



Ontario and British Columbia: Transition to the Harmonized Sales Tax – Freight Transportation Services

The Government of Ontario and the Government of British Columbia have each proposed a harmonized sales tax (HST) that would 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 Government of British Columbia has proposed that the HST rate would be 12% of which 5% would represent the federal part and 7% the provincial part.

This info sheet reflects proposed tax changes announced in:

- the 2009 Ontario Budget and the Information Notice No. 3, *General Transitional Rules for Ontario HST*, released by the Government of Ontario on October 14, 2009; and in
- 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 whether the goods and services tax (GST) or the HST applies to freight transportation services performed during the period that includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia.

Note: The information provided in this info sheet applies only to freight transportation services. Refer to the following publications for information on other types of property or services:

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Passenger Transportation Services* (GI-054);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Transportation Passes* (GI-055);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Services* (GI-056).

In this info sheet, all suppliers referred to in the examples are GST/HST registrants and the supplies are taxable. “Taxable” means subject to the 5% GST or to the HST rate in effect in a particular province. “Zero-rated” means subject to the GST/HST at 0%.

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.

La version française du présent document est intitulée *Transition à la taxe de vente harmonisée de l'Ontario et de la Colombie-Britannique – Services de transport de marchandises*.



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

A freight transportation service may be subject to the 5% GST or to the HST rate in effect in a particular province.

A freight transportation service may also be zero-rated. In this case, neither the GST nor the HST is charged to the purchaser. If a freight transportation service is zero-rated under the GST, it continues to be zero-rated under the HST.

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

Freight transportation services performed during the period that includes July 1, 2010
To determine whether GST or HST applies to a freight transportation service performed during the period that includes July 1, 2010, suppliers must consider:

- when the service is performed;
- when an amount for the service becomes due; and
- whether an amount is paid without having become due.

Appendix A to this info sheet provides a chart that illustrates the transitional rules for freight transportation services performed during the period that includes July 1, 2010.

Appendix B to this info sheet provides information on when an amount becomes due and when an amount is paid without having become due.

Freight transportation service begins before July 2010

GST applies to a freight transportation service if the service begins before July 2010 regardless of when

the amount for the service becomes due or is paid without having become due. Suppliers account for the tax in their GST/HST returns according to the normal rules.

Example 1

A manufacturer in Manitoba hires a carrier to transport the manufacturer's goods from its plant in Manitoba to a client in Ontario. The service begins on June 30, 2010, and ends on July 2, 2010. The carrier issues the invoice dated July 2, 2010.

Only GST applies to the freight transportation service because the service begins before July 2010. The carrier accounts for the tax in its GST/HST return for the reporting period that includes July 2, 2010.

GST applies to a freight transportation service that is part of a continuous freight movement if the shipper transfers possession of the goods to the first carrier before July 2010.

The carrier that invoices the purchaser of the service (either the shipper or the person to whom the goods are to be delivered) accounts 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 2

On June 30, 2010, a shipper transfers possession of goods to the first carrier of a continuous freight movement that begins in Alberta. On July 2, 2010, the goods are transferred to a second carrier for transport to the goods' destination in British Columbia. The first carrier invoices the shipper on July 5, 2010.

Only GST applies to the freight transportation service because it is part of a continuous freight movement that begins before July 1, 2010. The first carrier accounts for the tax in its GST/HST return for the reporting period that includes July 5, 2010.

Freight transportation service begins on or after July 1, 2010

The following rules apply to a freight transportation service that begins on or after July 1, 2010:

- GST applies to any amount that becomes due or is paid without having become due on or before October 14, 2009.

- GST applies to any amount that becomes due or is paid without having become due after October 14, 2009, and before May 2010. Certain purchasers have to self-assess the provincial part of the HST. For more details on self-assessment, see the information under the heading “Self-assessing the provincial part of the HST”.
- HST applies to any amount that becomes due or is paid without having become due on or after May 1, 2010.

Accounting for the GST/HST when the service begins on or after July 1, 2010

The rules listed above explain whether GST or HST applies to a freight transportation service. The following rules explain who accounts for the tax and when it should be accounted for when the service begins on or after July 1, 2010.

When an amount becomes due or is paid after October 14, 2009, and before May 2010

When an amount becomes due or is paid without having become due after October 14, 2009, and before May 2010, the supplier charges the purchaser GST and accounts for the tax in its GST/HST return according to the normal rules. Certain purchasers have to self-assess the provincial part of the HST. For more details on self-assessment, see the information under the heading “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 Ontario in July 2010. Under the agreement, the manufacturer is required to pay the amount for the service on April 2, 2010.

The carrier charges only GST because the amount for the freight transportation service becomes due before May 2010. The carrier accounts for the tax in its GST/HST return for the reporting period that includes April 2, 2010. The manufacturer may have to self-assess the 8% provincial part of the HST.

When an amount becomes due or is paid on or after May 1, 2010, and before July 2010

When an amount becomes due or is paid without having become due on or after May 1, 2010, and before July 2010 for a freight transportation service that begins on or after July 1, 2010, the supplier accounts for:

- the 5% federal part of the HST in its GST/HST return according to the normal rules; and
- the provincial part of HST in its GST/HST return for the reporting period that includes July 1, 2010. The purchaser, if a registrant, would be able to claim any eligible input tax credit in its GST/HST return for the reporting period that includes July 1, 2010.

Example 4

A carrier provides a freight transportation service from July 2, 2010, to July 5, 2010, to a destination in British Columbia. The shipper of the goods prepays the amount for the service on June 15, 2010.

The 12% HST applies to the freight transportation service because the service begins on or after July 1, 2010. The carrier accounts for:

- the 5% federal part of the HST in its GST/HST return for the reporting period that includes June 15, 2010; and
- the 7% provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010.

When an amount becomes due or is paid on or after July 1, 2010

When an amount becomes due or is paid without having become due on or after July 1, 2010, the supplier accounts for the HST in its GST/HST return according to the normal rules.

Example 5

A carrier provides a freight transportation service from July 2, 2010, to July 5, 2010, to a destination in British Columbia. The carrier issues the invoice dated July 5, 2010.

The carrier accounts for the 12% HST in its GST/HST return for the reporting period that includes July 5, 2010.

Self-assessing the provincial part of the HST

Certain non-consumers have to self-assess the provincial part of the HST when they purchase a freight transportation service that begins on or after July 1, 2010, and an amount for the service becomes due or is paid without having become due after October 14, 2009, and before May 2010.

Note: Consumer 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 applies to a person that is a sole proprietor, a business, an organization, a public service body, or any other entity.

A non-consumer that purchases a freight transportation service must self-assess the provincial part of the HST if the non-consumer:

- does not purchase the service for consumption, use or supply exclusively in its commercial activity;
- is using a simplified accounting method to calculate its net tax;
- is purchasing a service that is subject to input tax credit recapture of the provincial part of the HST;
- is a charity that uses the net tax calculation method for charities; or
- is a selected listed financial institution.

The non-consumer accounts for the provincial part of HST either:

- on line 405 of its GST/HST return for the reporting period that includes July 1, 2010, if the due date for that return is before November 2010; 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 November 2010.

Example 6

A municipality in Ontario has an agreement with a carrier for a freight transportation service to be performed in July 2010. Under the agreement, the municipality is required to pay the amount for the service on April 2, 2010. The municipality is not using the service exclusively in its commercial activities.

The carrier charges GST because the amount for the freight transportation service becomes due before May 2010.

The municipality has to self-assess the 8% provincial part of the HST because:

- it is not a consumer;
- the service is performed on or after July 1, 2010;
- the amount is paid after October 14, 2009, and before May 2010; and
- the service is not used exclusively in the municipality's commercial activities.

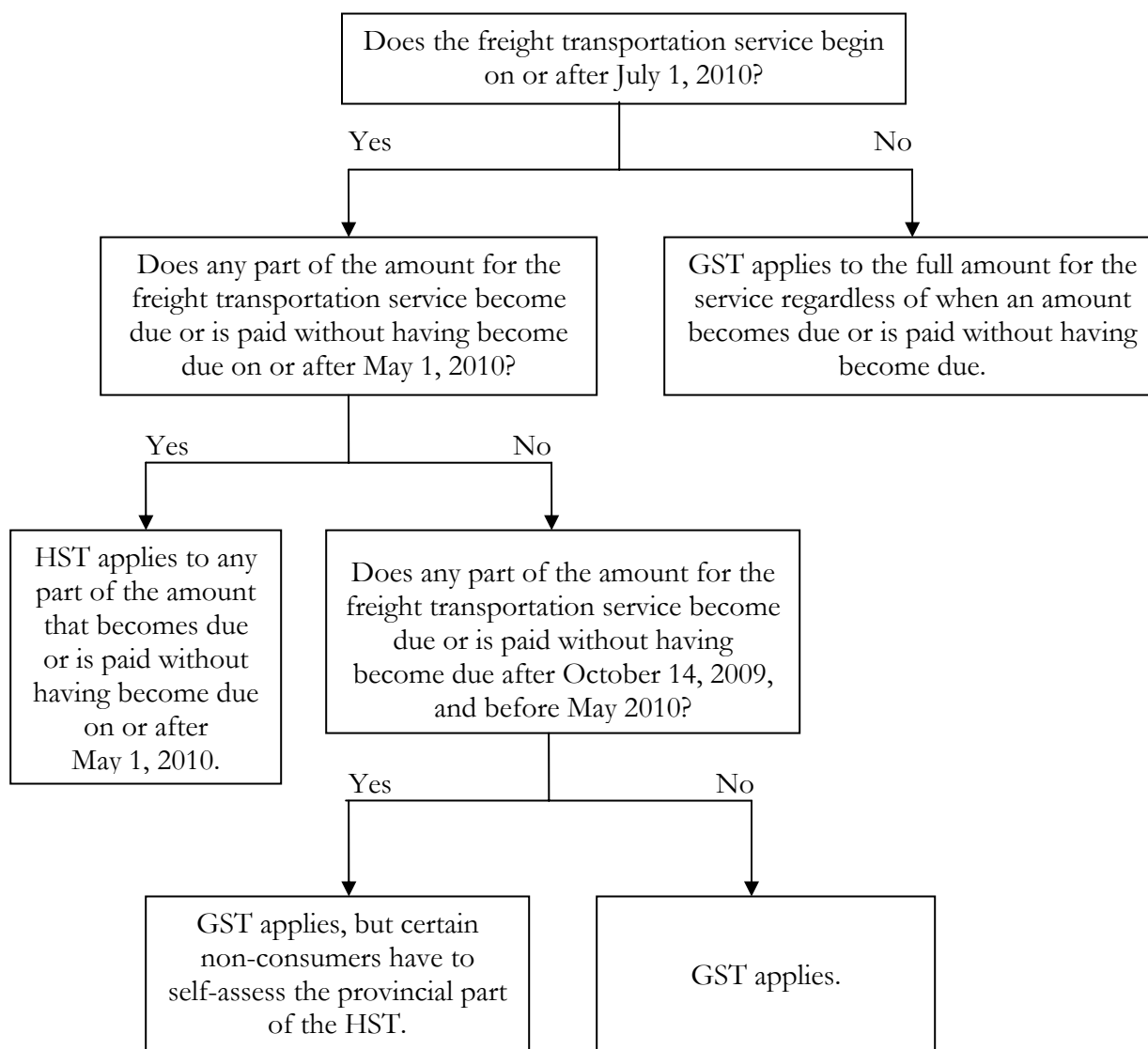
This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for 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 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/gsthsttech.

Appendix A – Transitional rules for freight transportation services

The following illustrates the transitional rules for freight transportation services performed during the period that includes July 1, 2010.



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

- the date of an invoice for that amount for the supply;
- 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 client is required to pay that amount under a written agreement.

For information on what is a written agreement for GST/HST purposes, refer to GST Memorandum 300-6-4, *Agreements in Writing*.

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 April 30. The supplier issues an invoice dated April 15.

The amount becomes due on April 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 an amount under a written agreement.

Amount is paid without having become due

An amount is paid without having become due when a client 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 client 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 April 30. No invoice is issued. The client pays the amount due on April 15. In this case, April 30 is the day the amount becomes due and April 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 client 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, 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 written 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.