GST/HST Info Sheet

GI-140 February 2013

Prince Edward Island: Transition to the Harmonized Sales Tax – Freight Transportation Services

The Government of Prince Edward Island has proposed a harmonized sales tax (HST) that would come into effect on April 1, 2013.

The HST rate in Prince Edward Island would be 14% of which 5% would represent the federal part and 9% the provincial part.

This info sheet reflects proposed tax changes announced in *the Prince Edward Island 2012 Budget* and *Revenue Tax Guide RTG185, Implementation of the Harmonized Sales Tax in Prince Edward Island.*

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

This info sheet explains whether the goods and services tax (GST) or the HST would apply to taxable supplies of freight transportation services made in Prince Edward Island where the services are performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

For more information on determining whether a supply is made in Prince Edward Island, refer to Draft GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

Meaning of significant terms used in this info sheet

Before explaining the rules that determine whether GST or HST would apply to freight transportation services, it is important to understand the meaning of significant terms used in this info sheet.

"Carrier" means a person who supplies freight transportation services, whether that person actually performs the services or not. A person only has to accept responsibility as the supplier of the freight transportation service to be considered the carrier.

"Continuous freight movement" means the transportation of goods by one or more carriers to a destination specified by the shipper of the goods, where all the freight transportation services are supplied as a result of instructions given by the shipper of the goods.

"Destination" means the place the shipper specifies (usually on the bill of lading) where a carrier transfers the goods to the person to whom the shipper had consigned or addressed the goods.

"Freight transportation service" means the service of transporting goods and includes mail delivery. It also includes property or services that are incidental to, or part of, a freight transportation service. It does not include transporting a person's baggage in connection with a passenger transportation service.

"Shipper" means the person who transfers possession of the goods being shipped to a carrier at the start of a continuous freight movement. A person cannot be both a shipper and a carrier for the same shipment. In that case, the person is a shipper only, even if the person transports the goods it is shipping.

For detailed information on freight transportation services, refer to Booklet RC4080, *GST/HST Information for Freight Carriers*.

Introduction

Depending on the circumstances, some freight transportation services may be subject to the 5% GST or the proposed 14% HST, whereas other freight transportation services may be zero-rated. In the latter case, neither the GST nor the proposed HST is

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charged to the purchaser. If a freight transportation service is zero-rated under the GST, it continues to be zero-rated under the proposed HST. "Zero-rated" means subject to the GST/HST at 0%.

The rules in this info sheet apply only when a freight transportation service is not zero-rated.

To determine whether GST or HST would apply to a freight transportation service performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island, suppliers would have to consider:

- whether the freight transportation service is in respect of a continuous freight movement;
- when the shipper transfers possession of the goods being shipped to the first carrier engaged in the continuous freight movement;
- when an amount payable for the service becomes due; and
- whether an amount is paid without having become due.

Refer to Appendix A for a flowchart that illustrates the general transitional rules that would apply for freight transportation services performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

Refer to Appendix B for information on when an amount becomes due and when an amount is paid without having become due.

Note: This info sheet uses examples to illustrate the application of the HST transitional rules for supplies of freight transportation services. Unless otherwise indicated, in the examples:

- all suppliers are GST/HST registrants;
- all supplies are taxable supplies made in Prince Edward Island; and
- no amount is paid without having become due.

In this info sheet, "taxable" means subject to the 5% GST or to the proposed 14% HST.

Continuous freight movement begins before April 2013

Regardless of when the amount for a freight transportation service becomes due or is paid without having become due, GST would apply to a freight transportation service in respect of a continuous freight movement if, before April 2013, the shipper transfers possession of the goods being shipped to the first carrier engaged in the continuous freight movement.

The carrier that invoices the purchaser of the freight transportation service (either the shipper or the person to whom the goods are to be delivered) would account for the tax in its GST/HST return according to the normal rules.

Any freight transportation services provided by other carriers as part of a continuous freight movement may be zero-rated under the interlining rules. For more information, refer to Booklet RC4080, *GST/HST Information for Freight Carriers*.

Example 1

A manufacturer in Manitoba hires a carrier to transport goods from the manufacturer's plant in Manitoba to a destination in Prince Edward Island. The manufacturer transfers possession of the goods to the carrier on March 31, 2013. The carrier issues the invoice to the manufacturer on April 2, 2013.

GST would apply to the freight transportation service because the service is in respect of a continuous freight movement and, before April 2013, the manufacturer transfer possession of the goods being shipped to the first carrier engaged in the continuous freight movement. The carrier would account for the tax in its GST/HST return for the reporting period that includes April 2, 2013.

Example 2

On March 26, 2013, a shipper transfers possession of goods to the first carrier of a continuous freight movement that begins in Alberta. On April 2, 2013, the goods are transferred to a second carrier for transport to a destination in Prince Edward Island. The first carrier issues the invoice to the shipper on April 5, 2013.

GST would apply to the freight transportation service because the service is in respect of a continuous freight movement, and before April 2013, the shipper transferred possession of the goods being shipped to the first carrier engaged in the continuous freight movement. The first carrier would account for the tax in its GST/HST return for the reporting period that includes April 5, 2013.

The second carrier would be making a zero-rated supply of freight transportation service to the first carrier.

Freight transportation service begins on or after April 1, 2013

The following rules apply to a freight transportation service that begins on or after April 1, 2013 (unless it is part of a continuous freight movement that begins before April 2013):

- GST would apply to any amount that becomes due or is paid without having become due on or before November 8, 2012.
- GST would apply to any amount that becomes due or is paid without having become due after November 8, 2012, and before February 2013. Certain purchasers would have to self-assess the 9% provincial part of the HST. For more information, refer to "Self-assessing the provincial part of the HST".
- HST would apply to any amount that becomes due or is paid without having become due on or after February 1, 2013.

Accounting for the GST/HST charged on freight transportation services

The previous rules explained whether GST or HST would apply to a freight transportation service. The following rules explain who would account for the tax, and when it would be accounted for, when the service begins on or after April 1, 2013.

After November 8, 2012 and before February 2013

When an amount becomes due or is paid without having become due after November 8, 2012 and before February 2013, the supplier would charge the purchaser GST and would account for the GST in its GST/HST return according to the normal rules. Certain purchasers would have to self-assess the 9% provincial part of the HST. For more information, refer to "Self-assessing the provincial part of the HST".

Example 3

A manufacturer has an agreement with a carrier for a freight transportation service to be performed in Prince Edward Island in April 2013. Under the agreement, the manufacturer is required to pay the amount for the service on January 2, 2013.

The carrier would charge GST because the amount for the freight transportation service becomes due before February 2013. The carrier would account for the tax in its GST/HST return for the reporting period that includes January 2, 2013. If the manufacturer is a non-consumer, the manufacturer may have to self-assess the 9% provincial part of the HST.

On or after February 1, 2013 and before April 2013

When an amount becomes due or is paid without having become due on or after February 1, 2013 and before April 2013 for a freight transportation service that begins on or after April 1, 2013, the supplier would account for:

- the 5% federal part of the HST in its GST/HST return according to the normal rules; and
- the 9% provincial part of HST in its GST/HST return for the reporting period that includes April 1, 2013. The purchaser, if a registrant, would be able to claim any eligible input tax credit in respect of the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

Example 4

A carrier provides a freight transportation service on April 2, 2013, to a destination in Prince Edward Island. The shipper of the goods prepays the amount for the service on March 15, 2013.

HST would apply because the freight transportation service begins on or after April 1, 2013. The carrier would account for the 5% federal part of the HST in its GST/HST return for the reporting period that includes March 15, 2013. The carrier would account for the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

On or after April 1, 2013

When an amount becomes due or is paid without having become due on or after April 1, 2013, the supplier would account for the GST/HST in its GST/HST return according to the normal rules.

Example 5

A carrier provides a freight transportation service on April 5, 2013, to a destination in Prince Edward Island. The carrier issues the invoice dated April 5, 2013.

HST would apply because the freight transportation service begins on or after April 1, 2013. The carrier would account for the 14% HST in its GST/HST return for the reporting period that includes April 5, 2013.

Self-assessing the provincial part of the HST

Certain non-consumers would have to self-assess the 9% provincial part of the HST when they purchase a freight transportation service (provided it is not a freight transportation service in respect of a continuous freight movement where, before April 2013, the shipper transfers possession of the goods being shipped to the first carrier engaged in the continuous freight movement) that begins on or after April 1, 2013, and an amount for the service becomes due or is paid without having become due after November 8, 2012 and before February 2013.

Note: Consumer generally means an individual who acquires property or services for the individual's personal consumption or use, or for the personal consumption or use of another individual.

This self-assessment rule may apply to a person that is a sole proprietor, a partnership, a corporation, an organization, a public service body, or any other entity.

A non-consumer that purchases a freight transportation service would have to self-assess the 9% provincial part of the HST if:

- the non-consumer does not purchase the service for consumption, use or supply exclusively in its commercial activity;
- the service is subject to an input tax credit recapture (including if the service would be subject to a proposed temporary recapture of an input tax credit in respect of the 9% provincial part of the HST);
- the non-consumer is a GST/HST registrant using a simplified method to calculate its net tax (including the net tax calculation for charities); or
- the non-consumer is a GST/HST registrant selected listed financial institution.

The non-consumer would account for the 9% provincial part of the HST either:

- on line 405 of its GST/HST return for the reporting period that includes April 1, 2013, if the due date for that return is before August 2013; or
- in any other case, by completing Form GST489, *Return for Self-Assessment for the Provincial Part of Harmonized Sales Tax (HST)*, and paying that amount before August 2013.

Example 6

A municipality in Prince Edward Island has an agreement with a carrier for a freight transportation service to be performed in April 2013. Under the agreement, the municipality is required to pay the amount for the service on January 2, 2013. The municipality is not using the service exclusively in its commercial activities.

GST would apply because the amount for the freight transportation service becomes due before February 2013. The carrier would account for the tax in its GST/HST return for the reporting period that includes January 2, 2013.

The municipality would have to self-assess the 9 % provincial part of the HST because:

- the municipality is not a consumer;
- the freight transportation service begins on or after April 1, 2013;
- the amount is paid after November 8, 2012, and before February 2013; and
- the service is not used exclusively in the municipality's commercial activities.

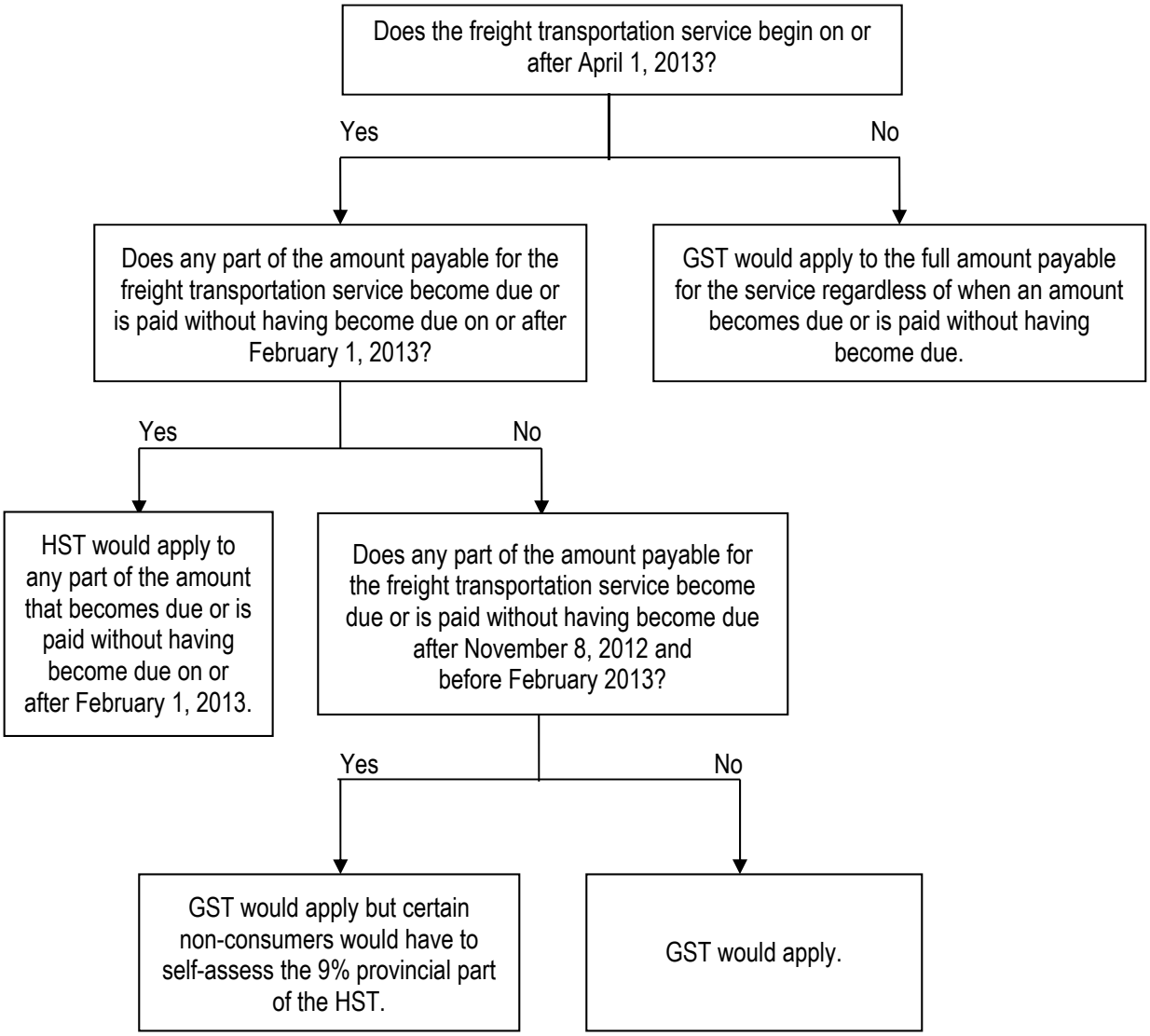
This info sheet does not replace the law found in the *Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for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

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

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

Appendix A – Transitional rules for freight transportation services

The following illustrates the transitional rules for freight transportation services (other than zero-rated freight transportation services) performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.



Appendix B – When an amount becomes due or is paid without having become due

The following rules explain when an amount becomes due and when an amount is paid without having become due. These rules apply to services and supplies of tangible and intangible personal property.

Amount becomes due

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

- the date of an invoice for that amount;
- the day the supplier first issues that invoice for the amount;
- if there is an undue delay in issuing that invoice, the day the supplier would have issued the invoice; and
- the day the purchaser is required to pay that amount under a written agreement.

Example 1

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount on January 31. On January 5, the supplier issues an invoice which is dated January 15 invoice was issued, and the day the client is required to pay the amount under the written agreement.

Amount is paid without having become due

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

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

Example 2

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount due on January 31. No invoice is issued. The client pays the amount due on January 5. In this case, January 31 is the day the amount becomes due and January 15 is the day the amount is paid without having become due.

More than one invoice or payment

Sometimes, more than one amount becomes due or is paid without having become due. This could happen when, for example, a supplier issues more than one invoice or when the purchaser is required to make more than one payment under a written agreement. In this case, for each amount, the supplier must determine whether GST or HST applies. The supplier cannot, for example, just apply the HST on the final amount or on the total amount payable for the supply.

Example 3

A supplier enters into a written agreement with a client for a supply. Under the agreement, the client is required to make two payments. The supplier has to consider each payment separately to determine whether GST or HST applies to the amount paid.