



Prince Edward Island: Transition to the Harmonized Sales Tax – Continuous Supplies and Budget Payment Arrangements

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 made in Prince Edward Island that are continuous supplies, or supplies made under a budget payment arrangement, during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

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*.

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

In this info sheet, “continuous supply” means a supply of property or service that is delivered, performed or made available on a continuous basis by means of a wire, pipeline or other conduit, or satellite or other telecommunications facility, and for which the supplier invoices the recipient on a regular or periodic basis. Examples of continuous supplies of property include electricity, natural gas or steam. Continuous supplies of services include cable television and home telephone services.

Continuous supplies

To determine whether GST or HST would apply to continuous supplies provided 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 property or service is delivered, performed or made available;
- when an amount payable for the continuous supply becomes due; and
- whether an amount is paid without having become due.

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

When the property or service is delivered, performed or made available

When property or a service is supplied on a continuous basis during a period that includes April 1, 2013, the supplier must determine the part of the property or service that is delivered, performed or

made available before April 2013, and the part of the property or service that is delivered, performed or made available on or after April 1, 2013.

If the supplier cannot reasonably determine when the property or service is delivered, performed or made available during a period that includes April 1, 2013, then the continuous supply should be prorated according to the number of days in the period.

Example 1

An electricity company provides continuous supplies of electricity to its clients and invoices them every two months. The invoice issued on April 27, 2013 covers the billing period of February 22, 2013 to April 21, 2013. A meter reading was not done on March 31, 2013 and the invoice does not indicate when the electricity was delivered. The electricity is not sold under an equal billing plan.

Because the company cannot reasonably determine when the electricity is delivered, the supply is prorated in equal parts according to the number of days in the period. Therefore:

- an equal part of the electricity is supplied for each of the 38 days for the period before April 1, 2013; and
- an equal part of the electricity is supplied for each of the 21 days for the period on or after April 1, 2013.

Transitional rules for continuous supplies of property or services

The following rules would apply to continuous supplies provided during the period that includes April 1, 2013:

- Regardless of when the property or service is delivered, performed or made available, GST would apply to any amount that becomes due or is paid without having become due on or before November 8, 2012.
- Regardless of when the property or service is delivered, performed or made available, 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 who are non-consumers would have to self-assess the 9% provincial part of the HST on any amount payable for the supply that relates to the part of the

property or service that is delivered, performed or made available on or after April 1, 2013.

- 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 property or the part of the service that is delivered, performed or made available before April 2013; and
 - HST would apply to any amount that relates to the property or the part of the service that is delivered, performed or made available on or after April 1, 2013.

Generally, when 90% or more of a service is performed before April 2013, only the GST would apply to any amount that becomes due or is paid without having become due for the service. This rule does not apply to continuous supplies of services.

Refer to the following publications for more information on accounting for the GST/HST and self-assessing the provincial part of the HST:

- GST/HST Info Sheet GI-160, *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods*; and
- GST/HST Info Sheet GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*.

Example 2

A telephone company provides continuous supplies of telephone services to its clients and invoices them on a monthly basis. The invoice issued on April 15, 2013, covers the billing period of March 15, 2013 to April 14, 2013. The invoice also includes two long distance calls: one made on March 17, 2013, and the other made on April 2, 2013. The company cannot reasonably determine when the continuous supply is performed. The invoice shows the following:

Continuous service from March 15 to April 14, 2013	\$65.00
Long-distance call March 17, 2013	2.50
Long-distance call April 2, 2013	2.75
Total	\$70.25

Long distance calls:

The two long distance calls are not part of the continuous supply of the service. In applying the transitional rules for services, the call made on March 17 would be subject to the GST while the call made on April 2, 2013, would be subject to the HST.

Continuous supply of telephone service:

Since the telephone company cannot reasonably determine when the continuous service is performed, the supply is prorated in equal parts according to the number of days in the period. Therefore,

- \$35.65 would be subject to the GST ($\$65 \times 17 \text{ days}/31 \text{ days}$) as this is the amount that relates to the part of the service performed before April 2013; and
 - \$29.35 would be subject to the HST ($\$65 \times 14 \text{ days}/31 \text{ days}$) as this is the amount that relates to the part of the service performed on or after April 1, 2013.
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Example 3

An Internet service provider invoices its clients in advance for one year of continuous supplies of Internet services. An invoice that covers the period of February 1, 2013 to January 31, 2014, is issued on January 3, 2013, to a consultant. The consultant will not use the Internet service exclusively in commercial activities.

The Internet service provider would charge the GST on the total amount payable for the service. GST would apply because the amount becomes due before February 2013.

However, the consultant would have to self-assess the 9% provincial part of the HST on the amount that relates to the part of the service that is made available on or after April 1, 2013 (306 days/365 days). The consultant would have to self-assess the 9% provincial part of the HST because:

- the consultant is not a consumer;
 - part of the service is performed 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 service is not used exclusively in the consultant's commercial activities.
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Budget payment arrangements

Property (such as electricity) or services may be provided under a budget payment arrangement (equal payments billing plan). Generally, under a budget

payment arrangement for a specified plan period (usually one year), the supplier invoices the client the same amount throughout the plan period. The supplier issues, on a regular basis, an account summary that shows the year to date amount paid by the client and the year to date consumption of the property or service.

Generally, at the time of reconciliation at the end of the plan period, the supplier makes an adjustment to account for any difference between the total amount paid by the client and the total amount the client should have paid for the property or services provided under the budget payment arrangement. This reconciliation also takes into account any difference between the amount of tax paid by the client on the equal payments and the amount of tax the client is required to pay on the property or services provided under the budget payment arrangement.

Transitional rules for property or service under a budget payment arrangement

When property or a service is supplied under a budget payment arrangement that includes April 1, 2013, the supplier must determine which part of the property or service would be subject to the GST and which part would be subject to the HST. If the property or service is a continuous supply, such as electricity, the supplier would apply the transitional rules discussed under the heading "When the property or service is delivered, performed or made available" to determine each part. This determination would first be made with respect to the equal payment that relates to the period that includes April 1, 2013. A second determination would be made in respect of any reconciliation that is made before April 2014.

Where a reconciliation of an account takes place at the end of or after the plan period and before April 2014, the supplier would make, in addition to the usual GST adjustment, an adjustment to account for any difference between:

- (a) the amount of the 9% provincial part of the HST that would have been payable on the property or service delivered, performed or made available on or after April 1, 2013, if there had been no budget payment arrangement; and
- (b) the actual amount of the 9% provincial part of the HST that was payable on the equal payments made during the plan period.

When the amount in (a) is greater than the amount in (b), the supplier would collect the difference from the client and include the amount in the GST/HST return for the reporting period that includes the day on which the invoice for the reconciliation is issued.

When the amount in (b) is greater than the amount in (a), the supplier would refund or credit the difference to the client and issue a credit note for the amount refunded or credited. 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 4

An individual in Prince Edward Island has an equal billing plan for electricity that covers the period from April 22, 2012 to April 22, 2013. During the plan period, the individual pays a monthly charge of \$100 plus tax at the beginning of each month for electricity delivered during that month. Every second month, the utility company provides an account summary that shows the electricity consumed by the individual during the past two months, the charges (plus tax) for that consumption and the balance under the equal billing plan.

On April 23, 2013, the utility company issues a summary statement that covers the period from February 26, 2013 to April 22, 2013 (56 days). Because a meter reading was not done on March 31, 2013, an equal part of the electricity is considered to be delivered during each of:

- the 34 days before April 2013; and
- the 22 days on and after April 1, 2013.

What the individual paid under the equal billing plan:

The summary indicates that, for that two month period, the individual had paid \$100 on March 1 and \$100 on April 1. In this case, HST at 14% would apply to the April 1 payment since it relates to electricity delivered on or after April 1, 2013 ($\$100 \times 14\% = \14 HST). GST at 5% would apply to the payment made on March 1.

Therefore, for that two month period, the 9% provincial part of the HST paid by the individual is equal to \$9 ($\$100 \times 9\%$).

What the individual would have paid:

The summary statement also indicates that, based on the actual consumption of electricity during the two month period, the individual would have paid \$260. Since a meter reading was not done on March 31, 2013, the amount payable for the electricity is prorated in equal parts according to the number of days in the period to which the amount is attributable. Therefore, if there had been no budget payment arrangement:

- \$157.86 would have been subject to GST:
$$\frac{\$260 \times 34 \text{ days}}{56 \text{ days}}$$
- \$102.14 would have been subject to HST:
$$\frac{\$260 \times 22 \text{ days}}{56 \text{ days}}$$

Therefore, for that period, the individual would have paid a total of \$22.19 in tax:

- \$7.89 GST ($\$157.86 \times 5\%$); and
- \$14.30 HST ($\$102.14 \times 14\%$). From that amount, \$9.19 ($\$14.30 \times 9/14$) represents the 9% provincial part of the HST.

Reconciliation:

In the invoice issued at the time of reconciliation on April 23, 2013, the utility company adds an amount of tax equal to \$0.19 which is the difference between:

- \$9.19 which is the amount of the provincial part of the HST that would have been payable on the electricity delivered on or after April 1, 2013, for the period if there had been no budget payment arrangement; and
- \$9.00 which is the amount of the provincial part of the HST that would be payable on the equal billing payments made during the period.

This additional tax amount under the reconciliation is in addition to the usual GST adjustment that would be made for the plan period.

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.

Appendix – 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.
