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REVENUE TAX

GUIDE

RTG: 194

February 2013

Winding Down the Prince Edward Island Revenue Tax

INTRODUCTION

On April 18, 2012, Prince Edward Island (PEI) announced its plans to implement a harmonized sales tax (HST) effective April 1, 2013. The HST will be implemented at a rate of 14% - combining the existing 5% federal goods and services tax (GST) with a 9% PEI component.

This Guide provides information on the application of revenue tax (PST) during the period of transition from GST/PST to the HST.

The general transitional rules contained in this Guide should be read in conjunction with the HST transitional rules contained in RTG:185 Implementation of the Harmonized Sales Tax in Prince Edward Island.

Taken together, the HST and PST transitional rules are complementary and provide for a smooth transition to the HST.

WINDING DOWN THE PST

General Rules

On April 1, 2013, the existing PEI PST will generally cease to apply to:

- a supply of goods where the goods are delivered, and ownership of the goods is transferred, to the purchaser on or after April 1, 2013;
- a supply of services to the extent the services are performed on or after April 1, 2013 (however, the PST will apply where all or substantially all of the service is provided before April 1, 2013);
- a supply of property (including short-term accommodation) by way of lease, license or similar arrangement for the part of the lease or license interval that is on or after April 1, 2013 (however, the PST will apply if the lease interval begins before April 1, 2013 and ends before May 1, 2013);
- a sale of property or a service delivered or performed on a continuous basis by means of a wire, pipeline or similar conduit or satellite or other telecommunications facility to the extent the property or service is delivered, performed or made available on or after April 1, 2013;

- goods brought into PEI or imported by a resident of PEI on or after April 1, 2013; and
- a sale (including promotional distribution) of an admission, including any ticket sold on a subscription or season ticket basis, for entry to a place of amusement on or after April 1, 2013.

Consideration due or paid on or before November 8, 2012

Notwithstanding the general PST wind down rules, the *Revenue Tax Act* and Regulations (Act) will apply where consideration for a sale of goods, services or admissions becomes due or is paid on or before November 8, 2012.

Example 1: *In September 2012, a vendor sells tickets to a circus show to be held in April 2013. The PST will apply to the price of admission.*

Consideration due or paid after November 8, 2012 and before February 1, 2013

Notwithstanding the general PST wind down rules, the Act will apply where consideration for a sale of goods, services or admissions becomes due or is paid after November 8, 2012 and before February 1, 2013.

However, this exception to the PST wind down rules will not apply with respect to goods, services or admissions purchased for use exclusively in the course of commercial activities. It also will not apply with respect to goods, services or admissions for which the self-assessment rules in respect of consideration due or paid after November 8, 2012 and before February 1, 2013 apply (as described on page 5 of RGT:185, in the HST section of that Guide). If an amount is paid in error as PST in these situations, the purchaser will be able to file a general application for refund with the Department of Finance, Energy and Municipal Affairs, subject to the refund conditions under the Act.

Consideration due or paid on or after February 1, 2013 and before April 1, 2013

Where consideration becomes due or is paid on or after February 1, 2013 and before April 1, 2013, the general PST wind down rules will apply as set out above.

Example 2: *In March 2013, a vendor sells tickets to a rock concert to be held in August 2013. The PST will not apply to the price of admission.*

PST payable on or before July 31, 2013

To facilitate the wind down of the Act, this transitional rule provides that any applicable PST not otherwise payable on or before July 31, 2013 will become payable on July 31, 2013.

Example 3: *A business gets vehicle repair work done in March 2013. The business does not pay for the repair work and does not receive an invoice until July 2013. The PST will become payable on July 31, 2013. The vendor will be required to account for the PST in a supplemental PST return for July 31, 2013, which will be due on or before August 20, 2013.*

Disclosure Requirements for Tax-Included Pricing in Transitional Period

This transitional rule is intended to help provide certainty and clarity to both vendors and purchasers with respect to the application of the PST for tax-included sales during the transitional period.

Where PST-included pricing is used for the sale of goods, a taxable service or an admission, the consideration for which becomes due or is paid after November 8, 2012 and before February 1, 2013, and where the seller does not disclose in writing to the purchaser the amount, if any, included as or on account of PST in the stated price, the stated price will be deemed to include PST if the PST would have applied to the sale notwithstanding any other transitional rule that may apply.

Example 4: *In January 2013, a vendor sells tickets to a rock concert that will occur in June 2013. Tickets are sold on a tax-included basis without disclosing the amount of PST included. The ticket price will be deemed to include PST.*

Final PST Returns

Final PST vendor returns will generally be required to be filed with the Department of Finance, Energy and Municipal Affairs on or before April 20, 2013.

Where an amount is collected or becomes payable as or on account of PST after March 2013, the vendor will be required to account for that amount in a supplemental PST vendor return to be filed on or before the 20th day of the following month.

Example 5: *A person obtains a wheel alignment service from a mechanic in March 2013, but does not pay for the service and does not receive an invoice for the service until May 2013. The mechanic will be required to account for the PST in a supplemental PST return for May 2013, to be filed on or before June 20, 2013.*

All supplemental PST returns are required to be filed no later than August 20, 2013.

PST Refunds and Rebates

Generally, refunds and rebates of PST will continue to be available until the existing legislated time limits for claiming them have expired or March 31, 2017, whichever is earlier. An exception is provided for refunds for returned goods see section on Returns and Exchanges below.

Please be advised that after March 31, 2015 the Department will have reduced capacity to process PST refunds. Depending on the volume of PST refund requests received after this date, taxpayers may experience significant delays in having their refund requests processed.

Assessments, Objections, Appeals and Enforcement

Assessment, objection, appeal and enforcement provisions under the Act and the *Revenue Administration Act* and Regulations will generally apply to past transactions where the applicable limitation periods have not expired.

Destruction of Records

Vendors must obtain the written permission of the Provincial Tax Commissioner before any records can be destroyed.

Businesses will continue to be subject to PST audits for a period of 60 months following March 31, 2013.

Transitional PST Inventory Rebate for Residential Real Property Contracts

Please see RTG: 189 Transitional PST Inventory Rebate for more information.

Returns and Exchanges

The following rules will generally apply where a person purchases property before April 1, 2013 that is subject to PST, but returns it on or after April 1, 2013 and before August 1, 2013:

- if the property is returned and a full refund is given, the PST will be refunded;
- if an exchange is made resulting in neither a refund nor an additional payment, there will be no PST refund and the PEI component of the HST will not be payable;
- if an exchange is made resulting in a partial refund, the PEI component of the HST will generally not be payable on the replacement property and the purchaser will be entitled to recover the PST applicable to the amount refunded; and
- if an exchange is made resulting in an additional payment, no PST will apply but the HST will apply to the additional payment.

Example 6: *In April 2013, a person returns a slow cooker that was purchased in March 2013 for \$140. The vendor exchanges the returned slow cooker for another slow cooker that costs \$160. In this situation, the vendor will collect the 14% HST on \$20.*

If the PST did not apply to property that was purchased before April 1, 2013, and it is exchanged on or after April 1, 2013, the 14% HST will apply to the full consideration for the replacement property. The purchaser may be eligible for a refund of the GST paid on the original purchase.

Example 7: *In March 2013, a person purchases a PST-exempt suit for \$500. In April 2013, that person exchanges the suit for another suit that costs \$600. In this situation, the vendor will collect the 14% HST on the full value (i.e., \$600) of the new suit.*

If property is returned on or after August 1, 2013, no PST adjustments will be available at the point of sale. However, the purchaser may make an application for a refund of PST for tax paid in error. Purchasers will be able to file the application for refund with the Department of Finance, Energy and Municipal Affairs.

Further Information:

The Harmonized Sales Tax (HST) is administered by the Canada Revenue Agency (CRA). If you have specific questions on how the HST applies to your business or whether a good or service is taxable, visit the CRA website at www.cra.gc.ca/gsthst or call **1-800-959-5525** for more information.

Copies of the *Revenue Tax Act* and Regulations are available on our website. For information regarding the winding down of the revenue tax (PST), please contact:

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