



Ontario and British Columbia: Transition to the Harmonized Sales Tax – Returns and Exchanges

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

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

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

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

- the 2009 Ontario Budget and in the Information Notice No. 3, *General Transitional Rules for Ontario HST* released by the Government of Ontario on October 14, 2009; and
- the News Release issued by the Government of British Columbia on July 23, 2009 and the Tax Information Notice – HST Notice #1, *General Transitional Rules for British Columbia HST* released by the Government of British Columbia on October 14, 2009.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet explains how the goods and services tax (GST) and the HST applies to returns and exchanges of goods during a period that includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia.

This info sheet does not provide information on refunds and credits of a provincial sales tax (PST), which are governed by provincial laws. PST means the provincial sales tax in British Columbia and the retail sales tax in Ontario that will be replaced with the HST on July 1, 2010. Refer to the appropriate provincial authority for more information on PST refunds and credits.

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

Returns of goods

A return of a good usually takes place when a purchaser returns a good to the supplier and gets a refund or a credit for the amount paid. Refunds and credits vary depending on the initial transaction. Cash and Interac purchases are usually credited with cash or Interac while credit card purchases are refunded through an adjustment to the credit card. Suppliers may also accept a return of a good but restrict the refund to a credit note that may be used by the purchaser to purchase another good.

Note: The transitional rules for returns of goods do not apply when the supplier records the return as a purchase in its books and records. In that case, the general transitional rules for goods apply. For more information, refer to Info Sheet GI-070, *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods*.

When a customer purchases a good before July 2010 and returns it to the supplier on or after July 1, 2010, the customer may be entitled to a tax refund or credit according to the general GST/HST rules. The supplier may refund or credit the amount of tax if the amount was charged and collected. The supplier is then required to issue a credit note unless the customer first issues a debit note to the supplier. For more information, refer to GST/HST Memorandum 12.2, *Refund, Adjustment, or Credit of the GST/HST Under Section 232 of the Excise Tax Act*.

La version française du présent document est intitulée *Transition à la taxe de vente harmonisée de l'Ontario et de la Colombie-Britannique :– Produits retournés ou échangés*.



Example 1

A customer purchases an item on June 2, 2010, and pays the GST and the PST. The customer returns it to the supplier on July 10, 2010. If the supplier issues a credit note or if the customer issues a debit note, the customer is entitled to a refund of the amount paid for the item and the GST.

Exchanges of goods

The exchange of a good usually takes place when a purchaser exchanges a good for a similar good of the supplier. This is usually the case when the supplier only allows exchanges and does not allow for returns. The exchange of goods generally does not require accounting entries other than for inventory control purposes.

Note: The transitional rules for exchanged goods do not apply when the supplier records the exchange as a purchase and sale in its books and records. In that case, the general transitional rules for goods apply. For more information, refer to Info Sheet GI-070, *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods*.

When the original good is subject to PST

The following rules apply when a good, subject to PST, is purchased before July 2010 and exchanged for a similar good on or after July 1, 2010 but before November 2010.

If the price of the new good is higher than the amount paid for the original good, HST applies to the difference.

Example 2

On June 2, 2010, a customer purchases an item for \$100 and pays the applicable GST and PST. On July 2, 2010, the customer exchanges it for a similar item that costs \$120.

Since the price of the new good is higher than the amount paid for the original good, HST applies to the \$20 difference.

If the price of the new good is less than the amount paid for the original good, HST does not apply and, according to the normal GST/HST rules, the purchaser may be entitled to a GST refund for the difference between the GST paid on the original good and the GST payable on the new good. For more information, refer to GST/HST Memorandum 12.2, *Refund, Adjustment, or Credit of the GST/HST Under Section 232 of the Excise Tax Act*.

If the price of the new good is equal to the amount paid for the original good, HST does not apply and there are no GST implications.

Example 3

On June 2, 2010, a customer purchases an item for \$100 and pays the applicable GST and PST. On July 2, 2010, the customer exchanges it for a similar item that also costs \$100.

Since the price of the new good is equal to the amount paid for the original good, there is no tax implication. Therefore, HST does not apply.

When the original good is not subject to PST

The following rule applies when a good, not subject to PST, is purchased before July 2010 and exchanged for a similar good on or after July 1, 2010. The provincial part of the HST applies to the full price of the new good.

Example 4

On June 2, 2010, a customer purchases an item for \$100. The item is subject to GST but is not subject to PST. On July 2, 2010, the customer exchanges it for a similar item that also costs \$100.

Because the original good is not subject to PST, the provincial part of the HST applies on the full price of the new good for which the original good was exchanged.

When an exchange occurs on or after November 1, 2010

HST applies to the full price of a good that is provided in exchange for an original good if the exchange occurs on or after November 1, 2010. HST applies even if the original good was subject to PST or if the price of the new good is equal to the amount paid for the original good. According to the general GST/HST rules, the purchaser may be entitled to a refund for the GST paid on the original good. For more information, refer to GST/HST Memorandum 12.2, *Refund, Adjustment, or Credit of the GST/HST Under Section 232 of the Excise Tax Act*.

Example 5

On June 2, 2010, a customer purchases an item for \$100 and pays the applicable GST and PST. On November 2, 2010, the customer exchanges it for a similar item that also costs \$100.

Because the exchange occurs on or after November 1, 2010, HST applies to the full price of \$100 for the similar new good. However, the customer may be entitled to a refund of the GST paid on the original good.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. You may also visit their Web site at www.revenu.gouv.qc.ca to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthstech.