

GST/HST Info Sheet

GST/HST Rate Reduction — Streamlined Methods of Accounting for Small Businesses

June 2006

This info sheet explains how the rate reduction in the goods and services tax (GST) and the federal component of the harmonized sales tax (HST) will apply to the streamlined methods of accounting for GST/HST for transactions that straddle the date the reduced rates come into effect.

Background information on the GST/HST rate reduction

Effective July 1, 2006, the rates of the GST and the HST will be reduced. The rate of the GST will be reduced from 7% to 6%. The rate of the HST will be reduced from 15% to 14%. The Minister of Finance is introducing legislative amendments to implement these changes (see Bill C-13, the *Budget Implementation Act, 2006*).

In this info sheet, “taxable” means subject to the GST/HST at the rates of 7% and 15%, or at the reduced rates of 6% and 14%.

The HST applies only to supplies made in or imported into a participating province (i.e., Nova Scotia, New Brunswick, and Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any CRA tax services

office.

General transitional rule

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable on or after July 1, 2006, without having been paid before that day, the rate of 6% GST or 14% HST will apply.
- If the GST/HST is paid on or after July 1, 2006, without having become payable before that day, the rate of 6% GST or 14% HST will apply.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the rate of 7% GST or 15% HST will continue to apply.

Quick Method of Accounting

The Quick Method of Accounting (the Quick Method) is a simplified accounting option available to help small businesses calculate their net tax for GST/HST purposes.

To calculate the amount of GST/HST to be remitted, the business multiplies the amount of its GST/HST-included revenue from taxable supplies for the reporting period by the applicable Quick Method remittance rate, or rates.

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La version française de ce document est intitulée *Réduction du taux de la TPS/TVH – Méthodes de comptabilité abrégée pour les petites entreprises*.

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If you need more information or wish to use the Quick Method, refer to pamphlet RC4058, *Quick Method of Accounting for GST/HST*.

Quick Method of Accounting transitional provisions for the remittance of GST/HST

The specified percentages to remit GST/HST using the Quick Method have been changed to reflect the reduced rates of GST and HST. These new percentages will apply for reporting periods beginning on or after July 1, 2006. For reporting periods beginning before July 1, 2006, and ending on or after that day, the existing percentages will apply for consideration that became due, or that was paid without having become due, before July 1, 2006, and the new percentages will apply for all other consideration.

We define “consideration” for a supply of a good or a service as any amount payable by law for that supply. Generally, consideration becomes due on the date you issue an invoice or the date specified in an agreement, whichever comes first. Consideration for leases of property under an agreement in writing becomes due on the day the recipient is required to pay the amount to the supplier under that agreement.

Remittance rates for small businesses

The following tables reflect the Quick Method remittance rates that apply to small businesses before and after the new rates of GST/HST come into effect.

Table 1 – Remittance rates for businesses that purchase goods* for resale (retailers and wholesalers)

Permanent establishment in a non-participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	2.5%	2.2%
• in a participating province	9.3%	9%
Permanent establishment in a participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	0% (and 2.1% credit)	0% (and 2.5% credit)
• in a participating province	5%	4.7%

* In order to use the rates in Table 1, the cost (including GST/HST) of goods (other than basic groceries and other goods for which you did not pay tax) purchased in the previous fiscal year for resale, or used in goods produced or manufactured for resale, must be at least 40% of total annual taxable supplies (including GST/HST) for that fiscal year. Businesses that have less than this percentage of taxable goods for resale use the remittance rates shown in Table 2.

Table 2 – Remittance rates for service businesses

Permanent establishment in a non-participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	5%	4.3%
• in a participating province	11.6%	11%

Permanent establishment in a participating province		
Supplies made	Current Rate	Reduced Rate
• in a non-participating province	3.2%	2.6%
• in a participating province	10%	9.4%

If your organization is a qualifying non-profit organization, municipality, university, public college, school authority, or a hospital authority, and uses the Special Quick Method of Accounting, refer to the budget papers in the Department of Finance Web site at www.fin.gc.ca/budget06/bp/bpa3ae.htm for the revised remittance rates that apply for your organization.

The Simplified Method for Accounting for ITCs

Businesses that use the Simplified Method for Accounting for ITCs (Simplified Method) and that make purchases in both participating and non-participating provinces currently have to separate their purchases that are taxable at 7% from those that are taxable at 15%. The businesses calculate their ITCs for each reporting period by totalling taxable purchases, including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

- multiplying by 7 and dividing the result by 107 for GST purchases; or
- multiplying by 15 and dividing the result by 115 for HST purchases.

Effective on or after July 1, 2006, the purchases that are taxable at 6% will be separated from those taxable at 14% and

- multiplied by 6 and divided by 106 for GST purchases; or
- multiplied by 14 and divided by 114 for HST purchases

The Simplified Method is used to calculate ITCs for purchases used to provide taxable goods and services. For purchases related to personal use, or to provide both taxable and exempt goods and services, only the portion used for providing taxable goods and services can be included in the ITC calculation. If a purchase is used at least 90% to provide taxable goods and services, the total purchase price can be included in the ITC calculation.

You can find more information and instructions on how to use this method in the guide RC 4022, *General Information for GST/HST Registrants* or by linking to the Simplified Method of Accounting for ITCs topic on the CRA Web site.

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 Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

This info sheet reflects changes to the Act announced by the Minister of Finance on May 2, 2006, and included in Bill C-13, the *Budget Implementation Act, 2006*, which received third reading on June 6, 2006. Any commentary in this info sheet should not be taken as a statement by the CRA that these amendments will be enacted in their current form.

If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.