



## Prince Edward Island: Transition to the Harmonized Sales Tax – Returns and Exchanges

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 returns and exchanges of goods made in Prince Edward Island during the period that includes the 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 the 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*.

This info sheet does not provide information on refunds or credits of the provincial sales tax (PST) in Prince Edward Island. For information on PST refunds and credits refer to Revenue Tax Guide RTG185, *Implementation of the Harmonized Sales Tax in Prince Edward Island* and Revenue Tax Guide RTG190, *Prepare for the HST: Returned or Exchanged Goods*.

The HST transitional rules for returns and exchanges of goods do not apply when the supplier records the returned or exchanged good as a purchase in its books and records. In this case, the general transitional rules for goods would apply to determine if the HST would apply to the sale of the good to the purchaser, the sale of the good back to the supplier and, where applicable, the sale of the new good to the purchaser. For information on these transitional rules, refer to GST/HST Info Sheet GI-160, *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods*.

This info sheet uses examples to illustrate the application of the HST transitional rules for returns and exchanges of goods. Unless otherwise indicated, in the examples:

- all suppliers are GST/HST registrants;
- all supplies are taxable supplies made in Prince Edward Island;
- no amount is paid without having become due;
- none of the suppliers treats the returns or exchanges of the original goods as purchases in their books and records; and
- all of the suppliers refund or credit the purchaser an amount equal to the applicable GST paid on the purchase of the original good that was returned or exchanged.

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

### Returns of goods

Generally, when a purchaser returns a good to the supplier, the supplier gives the purchaser a refund or a credit for the amount paid. Refunds and credits may vary depending on the initial transaction. For example, for a cash purchase, the purchaser may receive a cash refund or a credit that may be applied to a future purchase.

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When a customer purchases a good before April 2013 and returns it to the supplier on or after April 1, 2013, the customer may be entitled to a refund or credit of the GST according to the general GST/HST rules. The supplier may refund or credit the amount of GST if the amount of GST was charged or collected. In this case, the supplier is then required to issue a credit note, unless the customer first issues a debit note to the supplier, in order to deduct an amount in calculating the supplier's net tax. 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*.

Where a supplier refunds or credits the amount payable for the returned good, but does not refund or credit the GST to the purchaser, the purchaser may be entitled to claim a rebate for tax paid in error. In this case, the purchaser would complete Form GST189, *General Application for Rebate of GST/HST* and send it to the CRA.

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#### **Example 1**

A customer purchases an item on March 2, 2013 for \$100.00 and pays the applicable GST. The customer returns it to the supplier on April 10, 2013.

The supplier would refund or credit the \$100 and applicable GST.

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### **Exchanges of goods**

When a purchaser exchanges a good for another good of the supplier, the application of the HST transitional rules would depend on whether the original purchase of the good is subject to the PST.

When a customer purchases a good before April 2013 and exchanges it on or after April 1, 2013, the customer may be entitled to a refund or credit of the GST according to the general GST/HST rules. The supplier may refund or credit the amount of GST if the amount of GST was charged or collected. In this case, the supplier is then required to issue a credit note, unless the customer first issues a debit note to the supplier, in order to deduct an amount in calculating the supplier's net tax. 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*.

Where a supplier refunds or credits the amount payable for the exchanged good, but does not refund or credit the GST to the purchaser, the purchaser may be entitled to claim a rebate for tax paid in error. In this case, the purchaser would complete Form GST189, *General Application for Rebate of GST/HST* and send it to the CRA.

### **When the original good is subject to PST**

The following rules would apply when a good (referred to as the "original good") is subject to PST, is purchased before April 2013, and is exchanged for another good (referred to as the "new good") on or after April 1, 2013 but before August 2013.

If the price of the new good is equal to, or less than, the amount paid for the original good, the provincial part of the HST would not apply to the purchase of the new good. In effect, the 5% federal part of the HST that would be payable on the purchase of the new good would be offset by the 5% GST paid on the purchase of the original good where the supplier credits that GST to the purchaser. On or after August 1, 2013, the HST at 14% would apply to the purchase of the new good. Refer to "When an exchange occurs on or after August 1, 2013".

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#### **Example 2**

On March 2, 2013, a customer purchases an item for \$100 and pays the applicable GST and PST. On April 2, 2013, the customer exchanges it for another item that also costs \$100.

Since the price of the new good is equal to the amount paid for the original good, the provincial part of the HST would not apply to the purchase of the new good. No additional amount of tax would be payable if the supplier credits the \$100 and applicable GST paid on the original purchase and offsets the \$100 and applicable federal part of the HST that would be payable on the purchase of the new good by that credit.

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#### **Example 3**

On March 2, 2013, a customer purchases an item for \$100 and pays the applicable GST and PST. On April 2, 2013, the customer exchanges it for another item that costs \$75.

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Since the price of the new good is less than the amount paid for the original good, the provincial part of the HST would not apply to the purchase of the new good. No additional amount of tax would be payable if the supplier credits or refunds the \$100 and applicable GST paid on the original purchase and offsets the \$75 and applicable federal part of the HST that would be payable on the purchase of the new good by that credit or refund. In this case, the customer would be in a net credit or refund position.

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If the price of the new good is higher than the amount paid for the original good, the 5% federal part of the HST would apply to the purchase of the new good whereas the 9% provincial part of the HST would only apply to the difference between the price of the new good and the price of the original good. The supplier may credit the 5% GST paid on the original purchase and offset the 5% federal part of the HST that would be payable on the purchase of the new good and the 9% provincial part of the HST that would be payable on the difference, by that credit. The net effect is that HST at 14% would apply to the price difference. On or after August 1, 2013, the HST at 14% would apply to the purchase of the new good. Refer to “When an exchange occurs on or after August 1, 2013”.

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#### **Example 4**

On March 2, 2013, a customer purchases an item for \$100 and pays the applicable GST and PST. On April 2, 2013, the customer exchanges it for another item that costs \$120.

Since the price of the new good is higher than the amount paid for the original good, HST at 14% would apply to the \$20 difference. No additional amount of tax would be payable if the supplier credits the \$100 and applicable GST paid on the original purchase and offsets it against the \$120 and applicable federal part of the HST that would be payable on the purchase of the new good.

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### ***When the original good is not subject to PST***

The following rule applies when a good (referred to as the “original good”) is not subject to PST, is purchased before April 2013, and exchanged for another good (referred to as the “new good” on or after April 1, 2013.

The HST would apply to the purchase of the new good. The supplier may credit the 5% GST paid on the purchase of the original good and offset it against the HST that would be payable on the purchase of the new good.

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#### **Example 5**

On March 2, 2013, a customer purchases an item for \$100 and pays the applicable GST. The item is not subject to PST. On April 2, 2013, the customer exchanges it for another item that also costs \$100.

Since the original good is not subject to PST, only the provincial part of the HST would be payable on the full price of the new good if the supplier credits the \$100 and applicable GST paid on the original purchase and offsets it against the \$100 and applicable HST that would be payable on the purchase of the new good.

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### ***When an exchange occurs on or after August 1, 2013***

HST applies to the total amount payable (i.e., full price) for the purchase of a new good that is provided in exchange for an original good if the exchange occurs on or after August 1, 2013. HST applies even if the original good was subject to PST or if the price of the new good is equal to, or less than, the amount paid for the original good. According to the general GST/HST rules, the purchaser may be entitled to a refund or credit of the GST paid on the purchase of the original good.

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#### **Example 6**

On March 2, 2013, a customer purchases an item for \$100 and pays the applicable GST and PST. On August 2, 2013, the customer exchanges it for another item that also costs \$100.

Since the exchange occurs on or after August 1, 2013, only the provincial part of the HST would apply on the full price of the new good if the supplier credits the \$100 and applicable GST paid on the original purchase and offsets it against the \$100 and applicable HST that would be payable on the purchase of the new good.

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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/gsthstech](http://www.cra.gc.ca/gsthstech).