



Prince Edward Island: Transition to the Harmonized Sales Tax – Goods

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 the following taxable supplies made in Prince Edward Island during the period that includes the proposed April 1, 2013, implementation date for the HST in Prince Edward Island:

- sales of goods;
- sales of a combination of goods and services;
- sales of subscriptions to periodical publications; and
- leases and licences of goods.

For 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*.

For information on returns and exchanges of goods and on goods supplied on a continuous basis, such as electricity, refer to the following GST/HST info sheets:

- GI-161, *Prince Edward Island: Transition to the Harmonized Sales Tax – Returns and Exchanges*; and

- GI-162, *Prince Edward Island: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements*.

Most of the transitional rules explained in this info sheet are based on the earlier of when an amount becomes due and when an amount is paid without having become due. Refer to Appendix A for information on this subject.

This info sheet uses examples to illustrate the application of the HST transitional rules for supplies of goods. 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.

Sales of goods

To determine whether GST or HST would apply to goods (other than subscriptions to periodical publications) sold during the period that includes the proposed April 1, 2013, implementation date for the HST in Prince Edward Island, suppliers would have to consider:

- when the goods are delivered to the purchaser;
- when ownership of the goods is transferred to the purchaser;
- when an amount payable for the goods becomes due; and
- whether an amount is paid without having become due.

When goods are delivered or ownership is transferred before April 2013

When a good is delivered **or** ownership is transferred to a purchaser before April 2013, only the GST would apply to any amount that becomes due or is paid without having become due for the good. Suppliers would account for the GST in their GST/HST returns according to the normal rules.

Example 1

A person buys a television under a written agreement and the supplier delivers it to the individual on March 1, 2013. Under the terms of the agreement, the person must make 12 monthly payments starting on March 1, 2013. The person receives ownership of the television when all the payments have been made.

Because the television is delivered to the person before April 2013, the supplier charges the GST on each of the 12 monthly payments.

When goods are delivered and ownership is transferred on or after April 1, 2013

The following rules apply when a good is delivered **and** ownership is transferred to the purchaser on or after April 1, 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. However, 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.

Refer to Appendix B for a flowchart that illustrates the general transitional rules that would apply for sales of goods when the goods are delivered **and** ownership is transferred to the purchaser on or after the proposed April 1, 2013, implementation date for the HST in Prince Edward Island.

Example 2

A supplier sells a sailboat to a person and issues an invoice on March 20, 2013. The sailboat is delivered and ownership is transferred to the person on April 5, 2013.

The supplier would charge the HST because:

- the sailboat is delivered **and** ownership is transferred to the person on or after April 1, 2013; and
 - the amount becomes due on or after February 1, 2013.
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Example 3

On March 29, 2013, a business enters into an agreement with a Canadian supplier for the purchase of an off-the-shelf software package on CDs. The business pays the total amount by credit card and the supplier delivers the software package on April 6, 2013.

In this situation, the software package is a good for GST/HST purposes because it is a pre-packaged, commercially-available software program provided on a tangible medium.

The supplier would charge the HST because:

- the off-the-shelf software package is delivered and ownership is transferred to the person on or after April 1, 2013; and
 - the amount becomes due on or after February 1, 2013.
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Combination of property and services

The following rule would apply to any combination of property or services supplied together as a single supply where one of the items is property that would not be subject to HST if it were supplied separately.

In this case, the property (e.g., a good) would be considered to have been sold separately from the other items but only for the purposes of determining whether GST or HST would apply during the period that includes the proposed April 1, 2013, implementation date for the HST in Prince Edward Island.

For information on the general transitional rules for services performed during that period, refer to GST/HST Info Sheet GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*.

For information on the general transitional rules for sales of intangible personal property, refer to GST/HST Info Sheet GI-136, *Prince Edward Island: Transition to the Harmonized Sales Tax – Intangible Personal Property*.

Example 4

In March 2013, a supplier sells restaurant equipment to a person. Installation of the equipment is part of the supply. The equipment is delivered to the person on March 30, 2013, and installed on April 2, 2013.

GST would apply to the portion of the amount attributable to the equipment because it is delivered and ownership is transferred to the person before April 2013. However, HST would apply to the portion of the amount attributable to the installation service since the service is performed on or after April 1, 2013.

Example 5

On March 26, 2013, a vendor sells an off-the-shelf computer software package. Training is provided to the client's employees in April 2013 as part of the supply.

GST would apply to the portion of the amount attributable to the software package because ownership is transferred to the client before April 2013. However, HST would apply to the portion of the amount attributable to the training service since the service is performed on or after April 1, 2013.

Subscriptions to periodical publications

The following rules would apply to sales of subscriptions to newspapers, magazines or other periodical publications:

- GST would apply to an amount paid before April 2013; and
- HST would apply to an amount paid on or after April 1, 2013.

Suppliers would account for the GST/HST on their sales of subscriptions to periodical publications in their GST/HST returns according to the normal rules.

Example 6

On March 10, 2013, a person pays for an annual subscription to a magazine. Editions of the magazine will be delivered each month for twelve months starting in April 2013.

GST would apply because the amount for the subscription is paid before April 2013.

Example 7

A publisher sells a subscription to a magazine and issues the invoice on March 30, 2013. The subscriber pays the amount on April 6, 2013.

HST would apply because the amount for the subscription is paid on or after April 1, 2013.

Leases and licences of goods

The following rules would apply to goods supplied by way of lease, licence or similar arrangement, the consideration for which is rent, royalties or similar payments. They also apply to leases and licences of intangible personal property where payments vary with the amount of use or profits from the property.

In this info sheet, the term "lease" is used to mean "lease, licence or similar arrangement".

To determine whether GST or HST would apply to leases of goods, suppliers would have to consider:

- the lease interval;
- when an amount becomes due for that lease interval; and
- whether an amount is paid without having become due for that lease interval.

A "lease interval" is the period of time to which a periodic payment is attributable under a lease.

Example 8

A person leases a car and, according to the lease agreement, the payments are due on the 15th of each month for the upcoming month.

Because a lease interval is the period of time covered by each lease payment, for the payment due on March 15, 2013, the lease interval begins on April 1, 2013, and ends on April 30, 2013.

When a lease interval begins before April 2013 and ends before May 2013

When a lease interval begins before April 2013 and ends before May 2013, only the GST would apply to any amount that becomes due or is paid without having become due for that lease interval. Suppliers would account for the GST in their GST/HST returns according to the normal rules.

Example 9

On April 2, 2013, a person makes a car lease payment for the lease interval from March 15, 2013 to April 14, 2013.

Because the lease interval begins before April 2013 and ends before May 2013, the supplier would charge the GST on the lease payment for that lease interval.

When a lease interval begins before April 2013 and ends on or after May 1, 2013

The following rules would apply when a lease interval begins before April 2013 and ends on or after May 1, 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. However, 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”.
- When an amount becomes due or is paid without having become due on or after February 1, 2013:
 - GST would apply to any amount that relates to the portion of the lease interval that occurs before April 2013; and

- HST would apply to any amount that relates to the portion of the lease interval that occurs on or after April 1, 2013.

Refer to Appendix C for a flowchart that illustrates the general transitional rules that would apply for leases of goods when a lease interval begins before April 2013, and ends on or after May 1, 2013.

Example 10

On February 1, 2013, a person makes a lease payment of \$1,200 for the lease interval of February 1, 2013 to July 31, 2013. The payment is due on February 1, 2013.

Because the lease interval begins before April 2013 and ends on or after May 1, 2013, and the lease payment becomes due on or after February 1, 2013 (and is not paid before that date), the supplier would charge:

- the GST on \$400 which represents the part of the amount that relates to the portion of the lease interval that occurs in February and March ($\$1,200 \times 2/6 = \400); and
 - the HST on \$800 which represents the part of the amount that relates to the portion of the lease interval that occurs in April, May, June and July ($\$1,200 \times 4/6 = \800).
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When a lease interval begins on or after April 1, 2013

The following rules would apply when a lease interval begins on or after April 1, 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. However, 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.

Example 11

A monthly car lease payment becomes due on April 15, 2013, for the lease interval of April 15, 2013 to May 14, 2013. The person prepays the amount on March 30, 2013.

Because the lease interval begins on or after April 1, 2013, and the amount becomes due and is paid without having become due on or after February 1, 2013, the supplier would charge the HST on the payment for that lease interval.

Accounting for the GST/HST charged on sales and leases of goods

The previous rules explained whether GST or HST would apply to sales and leases of goods. The following rules explain who would account for the tax, and when it would be accounted for:

- in the case of sales, when ownership and possession of the good transfer on or after April 1, 2013; and
- in the case of leases, when the lease interval begins on or after April 1, 2013, or when it ends on or after May 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 12

On January 28, 2013, a supplier issues an invoice for the sale of equipment to a person. The equipment is delivered and ownership is transferred to the person on April 2, 2013.

The supplier would charge GST to the person and would account for the GST in its GST/HST return for the reporting period that includes January 28, 2013.

The person who purchases the equipment 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, the supplier would account for the tax in the following manner:

- When GST would apply to a sale of a good or a portion of a lease interval that occurs before April 2013, the supplier would account for the GST in its GST/HST return according to the normal rules.
- When HST would apply to the sale of a good or a portion of a lease interval that occurs 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 the HST in its GST/HST return for the reporting period that includes April 1, 2013. The purchaser or lessee, 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 13

On March 24, 2013, a person prepays the lease of equipment for the lease interval from April 1, 2013 to April 30, 2013. The amount is due on March 30, 2013. HST would apply because the lease interval begins on or after April 1, 2013, and the amount becomes due or is paid without having become due on or after February 1, 2013.

The supplier would account for:

- the 5% federal part of the HST in its GST/HST return for the reporting period that includes March 24, 2013; and
 - the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.
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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 14

In March 2013, an individual enters into an agreement to buy furniture. Under the agreement, the individual takes delivery of the furniture in April 2013. The individual makes 12 monthly payments between April 2013 and March 2014, and receives ownership of the furniture when all the payments have been made.

HST would apply to all the payments and the supplier would account for the HST in its GST/HST return according to the normal rules.

Self-assessing the provincial part of the HST

Certain persons who are non-consumers and who acquire goods by way of sale or lease would have to self-assess the 9% provincial part of the HST when an amount becomes due or is paid without having become due after November 8, 2012, and before February 2013 where:

- a good is delivered **and** ownership is transferred on or after April 1, 2013;
- a lease interval begins before April 2013 and ends on or after May 1, 2013; or
- a lease interval begins on or after April 1, 2013.

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 would have to self-assess the 9% provincial part of the HST if:

- the non-consumer does not acquire the good for consumption, use or supply exclusively (90% or more) in its commercial activity;

- the good is subject to an input tax credit (ITC) recapture (including if the good would be subject to a proposed temporary recapture of an ITC in respect of the 9% provincial part of the HST or ITC recapture for leased passenger vehicles where the monthly lease payment exceeds \$800);
- 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 15

On January 24, 2013, a registrant that uses the Quick Method to calculate its net tax purchases equipment. The supplier issues an invoice at that time. The equipment is delivered on April 5, 2013, and ownership transfers to the registrant at the time of delivery. The registrant pays the total amount on April 5, 2013.

The supplier would charge GST because the amount becomes due after November 8, 2012 and before February 2013, and the amount is not paid before November 8, 2012. The supplier would account for the GST in its GST/HST return for the reporting period that includes January 24, 2013.

The registrant who purchased the equipment would have to self-assess the 9% provincial part of the HST because:

- the registrant is not a consumer;
 - the equipment is delivered and ownership is transferred on or after April 1, 2013;
 - the amount becomes due after November 8, 2012, and before February 2013, and is not paid before November 8, 2012; and
 - the registrant uses a simplified accounting method to calculate its net tax.
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Example 16

In January 2013, a business leases equipment and makes a payment for a five-month lease interval that begins on February 1, 2013, and ends on June 30, 2013. The equipment is not used exclusively in the business' commercial activities.

Because the amount is paid after November 8, 2012, and before February 2013, and does not become due before November 8, 2012, the supplier would charge GST on the payment for that lease interval.

The business would have to self-assess the 9% provincial part of the HST on the part of the amount that relates to the portion of the lease interval that occurs in April, May and June (i.e., three out of the five months or 60% of the lease payment). The business would have to self-assess the 9% provincial part of the HST because:

- the business is not a consumer;
 - the lease interval begins before April 2013 and ends on or after May 1, 2013;
 - the amount is paid after November 8, 2012, and before February 2013, and does not become due before November 8, 2012; and
 - the equipment is not used exclusively in commercial activities.
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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 – 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 15, the supplier issues an invoice which is dated January 15.

The amount becomes due on January 15 because it is the earliest of the date of the invoice, the day the invoice was issued, and the day the client is required to pay 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 15. 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

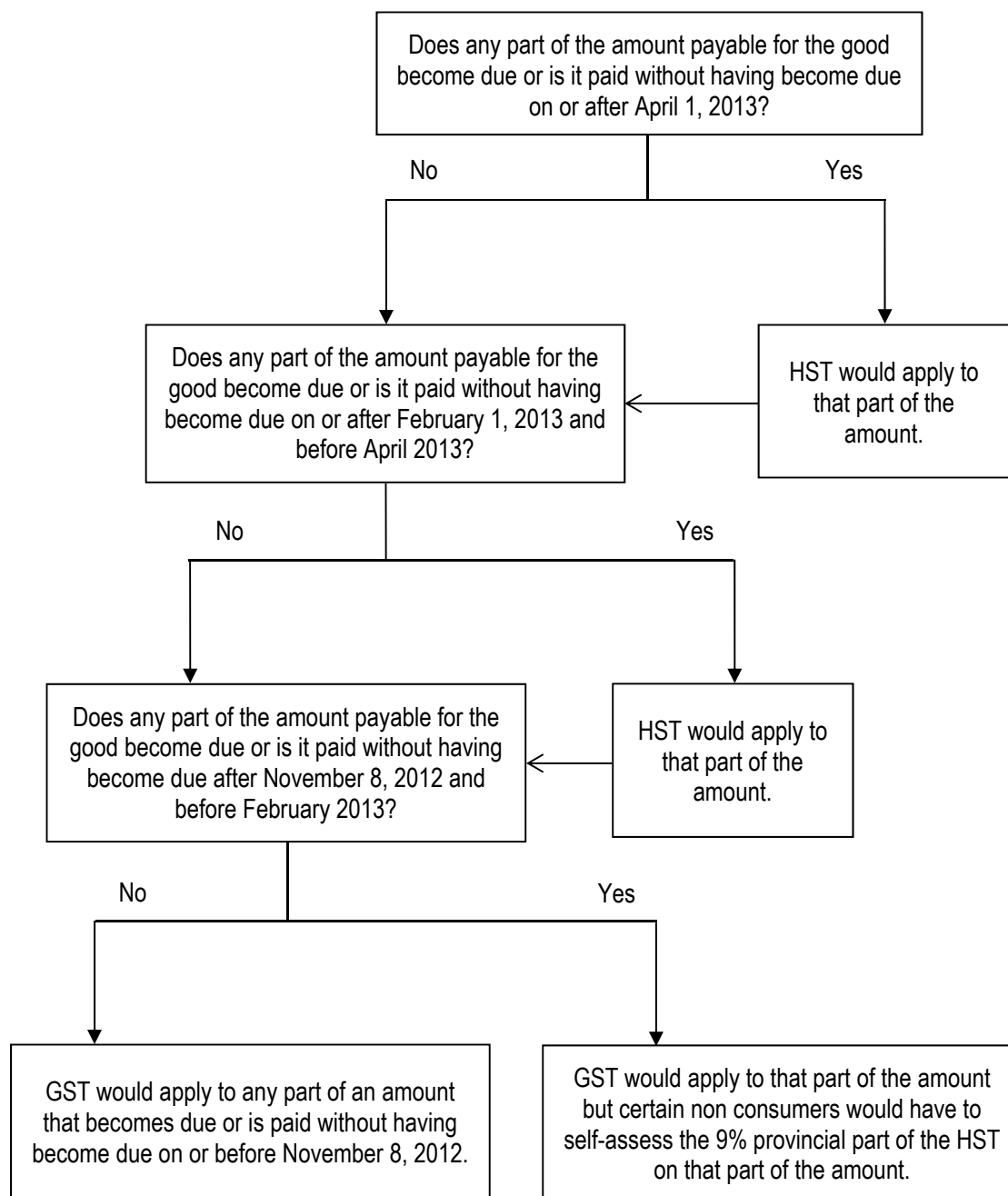
Sometimes, more than one amount becomes due or is paid without having become due. This could happen when, for example, a supplier issues more than one invoice or when the purchaser is required to make more than one payment under a written agreement. In this case, for each amount, the supplier must determine 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.

Appendix B – Transitional rules for sales of goods when the goods are delivered and ownership is transferred to the purchaser on or after April 1, 2013

The following illustrates the transitional rules for sales of goods (other than sales of subscriptions to periodical publications) when the goods are delivered and ownership is transferred to the purchaser on or after April 1, 2013.



Appendix C – Transitional rules for leases of goods

The following illustrates the transitional rules for leases of goods when a lease interval begins before April 2013 and ends on or after May 1, 2013.

