



## Ontario and British Columbia: Transition to the Harmonized Sales Tax – Memberships

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 sales of memberships and lifetime memberships where the membership period includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia. For purposes of the transitional rules, a sale of a membership in a club, organization or association is treated as a sale of a service.

**Note:** In this info sheet, all suppliers referred to in the examples are GST/HST registrants and all memberships are taxable. "Taxable" means subject to the 5% GST or to the HST rate in effect in a particular province.

This info sheet does not apply to a right to purchase a membership. Such rights are intangible personal property for GST/HST purposes. For more information on such rights, refer to GST/HST Info Sheet GI-059, *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Intangible Personal Property*.

### Memberships

A membership includes a right granted by a club, organization or association that entitles its members to services provided by the club, organization or association, or to the use of its facilities, that are not available, or are not available to the same extent or for the same fee to other persons. It also includes a right that is conditional on the acquisition or ownership of a share, bond, debenture or other security.

To determine whether GST or HST applies to sales of memberships where the membership period includes July 1, 2010, suppliers must consider:

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

Appendix A to this info sheet has a chart that illustrates the transitional rules for memberships (other than lifetime memberships).

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

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For information on whether GST or HST applies to lifetime memberships, see the information under the heading “Lifetime memberships”.

*When at least 90% of the membership period is before July 2010*

When at least 90% of the membership period is before July 2010, GST applies to any amount that becomes due or is paid without having become due for the membership. Suppliers account for the tax in their GST/HST returns according to the normal rules.

**Example 1**

On April 2, 2010, a fitness club sells a membership that entitles the member to use the club's facilities from April 5, 2010, to July 5, 2010. The membership fee is payable in full when the agreement is signed on April 2.

Because at least 90% of the membership period is before July 2010, the fitness club charges only GST and accounts for the tax in its GST/HST return for the reporting period that includes April 2, 2010.

*When more than 10% of the membership period is on or after July 1, 2010*

The following rule applies when more than 10% of the membership period is on or after July 1, 2010:

- Regardless of the membership period, GST applies to any amount that becomes due or is paid without having become due on or before October 14, 2009.
- Regardless of the membership period, 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”.
- When an amount becomes due or is paid without having become due on or after May 1, 2010:
  - GST applies to any amount that relates to the portion of the membership period that is before July 2010; and
  - HST applies to any amount that relates to the portion of the membership period that is on or after July 1, 2010.

Accounting for the GST/HST charged on memberships

The rules listed above explain whether GST or HST applies to a membership. The following rules explain who accounts for the tax and when it should be accounted for when more than 10% of the membership period is 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 2**

A professional association issues invoices dated January 25, 2010, for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The invoice specifies that the membership period runs from March 1, 2010, to February 28, 2011.

Because the membership fee becomes due after October 14, 2009, and before May 2010, the association charges GST on the full amount and accounts for the tax in its GST/HST return for the reporting period that includes January 25, 2010. Members may have to self-assess the provincial part of the HST for the eight-month portion of the membership that relates to the period of July 1, 2010, to February 28, 2011.

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

When GST applies to a membership or a portion of a membership, the supplier accounts for the tax in its GST/HST return according to the normal rules.

When HST applies to a membership or a portion of a membership, 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 the 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.

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### Example 3

An association issues invoices for \$600 dated May 8, 2010. This amount is for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The annual membership period runs from June 1, 2010, to May 31, 2011.

GST applies to the amount for the portion of the membership that relates to the period before July 2010. The association charges GST on \$50 which represents the portion of the membership for June 2010 (\$600 x 1/12). The association accounts for the tax in its GST/HST return for the reporting period that includes May 8, 2010.

HST applies to the amount for the portion of the membership that relates to the period on or after July 1, 2010. The association charges HST on \$550 (\$600 x 11/12). The association accounts for:

- the 5% federal part of the HST in its GST/HST return for the reporting period that includes May 8, 2010; and
- the 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 GST and/or the HST in its GST/HST return according to the normal rules.

### Example 4

An association issues invoices dated July 2, 2010, for the renewal of annual memberships. The membership period runs from July 1, 2010, to June 30, 2011.

The association charges HST and accounts for the tax in its GST/HST return for the reporting period that includes July 2, 2010.

### Self-assessing the provincial part of the HST

Certain non-consumers have to self-assess the provincial part of the HST when:

- a membership period, or a portion of a membership period, is on or after July 1, 2010; and
- an amount 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 membership must self-assess the provincial part of the HST if the non-consumer:

- does not purchase the membership for consumption, use or supply exclusively in its commercial activity;
- is using a simplified accounting method to calculate its net tax;
- is purchasing a membership that is subject to input tax credit recapture;
- is a charity that uses the net tax calculation 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.

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### Example 5

A professional association issues invoices dated January 25, 2010, for the renewal of annual memberships. The membership fees are payable in full upon receipt of the invoice. The invoice specifies that the membership period runs from March 1, 2010, to February 28, 2011. A self-employed professional, who makes both exempt and taxable supplies, pays the membership fee in February 2010.

Because the membership fee becomes due after October 14, 2009, and before May 2010, the association charges GST on the full amount and accounts for the tax in its GST/HST return for the reporting period that includes January 25, 2010.

The self-employed professional has to self-assess the provincial part of the HST for the portion of the membership that relates to the period of July 1, 2010, to February 28, 2011, because:

- the professional is not a consumer;
- the amount is paid after October 14, 2009, and before May 2010; and

- the professional does not purchase the membership for use exclusively in commercial activities.

### Lifetime Memberships

The CRA considers a lifetime membership to be a membership that entitles a member to rights in a club, organization or association during the member's life.

Special rules apply to lifetime memberships in a club, organization or association when an amount becomes due or is paid without having become due after October 14, 2009, and before July 2010. In this case, HST applies to the amount that exceeds 25% of the total amount for the lifetime membership.

Where HST applies, the club, organization or association accounts for the 5% federal part of the HST in its GST/HST return according to the normal rules. It accounts for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010.

The recipient, if a registrant, would be able to claim any input tax credit to which it is entitled for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010.

### Example 6

An association sells lifetime memberships. The membership fees are payable in three instalments of \$1,000 each. A person buys a lifetime membership on December 1, 2009, and pays the first instalment at this time. The other payments are due December 1, 2010, and December 1, 2011.

The \$1,000 amount payable in December 2009 exceeds 25% of the total amount for the membership ( $25\% \times \$3,000 = \$750$ ). Since HST applies to the portion of the amount that exceeds \$750, the association charges HST on \$250 ( $\$1,000 - \$750 = \$250$ ).

The association accounts for the 5% federal part of the HST in its GST/HST return for the reporting period that includes December 1, 2009. It accounts for the provincial part of the HST in its GST/HST return for the reporting period that includes July 1, 2010.

The association also charges and accounts for the HST on the amounts payable in 2010 and 2011.

### Example 7

An association sells lifetime memberships. The membership fees are payable in five monthly instalments of \$1,000 each. A person buys a lifetime membership on June 1, 2010, and pays the first instalment at that time.

The \$1,000 amount payable in June 2010 does not exceed 25% of the total amount for the membership ( $25\% \times \$5,000 = \$1,250$ ). Therefore, HST does not apply to the amount payable in June 2010. HST applies to the four other amounts payable for the lifetime membership.

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.

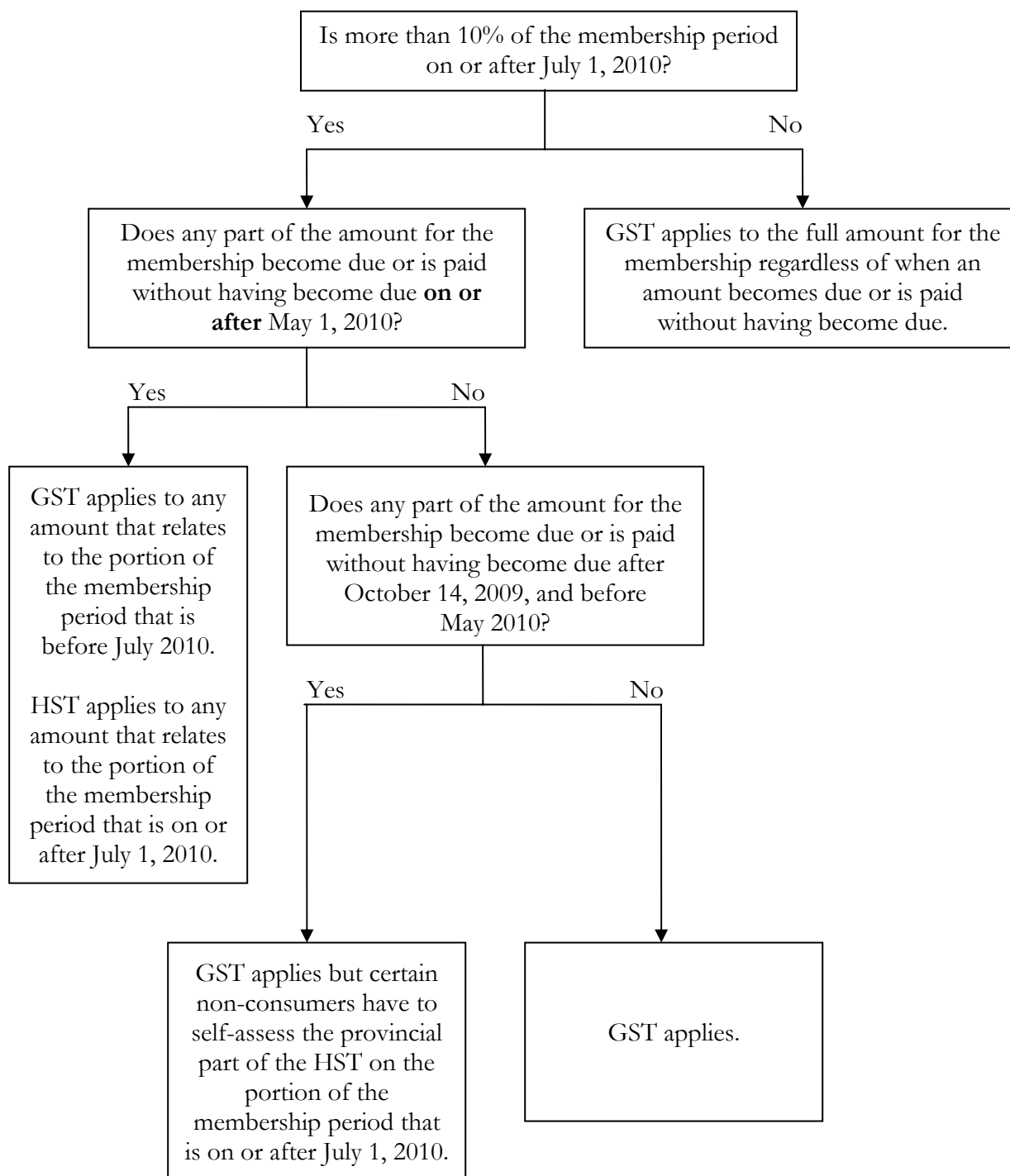
If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. You may also visit their Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthstech](http://www.cra.gc.ca/gsthstech).

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## Appendix A – Transitional rules for memberships

The following illustrates the transitional rules for memberships (other than lifetime memberships) where the membership period includes July 1, 2010.



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## 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**

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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 due 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**

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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**

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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 paid.