personal property for sale:

- financial institutions,
- hotels, bars, coffee shops and restaurants,
- auto repair shops, and
- scrap metal dealers.

#### **Example 27**

Specified energy used by a restaurant to brew coffee and prepare meals will not be considered to be used in the production of tangible personal property for sale.

#### **Production proxy**

To simplify compliance with the RITC requirement, a large business producing tangible personal property in Canada for sale (and in its last fiscal year carried on such Canadian production activities at least 10% in British Columbia or primarily in Ontario) will generally be able to elect to use a production proxy to determine what portion of the specified energy that it acquires for use in these provinces will be considered to be used directly in the production of tangible personal property for sale (and hence not subject to the RITC requirement), and consequently, what portion of the provincial component of the HST payable on the energy costs is subject to recapture.

The election Form RC4530, *Election or Revocation of an Election to Use a Production Proxy to Report the Recapture of Input Tax Credits*, will have to be filed with the CRA by the due date of the GST/HST return for the first reporting

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period in a particular recapture period and will generally apply for that entire recapture period. The election will remain in effect until revoked, and can only be revoked if used for a minimum of one recapture period.

This production proxy will be based on the Canadian detail of the North American Industry Classification System for 2007 (“NAICS Canada 2007”), which is a statistical tool that classifies particular sectors, subsectors and industries into categories based on production oriented principles.

Specifically, if the most significant business activity of a large business in its last fiscal year fell into one of the 24 categories described below (which are based on NAICS Canada 2007 categories), it will be eligible to use, in the current recapture period one of three fixed percentages to determine the portion of the total amount of specified energy that it acquires for use in Ontario or British Columbia that will **not** be considered to be used directly in the production of tangible personal property for sale. These percentages reflect the average proportion of energy that is not used directly in such production activities in a particular industrial sector.

- For a large business whose most significant business activity in its last fiscal year fell within one of the following categories (the corresponding three-digit NAICS Canada 2007 codes are also provided), the production proxy will be 4%:
  - 113 – forestry and logging;
  - 211 – oil and gas extraction;
  - 212 – mining and quarrying (except oil and gas);
  - 322 – paper manufacturing;
  - 324 – petroleum and coal product manufacturing;
  - 325 – chemical manufacturing;
  - 327 – non-metallic mineral product manufacturing; and
  - 331 – primary metal manufacturing.
- For a large business whose most significant business activity in its last fiscal year fell within one of the following categories, the production proxy will be 13%:
  - 311 – food manufacturing;
  - 312 – beverage and tobacco manufacturing;
  - 313 – textile mills;
  - 314 – textile product mills;
  - 321 – wood product manufacturing;
  - 326 – plastics and rubber products manufacturing; and
  - 332 – fabricated metal product manufacturing.
- For a large business whose most significant business activity in its last fiscal year fell within one of the following categories, the production proxy will be 30%:
  - 315 – clothing manufacturing;
  - 316 – leather and allied product manufacturing;
  - 323 – printing and related support activities;
  - 333 – machinery manufacturing;
  - 334 – computer and electronic product manufacturing;
  - 335 – electrical equipment, appliance and component manufacturing;
  - 336 – transportation equipment manufacturing;
  - 337 – furniture and related product manufacturing; and
  - 339 – miscellaneous manufacturing.

GST/HST registrants that are large businesses whose most significant business activity in its last fiscal year did not fall within any of the foregoing categories (or that did not carry on at least 10% of their Canadian production

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activities in British Columbia, or that did not carry on their Canadian production activities primarily in Ontario) will not be entitled to use this proxy for the current recapture period.

#### **Example 28**

In its previous fiscal year, a GST/HST registrant, that is a large business that carried on production activities primarily in Ontario, had three different business activities: 25% of its revenues were derived from forestry and logging, 40% from wood product manufacturing, and 30% from furniture manufacturing. The large business determines that its most significant business activity fell under the description of the category 321, wood product manufacturing. Therefore, its production proxy for specified energy will be 13%, and it will recapture 13% of the provincial component paid or payable on its energy costs.

#### **Example 29**

A large business publishes a community newspaper in British Columbia, which is provided free of charge to the community. Its revenue is derived from the sale of advertising. Even though the large business is producing the newspaper for sale (for no consideration), the large business's most significant business activity is supplying advertising, which is not one of the categories eligible for using the production proxies. The corporation will use a fair and reasonable method to track the specified energy that it acquires to produce the newspaper and claims ITCs in respect of this specified energy.

#### **Example 30**

A large business in British Columbia, whose most significant business activity in its last fiscal year fell within the description of the category of wood product manufacturing (category no. 321) could, instead of tracking the amount of specified energy that it uses in production, file election Form RC4530, *Election or Revocation of an Election to Use a Production Proxy to Report the Recapture of Input Tax Credits*, with the CRA by the due date of the GST/HST return for the first reporting period in a particular recapture period. For each reporting period during that recapture period, 13% of the specified energy that the large business acquires for use in British Columbia will be deemed not to be used directly in the production of tangible personal property for sale. Therefore, it will recapture 13% of the provincial component paid or payable on its energy costs.

### **Scientific research and experimental development (SR&ED) activities and the SR&ED proxy**

The RITC requirement will generally not apply to specified energy used by a large business directly in activities that are qualifying SR&ED activities in Ontario for purposes of the *Taxation Act, 2007* (Ontario) or directly in activities that are SR&ED activities in British Columbia for purposes of the *British Columbia Income Tax Act*. A large business engaged in SR&ED activities in its current taxation year that is eligible for, and actually claims, SR&ED expenditures or investment tax credits for income tax purposes in that taxation year will generally only be required to recapture ITCs other than those available in respect of the specified energy used directly in the qualifying SR&ED activities.

A large business will be able to either track the actual amount of specified energy used directly in qualifying SR&ED activities, or use the following formula (i.e., the SR&ED proxy) to determine what portion of the specified energy will **not** be considered, for purposes of the RITC requirement, to be used directly in qualifying SR&ED activities.

$$A = B/C$$

where:

“A” is the proportion (expressed as a percentage) of the specified energy not considered to be used directly in qualifying SR&ED activities in Ontario or British Columbia;

“B” is the total amount of the portion of the salaries and wages of employees of the large business that were paid by the large business in the second last taxation year of the person and that were not directly engaged in SR&ED activities in Ontario or British Columbia; and

“C” is the total amount of salaries and wages of employees of the large business in Ontario or British Columbia that were paid by the large business in the second last taxation year of the large business.

The resulting amount will be the amount of energy subject to the RITC requirements.

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**Example 31**

A large business has activities that are eligible SR&ED activities in Ontario for purposes of the *Taxation Act, 2007* (Ontario). It will be claiming SR&ED expenditures or investment tax credits for these activities in the current taxation year, and decides to use the proxy formula in respect of the specified energy used directly in the qualifying SR&ED activities. The amounts of salaries and wages used in the proxy formula will be the amounts paid by the large business in its second last taxation year.

An election is required to use this proxy. The election form does not need to be filed with the CRA, but needs to be retained by the large business with its records. The proxy election is valid for the current recapture period, only, and a new election form must be completed for each recapture period for which the proxy method is used.

**Ordered application of proxies to specified energy**

If a large business is using both the SR&ED proxy and the production proxy, it will apply the first proxy to the specified energy it acquires for use in Ontario or British Columbia, and then apply the other proxy to the residual amount (i.e. instead of adding the two percentages together and applying the sum of these two percentages). This “ordered” approach to applying the proxies to specified energy will help ensure that some portion of that energy will be subject to the RITC requirement (reflecting the fact that some energy will be attributable to other uses, such as overhead).

**Example 32**

For purposes of the RITC requirement, the most significant business activity of a large business is food manufacturing (category 311) and it is therefore using the 13% production proxy. It is also using a 75% SR&ED proxy (as 75% of the salaries and wages of its employees are not directly engaged in SR&ED activities). In its August 2012 reporting period, the large business has \$800 in available ITCs that are attributable to the provincial component of the HST payable in respect of specified energy it acquired during that reporting period. The large business multiplies the \$800 by the two proxies ( $\$800 \times 75\% \times 13\%$ ) and will, therefore, have to recapture \$78 in ITCs in respect of that specified energy

Note that a large business that acquires specified energy that is later resupplied by that business (in addition to specified energy used by that business in producing tangible personal property for sale or in eligible SR&ED activities) will first have to deduct the proportion of its specified energy that is re-supplied from the total specified energy it acquired before applying any proxy.

**Specified telecommunication services**

Specified telecommunication services will generally include:

- (a) the service of emitting, transmitting or receiving signs, signals, writing, images or sounds or intelligence of any nature by wire, cable, radio, optical or other electromagnetic system, or by any similar technical system; and
- (b) the making available for such emission, transmission or reception a telecommunications channel, such as a telecommunications circuit, line, frequency, channel, partial channel or other similar means of transmitting a telecommunication (but not a satellite channel)

when acquired for consumption or use in Ontario and British Columbia.

Thus, the RITC requirement will generally apply to services such as:

- local and long-distance telephone,
- cable and pay television,
- satellite television,

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- facsimile and electronic mail,
  - video, audio and computer link-ups, and
  - data transmission acquired by a large business for use in Ontario or British Columbia by that large business.

However, the RITC requirement will generally not apply to:

- internet access services;
- web-hosting services;
- toll-free telephone services (e.g., 1-800, 1-866, 1-888 or 1-877 telephone services) or a telecommunication service related to toll free telephone services; and
- telecommunication services acquired by a sponsor or organizer of a convention for use exclusively at that convention.

Supplies that are provided by means of telecommunication, but are not themselves telecommunication services, will generally not be subject to the RITC requirement. Examples of supplies that are provided by means of telecommunication include:

- building surveillance services,
- news services offered by press agencies,
- a right to access a data bank, and
- services provided by means of a 1-900 telephone service.

#### **Proxies for specified telecommunication services**

If a large business receives an invoice for a single supply that includes both specified telecommunication services and other services and/or goods (i.e., that are not subject to the RITC requirement), and the large business cannot readily ascertain which portion of the provincial component of the HST applicable to the supply is attributable to these other services and/or goods, the large business will be allowed to use the following proxies to make that determination.

*For Ontario:*

1. If the supply covered by the invoice includes specified telecommunication services, other services, and goods (e.g., telecom equipment rental), then 14% of the consideration for the supply will be deemed to be attributable to the other services and goods.
2. If the supply covered by the invoice includes specified telecommunication services and other services (but no goods), then 4% of the consideration for the supply will be deemed to be attributable to the other services.
3. If the supply covered by the invoice includes specified telecommunication services and goods (but no other services), then 11% of the consideration for the supply will be deemed to be attributable to the goods.

*For British Columbia:*

If the supply covered by the invoice includes specified telecommunication services **and** other services and/or goods (e.g., telecom rental), then 5% of the consideration for the supply will be deemed attributable to the other services and/or goods.

No election is required to be filed to use these proxies.

#### **Specified meals and entertainment**

Section 236 of the Act requires GST/HST registrants to recapture 50% of the ITCs they claimed on meal and entertainment expenses that are subject to the 50% deductibility under the *Income Tax Act*. This recapture also



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applies to allowances and reimbursements paid by the registrant for these expenses and for which the registrant has claimed input tax credits.

Specified property and services will generally include food and beverages for human consumption (meals) and entertainment that are acquired by a large business in Ontario or British Columbia, to the extent that the meals or entertainment are subject to the existing (generally 50%) ITC recapture requirement in the Act (specified meals and entertainment).

Thus, meals and entertainment subject to the RITC requirement will include:

- business dinners;
- tickets for a theatre, concert, athletic event or other performance;
- private boxes at sports facilities; and
- admissions to nightclubs, athletic, social and sporting clubs.

Conversely, meals and entertainment not subject to the RITC requirement will generally include:

- meals or entertainment acquired solely for the purpose of resupply (e.g., by a restaurant or airline);
- meals or entertainment acquired for certain events where all employees from a particular location are invited (e.g., an office Christmas party); and
- meals or entertainment for an employee in situations where the expenses are required to be included in the employee's income as a taxable benefit under the *Income Tax Act*.

See Example 36.

### **Meal expenses for long-haul truck drivers**

For 2010, meal expenses for long haul truck drivers are deductible under the *Income Tax Act* at 75%, and registrants are required to recapture 25% of the ITC claimed for the tax paid or payable for these meal expenses. After 2010, these percentages will be 80%, and 20%, respectively. Meal expenses for long haul truck drivers will not be specified property and services. Consequently, the provincial part of the HST payable on meal expenses for long haul truck drivers will not be subject to recapture.

### **Special cases**

#### ***Specified property and services brought into Ontario and British Columbia***

If a large business:

- brings a specified property into Ontario or British Columbia from another province or country; or
- acquires a specified service in another province or country,

and the specified property or service is for use in Ontario or British Columbia (in whole or in part) by the large business, then that large business will generally be required to recapture the provincial component of the ITC that would have been available in respect of the specified property or service if the HST were payable in respect of that bringing in or acquisition (i.e., even if the property or service was acquired, or brought into the province, for consumption or use exclusively in commercial activities of the large business).

#### **Example 33**

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A large business purchases an air conditioning unit in Quebec which it plans to install on a specified motor vehicle in Ontario. The acquisition and bringing into Ontario of the air conditioning unit is for exclusive use in the large business's commercial activities in Ontario. Because the air conditioning unit is a specified property, the large business will have to recapture the 8% provincial part of the HST for the ITC that is available, or would be available, if the provincial component of the HST were payable, on the air conditioning unit.

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Expanded self-assessment rules will apply when tangible personal property is brought into a particular participating province from another participating province for which the provincial component of the HST is lower, and when intangible personal property or a service is acquired in a province for consumption, use or supply “significantly” (generally, 10% or more) in participating provinces for which the provincial component of the HST is higher than the provincial component of the HST for the province of acquisition. These proposed rules will be addressed in the GST/HST Technical Information Bulletin soon to be released, entitled *Harmonized Sales Tax – Self-Assessment of the Provincial Component of the HST*.

When a large business brings in tangible personal property that is specified property into Ontario or British Columbia from another participating province, an amount may be required to be recaptured. The amount is determined by the formula

$$A - B$$

where

“A” is the amount that would be such an input tax credit if

- (a) a taxable supply (other than a zero-rated supply) of the tangible personal property were made in the province at that time,
- (b) the consideration for the supply were equal to value, determined under the description of B in subsection 220.05(1) in respect of the tangible personal property at that time,
- (c) the tangible personal property were not an item subject to the point of sale rebate for the provincial part of the HST in the province in which the tangible personal property was brought into, and
- (d) tax in respect of the supply calculated on that consideration were paid by the person at that time; and

“B” is the amount if any, that is an input tax credit that is attributable to the provincial component of the HST under Division IV.1 of Part IX of the Act in respect of that bringing in.

### **Specified members of a qualifying group**

If a large business is a specified member of a qualifying group that has made an election for closely related persons under the Act, and that large business acquires a specified property or service from another specified member of the same qualifying group, the large business will also generally be required to recapture the provincial component of any ITCs that would have been available if the HST were payable in respect of that acquisition (i.e., even if the supply is deemed under the Act to have been made for no consideration).

#### **Example 34**

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Corporations A and B are both large businesses located in British Columbia and are also closely related persons that have made an election under the Act to have certain taxable supplies between them deemed to be made for no consideration. Corporation A sells a qualifying motor vehicle to Corporation B. Corporation B will be required to recapture the provincial component of any ITCs that would have been available if the HST were payable on the fair market value of that motor vehicle (i.e., even though that supply is deemed under the Act to have been made for no consideration.) Insofar as Corporation A purchased the motor vehicle for the sole purpose of re-supplying it to Corporation B, Corporation A will not be subject to the ITC recapture with respect to its original acquisition of the motor vehicle.

### **Non-arm's length transactions**

If a supply of a specified property or service is made for no consideration, or for consideration at less than fair market value, between persons who are not dealing with each other at arm's length for purposes of the Act, the recipient of the supply (if it is a large business) will generally be required to recapture ITCs as if the supply had been made at fair market value (i.e., even if the property or service was acquired, or brought into the province, for consumption or use exclusively in commercial activities of the large business).

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**Example 35**

Corporation X and Corporation Y, both located in Ontario, are not dealing with each other at arm's length. Corporation X sells a qualifying motor vehicle to Corporation Y, a large business, for \$1. Even though Corporation Y plans to use the vehicle exclusively in the course of its commercial activities, it will be required to recapture the ITC on the provincial part of the HST, as if the vehicle had been purchased at fair market value.

***Fuel acquired in or brought into British Columbia for use as specified energy***

If a large business acquires or brings in fuel for use as specified energy in British Columbia, and that fuel was subject to the point of sale rebate in British Columbia, so that only 5% HST was paid or payable on the purchase, the large business will be required to recapture an amount equal to the provincial part of the HST that would have been payable.

***Specified property or services supplied by the operator of a joint venture***

Where an election under section 273 of the Act is in effect for a joint venture, paragraph 273(1)(c) of the Act deems supplies of property or services made by the operator to a co-venturer not to be supplies to the extent that the property or services are for consumption or use in the course of commercial activities for which the joint venture agreement was entered into.

If this property or service supplied to a co-venturer by the operator is a specified property or service, the co-venturer, if a large business, will be required to recapture an input tax credit equal to the provincial component of the HST that would have been payable if the supply of the property or service had not been deemed not to be a supply.

***Allowances and reimbursements***

If a large business pays an allowance or a reimbursement to an employee or a partner in circumstances where ITCs would be available under the Act to the large business in respect of that allowance or reimbursement, the large business will generally be required to recapture the provincial component of those ITCs to the extent that the allowance or reimbursement is attributable to specified property and services.

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**Example 36**

A large business in Ontario reimburses an employee \$113 (HST included) for meal expenses. The \$13 ITC claimed by the large business with respect to this reimbursement is subject to the 50% recapture under section 236 of the Act. ( $\$13 \times 50\% = \$6.50$ ). Since the meals are specified property, the large business will also be required to recapture the remaining \$4 ITC in respect of the provincial portion of the HST on the reimbursement for these meal expenses ( $\$6.50 \times 8/13 = \$4$ ).

If a large business uses the factor method instead of the exact calculation method to compute the eligible input tax credits (ITCs) on reimbursements, these factors are 11/111 for reimbursements for taxable supplies made in British Columbia, and 12/112 for reimbursements for taxable supplies made in Ontario. For any of these reimbursements attributable to specified property or services, factors of 7/12 for British Columbia, and 8/13 for Ontario, may be used to determine the amount of the RITC.

***Deduction from net tax – for qualifying motor vehicles sold or removed from the province***

If, at a particular time, a large business sells a qualifying motor vehicle, or removes it from either the province of Ontario or British Columbia and registers it in another province, and the large business had previously reported an RITC in its net tax calculation for that motor vehicle, the person may deduct from its net tax for the reporting period that includes that time (that is, reduce the amount of RITC to report), an amount determined by the formula

$$A \times (B/C)$$

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where

“A” is the total of all amounts reported as RITCs in respect of the last acquisition or bringing in of the qualifying motor vehicle by the large business

“B” is

- (a) if the large business supplies the qualifying motor vehicle to a recipient that is not dealing at arm’s length with the large business, or if the large business removes the qualifying motor vehicle from the province, the fair market value of the qualifying motor vehicle at that time, and
- (b) in any other case, the consideration for the supply by way of sale of the qualifying motor vehicle; and

“C” is the consideration in respect of that last acquisition, or the value in respect of the last bringing in, of the qualifying motor vehicle by the large business in respect of which the amount determined under the description of A is attributable.

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### Example 37

In 2012, Large Business A (LBA) buys a qualifying motor vehicle for \$40,000 for use exclusively in its commercial activities. It pays \$5,200 in HST and, since the vehicle is a passenger vehicle, claims ITCs of \$3,900 ( $\$30,000 \times 13\%$ ) and reports \$2,400 as an RITC ( $\$30,000 \times 8\%$ ). In June of 2015, LBA sells the vehicle for \$10,000. It would deduct \$800 ( $\$2,400 \times \$10,000/\$30,000$ ) from the amount of RITCs it is required to report at that time.

## Accounting for recaptured ITCs

### *When to account for recaptured ITCs*

A large business will generally be required to account for recaptured ITCs in its GST/HST return for the reporting period in which the ITCs first become available, i.e., in the first reporting period in which the provincial component of the HST to which the ITCs relate becomes payable, or is paid without having become payable.

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### Example 38

A large business in British Columbia is engaged exclusively in commercial activities and is subject to RITCs. In September 2010, the large business pays \$1,200 HST on the purchase of specified property. In its GST/HST return for the reporting period that includes the month of September, it is required to report \$700 ( $\$1,200 \times 7/12$ , the provincial part of the HST) as an RITC.

### Exception

If under the Act, a large business is currently required to recapture ITCs that it claimed in respect of a particular specified property or service in a reporting period other than the reporting period in which the ITCs first become available (i.e., certain meals and entertainment expenses and passenger vehicle lease payments), then the large business will generally be required, under the RITC requirement, to recapture the provincial part of the ITCs in respect of that same specified property or service in that same reporting period, multiplied by the recapture rate(s) applicable to the reporting periods in which the HST became payable on the lease payments. The resulting amount would be the amount recaptured in that reporting period.

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### Example 39

A large business leases a passenger vehicle for \$12,000 per year. The vehicle is a qualifying motor vehicle for use in Ontario. In its GST/HST returns throughout the taxation year, the large business claims \$1,560 HST payable ( $\$12,000 \times 13\%$ ) on the lease payments as ITCs. Under section 235 of the Act, in the first reporting period following that year, the large business is required to recapture the ITCs claimed to the extent that the lease costs exceed the maximum lease costs allowed under the *Income Tax Act*. If the maximum lease cost allowed under that act is \$9,600, then under section 235, the large business will be required to recapture \$312 HST ( $(\$12,000 - \$9,600)/\$12,000 \times \$1,560$ ). In that same reporting period, the registrant would report \$768 ( $(\$1,560 - \$312) \times 8/13$ ), which is the remaining provincial component of the HST that had been claimed as an ITC, multiplied by the recapture rate(s) applicable to the reporting periods in which the HST became payable on the lease payments. The resulting amount will be the amount recaptured in that reporting period.

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Administratively, the CRA allows GST/HST registrants to recapture the ITCs on passenger lease payments under section 235 of the Act and on meals and entertainment expenses under section 236 of the Act in the reporting period in which the tax became payable or was paid on these supplies. Registrants may also report the RITC on these lease payments, or on these meals and entertainment expenses, in that same reporting period.

### **Transitional measure**

If a large business is the recipient of a supply of a specified property or service, and the consideration for the supply first becomes due, or is paid without having become due, after October 14, 2009 and before May 2010, then to the extent that

- the specified property is delivered, and ownership of the property is transferred to the large business, on or after July 1, 2010, or
- part of the specified service (at least 10%) is performed on or after July 1, 2010,

the large business will generally be required to self-assess the provincial component of the HST payable in respect of that property or part of the service either: (i) in the GST/HST return for the reporting period of the large business that includes July 1, 2010, if the due date for that return is before November 2010, or (ii) in any other case, in prescribed form and before November 2010. The large business will then recapture any ITCs available in respect of that provincial component of the HST in the GST/HST return for the reporting period in which any available ITCs first become available.

### **How to account for recaptured ITCs on the GST/HST NETFILE return**

The CRA News Release and Backgrounder of January 4, 2010, entitled *Government of Canada announces new electronic filing requirements for GST/HST registrants*, announced that for reporting periods ending on or after July 1, 2010, GST/HST registrants who are subject to the RITC requirement (large businesses) will be required to calculate and report their ITCs in the GST/HST NETFILE return. GST/HST NETFILE is a free internet-based service that allows persons to file their returns with the CRA on-line.

The GST/HST NETFILE return will be similar to the existing GST/HST paper return, with some additional fields that will, among other things, allow filers to report recaptured ITCs. One of these new fields on the GST/HST NETFILE return will ask whether the filer is required to report recaptured ITCs in the reporting period. If the answer is yes, then a particular schedule to the return, *Schedule B, Calculation of Input Tax Credits* (Schedule B) will automatically be displayed and the filer will be required to complete that schedule in the following manner:

1. The filer will calculate the total amount of ITCs and adjustments claimed in that reporting period, including ITCs subject to recapture, and enter this amount in the field for Gross ITCs and Adjustments (before recapture).
2. The filer will calculate the total amount of ITCs subject to recapture in Ontario (Gross RITCs for Ontario) and, in a separate field, the total amount of ITCs subject to recapture in British Columbia (Gross RITCs for British Columbia).
3. Gross RITCs for Ontario and Gross RITCs for British Columbia will be multiplied by the rate of ITC recapture in effect in each province during the particular reporting period to arrive at Net RITCs for each province.
4. Net RITCs for each province will be added, and this sum will be automatically subtracted from Gross ITCs and Adjustments (before recapture) to arrive at Total ITCs and Adjustments for the purposes of calculating net tax.

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The CRA has recently released a video on filing and paying your GST/HST return electronically. It can be viewed at <http://www.cra-arc.gc.ca/gncy/hrmnztn/wbcsts/wtchwbcsts-eng.html?clp=wc20100326-06-eng>. In addition, information on GST/HST NETFILE is available at <http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/gsthst-tpstch-ntfl/menu-eng.html>.

#### **Example 40**

In its September 2010 reporting period, a large business that is a monthly filer pays \$2,000 in HST in the course of acquiring property, all of which is for use (and not resupply) in its commercial activities in Ontario. Of this amount, \$1,300 is attributable to the acquisition of specified property by the large business (this \$1,300 of HST is made up of a 5% federal portion of \$500 and an 8% provincial portion of \$800). The business does not acquire any specified property or services that are subject to ITC recapture in British Columbia.

In its GST/HST NETFILE return for the September reporting period, the large business indicates that it is required to recapture ITCs, and in Schedule B to the return:

- reports Gross ITCs and Adjustments (before recapture) of \$2,000;
- reports \$800 in the field for Gross RITCs in Ontario (and \$0 in the field for Gross RITCs in British Columbia). This \$800 will be automatically multiplied by the applicable recapture rate in Ontario (which will be 100% in September 2010) to arrive at Net RITCs of \$800; and
- the \$800 amount of Net RITCs is automatically subtracted from Gross ITCs and Adjustments (\$2,000 – \$800 = \$1,200), and the difference is then auto-populated to the field for Total ITCs and Adjustments on Schedule B, and to line 108, Total ITCs and Adjustments of the GST/HST Return.

It is important to note that, other than the ITCs referred to in “Exception” in the section entitled “When to account for recaptured ITCs” and those referred to in “Use of qualifying motor vehicles before resupply” in the section entitled “Qualifying Motor Vehicles”, a large business will be required to recapture the provincial portion of ITCs in respect of the provincial part of the tax paid or payable on specified property and services in the first reporting period in which the ITCs become available. Large businesses cannot simply forego claiming ITCs in order to fulfill the RITC requirement (even if the effect on net tax would be the same). In this way, the RITC requirement differs from the existing restriction on ITRs in Québec. Failing to recapture ITCs as and when required could result in penalties.

#### **Example 41**

Large Business A (LBA), which is a monthly filer, routinely acquires specified property in British Columbia. Rather than claim the ITCs for this property in the GST/HST return for the reporting period in which the ITCs first become available, LBA waits until the end of its fiscal year to claim the ITCs and to recapture the provincial portion of those ITCs. LBA will generally be subject to penalties in this situation because it should have recaptured the provincial portion of the ITCs in the reporting period when the ITCs first became available.

This approach to reporting and accounting for recaptured ITCs is necessary in order to allow administrators to properly allocate GST/HST revenues to HST provinces and to the federal government.

#### **How to adjust GST/HST returns for misreported recaptured ITCs**

If a large business incorrectly reports recaptured ITCs in a particular reporting period, and wishes to correct the error, it should send a letter to its local Tax Centre requesting that its GST/HST return for that period be adjusted to report the correct amount of recaptured ITCs. The Tax Centre will process the adjustment to the applicable reporting period.

#### **Option to use an Estimation/Reconciliation Method for accounting of RITCs**

In order to help simplify compliance with the RITC requirement, a large business may elect to use the Instalment Method (hereafter referred to as the Estimation/Reconciliation Method) to account for recaptured ITCs, using Form RC4531, *Election or Revocation of an Election to Use the Estimation and Reconciliation Method to Report the Recapture of Input Tax Credits*. A large business may file the election with the CRA in the following circumstances.

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- If a GST/HST registrant exceeds the RITC threshold amount at the end of its fiscal year and becomes a large business on the first day of the next recapture period, (July 1), the election is effective on the first day of that recapture period and is to be filed on or before the due date of the GST/HST return for the reporting period that includes that month of July.
  - If a GST/HST registrant that is a large business has been recapturing ITCs using the Actual Method and chooses to use the Estimation/Reconciliation Method, the election is effective the first day of the fourth month following the large business's fiscal year end. The election is to be filed on or before the due date of the GST/HST return for the reporting period that includes that day.

A GST/HST registrant cannot elect to use the Estimation/Reconciliation Method in a fiscal year, if that fiscal year is the registrant's first fiscal year.

An election to use the Estimation/Reconciliation Method remains in effect until revoked and can be revoked effective the first day of an instalment period that begins after the election became effective.

Under the Estimation/Reconciliation Method, for each province that has an RITC requirement, a large business will:

- estimate the amount of ITCs it will be required to recapture during a fiscal year;
- based on this estimate, report an equal amount of recaptured ITCs in each reporting period during the period that begins three months after the beginning of its fiscal year and ends three months after the end of that fiscal year (the Instalment Period); and
- at the end of its fiscal year, determine the actual amount of ITCs it should have recaptured during that fiscal year and reconcile any differences between the actual amount and the amounts reported during the fiscal year.

Under the Estimation/Reconciliation Method, a large business will still have to identify the specified property and services that it acquires or brings into a province in such a way that it could determine the actual amount of available ITCs that are subject to the RITC requirement in each province with such a requirement. However, this method will allow the large business to account for these recaptured ITCs on a fiscal year basis and on the basis of aggregate financial information.

Large businesses will still be able to use any proxies otherwise available to them when using the Estimation/Reconciliation Method (e.g. the proxy for specified energy used directly in the production of tangible personal property for sale).

### **Step 1: Estimation**

At the beginning of a fiscal year, a large business that has filed the election with the CRA will make a reasonable estimate of the amount of ITCs that it will be required to recapture, for each province with an RITC requirement, during that fiscal year. This estimate of recaptured ITCs (Estimated RITCs) will be based on:

- ITCs that it would have been required to recapture during its most recently completed fiscal year if the RITC requirement had been in place throughout that year, and
- any additional ITCs that it would be required to recapture in its current fiscal year because of anticipated changes in circumstances (i.e., in comparison to the previous fiscal year).

A large business will not be allowed to use an Estimated RITC amount that was less than the actual amount of ITCs that the large business was (or would have been) required to recapture in the previous fiscal year. However, it could use a greater amount.

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**Example 42**

Large Business A (LBA) has monthly reporting periods and a December 31 fiscal year end. It elects to use the Estimation/Reconciliation Method. Before July 1, 2010, LBA reviews its financial records and determines that ITCs subject to recapture for Ontario in its 2009 fiscal year would have been \$6,000 if the RITC requirement had been in effect during that fiscal year.

**Step 2: Reporting Estimated RITC amounts**

A large business using the Estimation/Reconciliation Method will generally be required to report its Estimated RITC amount, for each province with an RITC requirement, over the course of the period that begins three months after the beginning of its fiscal year and ends three months after the end of that fiscal year (the Instalment Period).

The Estimation/Reconciliation Method is a simplification measure to ease the administrative burden of recapturing input tax credits for large businesses with substantial acquisitions of specified property and services. As a simplification measure, all specified property and services will be considered to be acquired evenly throughout a fiscal year. Therefore, to determine the amount of recaptured ITCs that must be reported in each reporting period during the Instalment Period, a large business will generally divide the relevant Estimated RITC amount by the number of GST/HST reporting periods in the Instalment Period (e.g., a monthly filer will generally divide the amount by 12). The equal amounts should be included in Schedule B to the GST/HST NETFILE return of the large business as Gross RITCs for each reporting period in the particular Instalment Period.

For 2010, the Instalment Period will generally be a 12 month period to calculate the monthly RITC amounts. However, the recapture period does not begin until July 1, 2010, so a large business will only begin reporting this monthly amount in the first reporting period that includes July 1, 2010.

**Example 43**

LBA, from example 42, has a December 31 fiscal year end. Its Instalment Period will run for the 12 monthly reporting periods from April to March each year. However, since the recapture period for 2010 begins July 1, 2010, LBA will only be required to report RITCs beginning in the reporting period that includes July 1, 2010.

LBA will report \$500 (\$6,000/12 reporting periods) as its estimated amount of Gross RITCs (ITCs subject to recapture) in each of its nine monthly reporting periods from July 1, 2010 to March 31, 2011, in the Instalment Period.

**Step 3: Reconciliation**

After the end of its fiscal year, a large business using the Estimation/Reconciliation Method will review its financial records and determine the actual amount of ITCs it would have been required to recapture, for each province with an RITC requirement, during that year. These amounts will represent the Actual RITCs for each of those provinces during that fiscal year.

The reconciliation will be completed in a reporting period of the large business that occurs within three months of the end of the fiscal year. For example, if a fiscal year ends on December 31 of a particular calendar year, the reconciliation should take place in a reporting period that includes a date before April 1 of the next calendar year.

However, to simplify administration, for RITC amounts reported in 2010, no reconciliation can take place before April 2011. If a large business has a fiscal year that ends after the implementation of the HST in July 2010 and before January 2011, it will be required to perform any relevant reconciliation in the reporting period that includes April 1, 2011. Similarly, if a large business has a fiscal year that ends after December 31, 2010, it will be required to perform any relevant reconciliation in a reporting period that includes a date that is on or after April 1, 2011, and is within three months of the end of its fiscal year.



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### **Schedule C – Reconciliation of Recaptured Input Tax Credits (RITCs)**

The GST/HST NETFILE return will be amended to include a question asking if a RITC reconciliation is being made for that reporting period. If the answer is yes, the registrant will be prompted to complete the reconciliation schedule. The large business will report the actual amount of input tax credits that should have been recaptured in the fiscal year. This amount will then be compared to the Gross RITCs amount reported to date in the Schedule B of the GST/HST returns for the same fiscal year using the Estimation/Reconciliation Method. The large business will report any differences between these two amounts in *Schedule C – Reconciliation of Recaptured Input Tax Credits (RITCs)* (Schedule C) of the GST/HST NETFILE return.

On Schedule C, the large business will also report the differences between the Actual Net RITCs that should have been reported, and the Net RITCs that were reported in the GST/HST returns for that fiscal year. The difference between these Net RITC amounts will be automatically recorded in a new field of the GST/HST NETFILE return. Until June 30, 2015, Net RITCs will be 100% of Gross RITCs. For Recapture Periods beginning July 1, 2015, and until June 30, 2018, Net RITCs will be a percentage of Gross RITCs.

#### **Example 44**

In March 2011, LBA (from examples 42 and 43) determines that, for its fiscal year ending December 31, 2010, its Actual RITCs from July 1, 2010 to December 31, 2010 are \$3,200 and the Actual Net RITCs that should have been reported were \$3,200 ( $\$3,200 \times 100\%$  recapture rate). For the fiscal year ending December 31, 2010, LBA reported Net RITCs of \$3,000. Therefore, LBA reports the Actual Net RITCs of \$3,200 and the Net RITCs reported of \$3,000 as well as the additional \$200 of Net RITCs in its reconciliation schedule. The \$200 difference in additional Net RITCs reported in the reconciliation schedule will be auto populated to the GST/HST NETFILE return as an addition to net tax.

Generally, LBA will report this additional \$200 in the reconciliation schedule to its GST/HST NETFILE return in a reporting period that occurs within three months of the end of the fiscal year. However, to simplify administration, no reconciliation can take place before April 2011. LBA will report the additional \$200 in the reconciliation schedule to its GST/HST NETFILE return for the April 2011 reporting period.

#### **Estimating RITCs where the RITC requirement has been in effect less than one year**

When using an amount of actual RITCs from a previous fiscal year as a basis for estimated RITCs for a current fiscal year, if in that previous fiscal year the RITC requirement was only in effect for part of that year, or the registrant becomes a large business for only part of that year, the large business will need to adjust that amount to reflect what its RITCs would be for the full fiscal year.

#### **Example 45 – continued with LBA**

In March 2011, LBA, from the previous example, had determined its Actual RITCs would have been \$6,400 if the RITC requirement had been in effect for the full fiscal year. LBA also determines that an additional \$2,000 of recaptured ITCs is expected in its fiscal year 2011 as a result of the anticipated acquisition of a new qualifying motor vehicle for use in the province.

Therefore, LBA's estimated RITCs for its fiscal year 2011 will be \$8,400 ( $\$6,400 + \$2,000$ ).

LBA will divide this estimated RITC amount by the 12 monthly reporting periods that occur in the Instalment Period starting April 1, 2011 and ending March 31, 2012.

LBA will report an amount of \$700 ( $\$8,400/12$ ) in the Gross RITC field for the province in Schedule B of the GST/HST NETFILE return for each monthly reporting period that occurs in the Instalment Period from April 2011 through March 2012.

#### **Reconciliation for the 2011 fiscal year, estimation, and reporting RITC amounts for the 2012 fiscal year**

#### **Example 46 – continued with LBA**

In March 2012, LBA determines that, for its fiscal year ending December 31, 2011, its Actual RITCs were \$9,000, and that its reported Gross RITCs (and Net RITCs) for that fiscal year were \$7,800 ( $\{(\$500 \times 3 \text{ months [Jan. to Mar. 2011])} + (\$700 \times 9 \text{ months [Apr. to Dec. 2011])\}$ ). LBA will report the Actual Net RITCs of \$9,000 and the reported Net RITCs of \$7,800 and the \$1,200 difference in Schedule C of its GST/HST return for the March 2012 reporting period (i.e., in addition to the \$700 Gross RITC amount reported in Schedule B for that reporting period).

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LBA does not anticipate any material differences in its acquisition of specified property or services in its 2012 fiscal as compared to its 2011 fiscal year. Therefore, LBA will also use the \$9,000 amount of Actual RITCs for the 2011 fiscal year as its Estimated RITC amount for its 2012 fiscal year. LBA reports \$750 of Gross RITCs in each monthly reporting period contained in the Instalment Period from April 1, 2012 to March 31, 2013 (i.e., \$9,000/12 reporting periods within the Instalment Period).

### **Estimation/Reconciliation Method – 2015 fiscal year**

#### **Example 47 – continued with LBA**

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In March 2015, based on its acquisition of specified property and services for its fiscal year ending December 31, 2014, LBA determines that its Actual RITCs for that fiscal year were \$12,000. Since it does not anticipate any material differences in its acquisitions for its 2015 fiscal year, LBA will also use the Actual RITC amount of \$12,000 for the 2014 fiscal year as its Gross Estimated RITCs for the Instalment period beginning in 2015. LBA therefore reports \$1,000 of Gross RITCs in each monthly reporting period contained in the Instalment Period from April 1, 2015 to March 31, 2016 (i.e., \$12,000/12 reporting periods within the Instalment Period). (Assume that for the monthly reporting periods of January to March 2015, LBA is reporting Gross RITCs of \$900 from the Instalment Period of April 1, 2014 to March 31, 2015, based on Actual RITCs of \$10,800 for the 2013 fiscal year.)

However, beginning in July 2015, the recapture rate for the Recapture Period, July 1, 2015 to June 30, 2016, will be 75%, instead of 100%. From July 1, 2015, the amounts recorded in the Gross RITCs line of Schedule B will be multiplied by the RITC rate of 75%, so that the Net RITCs for each reporting period in the Instalment Period from that date will be \$750 ( $\$1,000 \times 75\%$ ).

In Schedule B of its GST/HST NETFILE returns for the fiscal year ending December 31, 2015, LBA will report: Gross RITCs of \$11,700  $\{(\$900 \times 3 \text{ reporting periods [Jan. to March 2015]} + (\$1,000 \times 9 \text{ reporting periods [April to Dec. 2015]})\}$  and Net RITCs of \$10,200  $\{(\$900 \times 100\% \times 3 \text{ reporting periods [Jan. to March 2015]} + (\$1,000 \times 100\% \times 3 \text{ reporting periods [April to June 2015]} + (\$1,000 \times 75\% \times 6 \text{ reporting periods [July 2015 to Dec. 2015]})\}$ .

In March 2016, LBA reviews its 2015 fiscal year, and determines that its Actual RITCs for that fiscal year were \$15,000. However, since the recapture rate changed to 75% on July 1, 2015, LBA determines that its Net RITCs are \$13,125 for its 2015 fiscal year  $\{(\$1,250 \times 100\% \times 6 \text{ reporting periods [Jan. to June 2015]} + (\$1,250 \times 75\% \times 6 \text{ reporting periods [July to Dec. 2015]})\}$ .

LBA reports the Actual Net RITCs of \$13,125 and the Net RITCs reported of \$10,200 and the \$2,925 ( $\$13,125 - \$10,200$ ) difference in the Reconciliation Schedule for the March 2016 reporting period. The \$2,925 difference in Net RITCs will be transferred to a field on the GST/HST return as an addition to net tax.

### **2016 fiscal year**

#### **Example 48 – continued with LBA**

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LBA will use the \$15,000 amount of input tax credits subject to recapture from its 2015 fiscal year to estimate its Gross RITCs for the Instalment Period of April 1, 2016 to March 31, 2017. In July 2016, the RITC recapture rate for that Recapture Period ending June 30, 2017 will be reduced to 50% from 75%.

In Schedule B to its GST/HST NETFILE returns for the fiscal year ending December 31, 2016, LBA will report Gross RITCs of \$14,250  $\{(\$1,000 \times 3 \text{ reporting periods [Jan. to Mar. 2016]} + (\$1,250 \times 9 \text{ reporting periods [Apr. to Dec. 2016]})\}$  and Net RITCs of \$8,813  $\{(\$1,000 \times 75\% \times 3 \text{ reporting periods [Jan. to Mar. 2016]} + (\$1,250 \times 75\% \times 3 \text{ reporting periods [Apr. to June 2016]} + (\$1,250 \times 50\% \times 6 \text{ reporting periods [July to Dec. 2016]})\}$ .

In March 2017, LBA reviews its December 31, 2016 fiscal year, and determines that its Actual input tax credits subject to recapture for that fiscal year were \$16,500, or \$1,375 per month ( $\$16,500/12$ ). However, since the recapture rate changed to 50% on July 1, 2016, LBA determines that its Net RITCs should have been \$10,313 for its 2016 fiscal year  $\{(\$1,375 \times 75\% \times 6 \text{ reporting periods [Jan. to June 2016]} + (\$1,375 \times 50\% \times 6 \text{ reporting periods [July to Dec. 2016]})\}$ .

In the Reconciliation Schedule for the March 2017 reporting period, LBA reports the \$10,313 of Actual Net RITCs for the 2016 fiscal year, the \$8,813 of Reported Net RITCs for that year, and the \$1,500 difference ( $\$10,313 - \$8,813$ ) in Net RITCs. The \$1,500 difference in Net RITCs will be transferred to a field on the GST/HST return as an addition to net tax.

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## The last recapture period ending June 30, 2018

### Example 49 – continued with LBA

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In March 2018, LBA reviewed its financial records and determined that its Actual RITCs for its fiscal year ending December 31, 2017 were \$18,000. Since it does not anticipate any major change in business activity, it uses \$18,000 as its base for its Estimated RITCs for the 2018 fiscal year, and will report \$1,500 ( $\$18,000/12$  months) as Gross RITCs for each reporting period beginning April 2018. (For each of the January to March 2018 reporting periods, LBA has continued to report Gross RITCs of \$1,375 from the Instalment Period of April 2017 to March 2018.) Since the requirement to report RITCs ends June 30, 2018, LBA reports \$8,625 of Gross RITCs for Ontario in the six reporting periods ending June 30  $\{(\$1,375 \times 3$  reporting periods [Jan. to March 2018]) +  $(\$1,500 \times 3$  reporting periods [April to June 2018]) $\}$  and Net RITCs of \$2,156  $\{(\$1,375 \times 25\% \times 3$  reporting periods [Jan. to March 2018]) +  $(\$1,500 \times 25\% \times 3$  reporting periods [April to June 2018]) $\}$ .

In March 2019, LBA determines that its Actual RITCs for the December 31, 2018 fiscal year end would have been \$18,000 if the RITC recapture requirements had been in effect all year. It calculates its Actual RITCs that it will be required to recapture as \$9,000 ( $\$18,000/12 \times 6$  months) since the recapture period ended June 30, 2018. Its Net RITCs for that fiscal year will be \$2,250 ( $\$9,000 \times 25\%$  [Jan. to June 2018]). In its reconciliation schedule of its GST/HST NETFILE return for the March 2019 reporting period, LBA will report the \$2,250 Actual Net RITCs for the 2018 fiscal year, the \$2,156 Net RITCs that were reported in that fiscal year, and the \$94 difference in the Net RITCs ( $\$2,250 - \$2,156$ ). The \$94 difference in Net RITCs will be transferred to a field on the GST/HST return as an addition to net tax.

### **Estimation/Reconciliation Method – special cases**

#### **Large business at the time of GST/HST registration**

If a person is a large business at the time it registers for GST/HST (for example, because the RITC thresholds of its associated persons are over \$10 million), the large business cannot elect to use the Estimation/Reconciliation Method for reporting its RITCs, if this is the large business's first fiscal year. However, it may elect to use the Estimation/Reconciliation Method for reporting its RITCs in its GST/HST returns in its first Instalment Period in its next fiscal year. The large business would estimate its RITCs based on its current fiscal year.

#### **Example 50**

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A corporation begins business on June 1, 2012, and registers for GST/HST at that time. Due to the RITC threshold of its associates, the corporation is a large business at the time of registration. However, since this is the corporation's first fiscal year, the corporation may file the election to use the Estimation/Reconciliation Method to determine its RITCs in its next fiscal year, beginning April 1, 2013, the beginning of the next Instalment Period. It will estimate its RITCs for that Instalment Period based on the Actual RITCs for its fiscal year ending December 31, 2012, adjusted to reflect a full fiscal year.

#### **Estimated RITCs based on a prior short fiscal year**

Where a large business's Estimated RITCs are based on a prior fiscal year that is shorter than one year, the large business will need to prorate the RITCs from the prior fiscal year to reflect a one year period.

#### **Example 51**

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From the previous example, the corporation's fiscal year ending December 31, 2012, is seven months long. Its Actual RITCs for that year are \$7,000. To estimate its RITCs for the Instalment Period of April 1, 2013 to March 31, 2014, it prorates this amount and anticipates that its RITCs are \$12,000 for that Instalment Period. Therefore it will report \$1,000 as Gross RITCs in each reporting period of its Instalment Period of April 2013 to March 2014.

#### **When a large business ceases to be registered for GST/HST purposes**

If a large business ceases to be registered for GST/HST purposes (for example, the legal entity no longer exists because it is wound up or it amalgamates with another corporation) then its Instalment Period will also end on that date. It will be required to reconcile its RITCs in its GST/HST NETFILE return for its last reporting period that it is registered for GST/HST.

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**Example 52**

On September 15, 2012, a large business, that has elected to use the Estimation/Reconciliation Method for accounting for RITCs, is wound up into its parent company. The large business has a December 31 fiscal year end, and therefore its Instalment Period normally runs from April to March each year. However, since it ceases to exist as of September 15, 2012, its Instalment Period will end that date.

The large business will need to complete its reconciliation schedule by the due date of its GST/HST NETFILE return for its last reporting period that it is registered for GST/HST.

### **Enquiries by telephone**

**Technical enquiries on the GST/HST:** 1-800-959-8287

**General enquiries on the GST/HST:** 1-800-959-5525 (Business Enquiries)

**If you are located in Quebec:** 1-800-567-4692 (Revenu Québec)

All technical publications related to the GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthsstech](http://www.cra.gc.ca/gsthsstech).