

Excise and GST/HST News

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Budget 2006

The *Federal Budget* tabled by the Minister of Finance on May 2, 2006 included several proposed measures relating to the goods and services tax and the harmonized sales tax (GST/HST), excise tax, excise duty and the air travellers security charge. Following the Budget, Bill C-13, the *Budget Implementation Act, 2006* was introduced in the House of Commons and received second reading on May 19, 2006.

The following is a brief synopsis of these proposed measures. For more detailed information please refer to the Department of Finance Web site dedicated to the federal budget at this address: www.fin.gc.ca

GST/HST reduced rate

General

Effective July 1, 2006, the rate of GST will be reduced from 7% to 6% and the rate of HST will be reduced from 15% to 14%.

Generally, the new rates apply to the supply of taxable goods and services in the following manner:

- If GST/HST becomes payable on or after July 1, 2006 without having been paid before that day, the 6% GST rate or the 14% HST rate will apply.
- If GST/HST is paid on or after July 1, 2006 without having become payable before that day, the 6% GST rate, or the 14% HST rate will apply.
- If GST/HST becomes payable or is paid before July 1, 2006, the 7% GST rate or the 15% HST rate will apply.

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The HST applies only to supplies made in or imported into the participating provinces of Nova Scotia, New Brunswick and Newfoundland and Labrador. The GST applies to supplies made in the rest of Canada.

In addition to the general rule, certain types of transactions (i.e., sales of real property, deemed supplies, imported goods and imported taxable services and intangibles) will have specific transitional rules. There is also an anti-avoidance provision implemented to maintain the integrity of the GST/HST system through the transition period. These rules are discussed in more detail in *Annex 3: Tax Measures: Supplementary Information and Notices of Ways and Means Motion* on the Department of Finance Budget 2006 Web site.

GST/HST Transitional Rebate for new or substantially renovated houses

Where an agreement, in writing, for the purchase and sale of a newly constructed or substantially renovated house was entered into on or before May 2, 2006, and both ownership and possession are transferred on or after July 1, 2006, GST at 7% or HST at 15% will apply. However, a GST/HST Transitional Rebate will be available for purchasers of such housing to account for the rate reduction. Only in certain cases where a builder sells new or substantially renovated housing on leased land would the builder be entitled to claim a GST/HST Transitional Rebate.

If either ownership or possession of a new or substantially renovated house is transferred before July 1, 2006, regardless of when the agreement of purchase and sale was entered into, the GST at 7% or the HST at 15% will apply and the purchaser will not be entitled to claim a GST/HST Transitional Rebate.

The GST/HST Transitional Rebate available to a purchaser cannot be paid or credited by the builder. The purchaser must complete a rebate application and submit it to the Summerside Tax Centre. When the application form is available, you will be able to obtain it from the CRA Web site.

People selling new homes, such as builders, should make their clients aware of this transitional rebate.

For more information on the GST/HST rate reduction, please refer to the Questions and Answers which were created to assist you in understanding how the GST/HST rebate reduction will apply. As well, three new GST/HST Info Sheets have been published: GI-013, *Reduction in the Rate of the GST/HST*, GI-014, *Applying the GST/HST Rate Reduction to Allowances and Reimbursements*, and GI-015, *GST/HST Rate Reduction and Purchasers of New Housing*. You may also call the GST/HST rate reduction information line at 1-866-959-7797 from 8:15 a.m. to 8:00 p.m.

Air Travellers Security Charge rates

As a result of the proposed GST/HST rate reduction, the Air Travellers Security Charge (ATSC) rates will be adjusted. These ATSC rates will apply to air transportation services purchased on or after July 1, 2006, that include a chargeable emplanement on or after July 1, 2006.

For specific details regarding the rate reductions, please refer to ET/SL Notice 59, *Notice to all Air Carriers: Rate Reductions for the Air Travellers Security Charge*.

Elimination of tax on jewellery products

The excise tax on the following products is eliminated, effective May 2, 2006.

- clocks with a duty paid value or sale price of \$50 or more;
- articles made in whole or in part of natural shells or semi-precious stones;
- jewellery, including diamonds and other precious or semi-precious stones, for personal use or adornment of the person; and
- goldsmiths' and silversmiths' products.

All licensed manufacturers and licensed wholesalers of jewellery will be provided with further information at a later date regarding the cancellation of their excise tax licences.

For specific details regarding this rate elimination, please refer to ET/SL Notice 60, *Notice to all Importers and Licensed Jewellery Manufacturers and Wholesalers under the Excise Tax Act, Elimination of the Excise Tax on Jewellery Products*.

Alcohol and tobacco duties

The federal budget proposes to increase excise duties on spirits, beer and wine and tobacco products. To view a table showing the federal excise duty increases that will apply beginning July 1, 2006, please see Excise Duty Notice EDN9, *Excise Duty Rate Changes – July 1, 2006*.

Tobacco products inventory tax

The federal budget proposes to apply a tax on inventories of tobacco products held on July 1, 2006. Please see Excise Duty Notice EDN 10, *Tobacco Products Inventory Tax* for more information.

Excise duty on wine

The federal budget proposes to exempt from duty the first 500,000 litres of wine produced and packaged by a wine licensee per year made from 100 % Canadian-grown agricultural products.

The proposed relief will apply to all goods falling within the definition of wine in the Act (including ciders, wine coolers, fruit wines and sake) made from 100 % Canadian-grown agricultural products. The relief will be available to wine licensees operating in Canada. This measure will apply to wine packaged on or after July 1, 2006.

For more information please see Excise Duty Notice EDN11, *Excise Duty Exemption on 100% Canadian Wine*.

Excise duty on beer – small and mid-sized brewers

The federal budget proposes that reduced rates of excise duty apply to licensed Canadian brewers who have produced and packaged no more than 300,000 hectolitres (hl) of beer in the previous calendar year and do not exceed that limit in the current calendar year.

For 2006, licensed Canadian brewers will be eligible for relief only in respect of beer they package on or after July 1, 2006. To qualify for the reduced rates in 2006, these producers must have produced and packaged no more than 300,000 hl in 2005 and not exceed that level in all of 2006.

For more information please see Excise Duty Notice EDBN6, *Excise Duty Rate Changes on Beer Produced by Small and Mid-Sized Brewers*.

Standardized accounting

Standardized accounting aims to simplify tax compliance, primarily for business persons, by harmonizing various administrative, interest and penalty provisions across federal tax statutes. The goal of this initiative is an integrated set of rules for the payment of tax, calculation of interest, and penalties that simplifies the tax system for both business and the CRA and ultimately leads to increased efficiency and cost savings.

The first series of standardized accounting measures, which harmonized a number of administrative and enforcement provisions under the *Excise Tax Act* (non-GST), the *Excise Act, 2001*, and the *Income Tax Act*, became law effective July 1, 2003.

The federal budget proposes measures that harmonize a number of other administrative, interest and penalty provisions, primarily as they relate to the GST portion of the *Excise Tax Act*, but also affecting the *Excise Tax Act* (non-GST), *Excise Act, 2001*, *Income Tax Act*, and the *Air Travellers Security Charge Act*. These measures will apply based on an implementation date that is the later of April 1, 2007 and the date that the proposed legislation receives Royal Assent.

For specific coming-into-force provisions please see *Annex 3: Tax Measures: Supplementary Information and Notices of Ways and Means Motion* on the Department of Finance Budget 2006 Web site.

GST/HST Web Registry

The *Excise Tax Act* has recently been amended to enable the creation of a GST/HST Web Registry.

The registry can be used to verify the GST/HST registration of a person. This is important for GST/HST registrants since they are required to ensure that they claim input tax credits only where the GST/HST has been charged by suppliers who are registered for GST/HST purposes.

In the past, registrants needing this kind of information had to contact the CRA by telephone. Now, registrants and other members of the public can access the registry themselves to verify a supplier's GST/HST registration on-line. This will streamline the process by ensuring that a supplier's registration information is readily available. The registry has been designed so that a supplier's registration status may be verified for a specific invoice date.

Registrants whose business or trading names appear on their invoices should verify that these same names are displayed on their GST/HST statements and returns from the CRA. Any names that are not on file at CRA cannot be verified through the registry. If you are unsure whether these names have been provided to the CRA, contact Business Enquiries at 1-800-959-5525.

To access this registry please go to www.cra-arc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html

Excise duty licences other than beer

All licences issued under the *Excise Act, 2001* (i.e., issued to spirits licensees, tobacco licensees, tobacco dealers, wine licensees, licensed users, excise warehouse licensees, special excise warehouse licensees and duty free shop licensees) expire after a maximum of two years if not renewed. As well, in certain cases, a licence may be suspended or cancelled prior to its normal expiry date.

For certain transactions to be in compliance with the *Excise Act, 2001* (the Act), one or both parties to the transaction must have the appropriate licence or registration.

For example:

- A licensed tobacco dealer sells raw leaf tobacco to another company to be processed into cut filler for the company's own production of cigarettes. Because of limitations under the Act as to who may possess raw leaf tobacco, the licensed tobacco dealer must be certain that the party to whom it sells raw leaf tobacco is a tobacco licensee under the Act. The tobacco licensee should also be certain that the tobacco dealer from whom it makes the purchase is licensed under the Act to sell raw leaf tobacco.
- A spirits licensee has produced bulk spirits that it ships to another party to have them packaged and subsequently returned to place in the licensee's own excise warehouse on an excise duty deferred basis. Both parties must have spirits licences under the Act in order to engage in the production or packaging of spirits and to possess bulk spirits. The second party must also be certain that the licensee to whom it is returning the packaged spirits for storage also has an excise warehouse licence entitling it to receive the packaged spirits and store them on a duty deferred basis.
- A spirits licensee wishes to sell and ship specially denatured alcohol (SDA) to a person who claims to be an SDA registrant. The spirits licensee, who is entitled to possess SDA, must be certain that the party to whom it sells and ships the SDA is indeed an SDA registrant.

To confirm whether a person with whom you are dealing has the proper licence or registration, call the nearest Regional Excise Duty Office. These offices are listed in Excise Duty Memorandum 1.1.2, *Regional Excise Duty Offices*.

A person who wishes to renew their licence must submit, at least 30 days before the expiry date, a completed application form L63, *Licence and Registration Application Excise Act, 2001*, to any CRA tax services office. The person should indicate in the appropriate box on the form that the application relates to the renewal of an existing licence. A person who wishes to apply for a registration should use form L63 as well.

For more information on how to apply for or renew an excise duty licence please see Excise Duty Memorandum 2.2.1, *Obtaining and Renewing a Licence*.

Third party authorization – keep your BN account up to date

It is important for you to keep your Business Number (BN) account up to date when it comes to information regarding authorized third parties. Authorized third parties often call the CRA looking for specific information to complete a tax return or to change account information such as the address, telephone and contact information. If the name of the party contacting the CRA is not on file, we cannot respond to the request.

To avoid disappointment and delays in responding to your account enquiry, please mail a completed and signed RC59, *Business Consent Form* to the CRA whenever there is a change or addition to your third party information. This form can be downloaded from the CRA Web site.

Processing the form or letter usually takes five to 10 business days from the day received.

Simplified method for calculating input tax credits

The simplified method for calculating input tax credits (ITCs) is an alternative way of calculating the input tax credit portion of your GST/HST return.

You can use this method if you meet all of the following requirements:

- You are a GST/HST registrant.
- You are **not** a listed financial institution.
- You and your associates have annual worldwide revenues from taxable supplies of goods and services totalling \$500,000 or less both in your immediately preceding fiscal year and the preceding fiscal quarters in the current fiscal year. This limit does not include goodwill, zero-rated financial services, or sales of capital real property.
- Your taxable purchases in Canada must also not exceed \$2 million in the immediately preceding fiscal year. The \$2 million purchase limit does not include zero-rated purchases, but does include purchases imported into Canada or brought into a participating province. If you are a public service body, you must be able to reasonably expect that your taxable purchases in the current fiscal year will not be more than \$2 million.

If you qualify, you can begin using the simplified method for calculating ITCs at the beginning of any reporting period in a fiscal year. It is not necessary to file a separate form with us to use the simplified method but you do have to use it consistently for one year if you continue to qualify.

With the simplified method for calculating ITCs, you don't have to separate the amount of GST/HST payable on each invoice. Instead, you only need to add the total amount of your taxable purchases other than zero-rated purchases, including GST or HST, other taxes and duties imposed on imported goods, non-recoverable provincial sales tax (PST), tips, and penalty and interest charges on late payments. If you make purchases in both participating and non-participating provinces, you will need to separate your purchases that are taxable at 7% from the purchases that are taxable at 15%.

To calculate your ITC you simply multiply your total taxable (other than zero-rated) purchases by 7/107 for GST purchases and 15/115 for HST purchases.

If you make purchases in both participating and non-participating provinces, you currently have to separate your purchases that are taxable at 7% from those taxable at 15%. To calculate your ITCs for each reporting period, you total your taxable purchases (other than zero-rated purchases), including GST or HST, provincial sales tax (PST), tips, and penalty and interest charges on late payments, and:

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

Effective on or after July 1, 2006, when you make purchases subject to 6% GST or 14% HST, to calculate your ITCs on these purchases, you will separate your purchases that are taxable at 6% from those taxable at 14% and:

- multiply by 6 and divide the result by 106 for GST purchases; or
- multiply by 14 and divide the result by 114 for HST purchases.

You can use the simplified method to calculate ITCs only for purchases you use to make taxable supplies of goods and services. If you use your purchases for personal use, or to make both taxable and exempt supplies of goods and services, only the portion used for making taxable supplies of goods and services can be included in the ITC calculation. However, if you use a purchase at least 90% to make taxable supplies of goods and services, you can include the total purchase in your ITC calculation. You will also have to keep the usual documents to support your input tax credit claims for audit purposes.

For more information and examples of how to calculate your ITCs using on the simplified method, please refer to the CRA guide RC4022, *General Information for GST/HST Registrants*.

What's new in publications

All GST/HST forms and guides affected by the federal budget will be updated and available on the CRA Web site by July 1, 2006. In addition, two new forms for claiming the GST/HST Transitional Rebate for new or substantially renovated houses, and one new form for claiming the new housing rebate for owner-built homes will be available.

The CRA will soon make available to retailers, on request, information about the reduced rates for GST/HST and new stickers that show the new rate for each tax. The stickers can be displayed in places of business. Retailers will be able to order these items online at www.cra.gc.ca or by calling 1-800-959-2221. More information will be provided on the CRA Web site closer to the July 1, 2006 implementation date for the new rates.

GST/HST Pamphlets/Guides

RC4405 GST/HST Rulings - Experts in GST/HST Legislation

GST/HST Forms

RC145 Request to Close Business Number Accounts

GST/HST Info Sheets

- GI-013 Reduction in the Rate of the GST/HST
GI-014 Applying the GST/HST Rate Reduction to Allowances and Reimbursements
GI-015 GST/HST Rate Reduction and Purchasers of New Housing

GST/HST Technical Information Bulletins

- B-093 Application of the GST/HST to Cemetery Products and Services

Excise Duty Notices

- EDBN4 Amendment to the Payment Schedule for Brewers
EDBN5 K50B Filing and Payment Schedules for Brewers (2006-2007)
EDBN6 Excise Duty Rate Changes on Beer Produced by Small and Mid-Sized Brewers
EDN 9 Excise Duty Rate Changes—July 1, 2006
EDN10 Tobacco Products Inventory Tax
EDN11 Excise Duty Exemption on 100% Canadian Wine
EDN12 Regulations Amending the Denatured and Specially Denatured Alcohol Regulations

Excise Duty Memoranda

- EDM1-1-5 Instrument Certification

Excise Taxes and Special Levies Notices

- ETSL56 Notice to all Tax Practitioners and Licensed Manufacturers, Wholesalers, and Filers of End-user Refunds under the Excise Tax Act
ETSL57 Application of the Excise Tax on Air Conditioners in Unsalvageable or Scrap Vehicles
ETSL58 Notice to all Tax Practitioners and Licensed Manufacturers, Wholesalers and Filers of End-user Refunds under the Excise Tax Act
ETSL59 Notice to all Air Carriers: Rate Reductions for the Air Travellers Security Charge
ETSL60 Notice to all Importers and Licensed Jewellery Manufacturers and Wholesalers under the Excise Tax Act - Elimination of the Excise Tax on Jewellery Products

Excise Forms

- B241 Excise Tax Return - Broker
B270 Excise duty return – Non-Licensee
E680 Notice of Objection - Excise Act, 2001

All GST/HST, Excise Duty, and Excise Taxes and Special Levies publications can be found on the CRA Web site at: www.cra-arc.gc.ca/tax/technical/menu-e.html

Prescribed rates of interest

The prescribed annual rate of interest in effect from April 1, 2006 to June 30, 2006, with respect to the GST/HST and the air travellers security charge (ATSC) is set at 3.6099% . Interest and penalty compound daily. To calculate interest, divide the annual rate by 365 (366 in a leap year) and apply it daily to the previous day's compound balance.

The prescribed annual rate of interest in effect from April 1, 2006 to June 30, 2006, with respect to amounts of income tax, excise tax and excise duty (except excise duty on beer) payable to the Minister (i.e., arrears and instalment payments) is established at 8%. The prescribed interest rate on amounts owed by the Minister (i.e., refunds) is established at 6%. These rates compound daily.

The prescribed annual rate of interest respecting excise duty on beer accounts is set at 6% for the period April 1, 2006 to June 30, 2006. Penalty compounds monthly and interest compounds daily.

Period	GST/HST ATSC (per annum)		Income Tax, Excise Tax, Excise Duty (wine, spirits, tobacco)		Excise Duty (beer)	
	Interest	Penalty	Refund Interest	Arrears and Instalment Interest	Interest	Penalty
2006						
April 1 – June 30	3.6099 %	6.0 %	6.0%	8.0 %	6.0 %	6.0 %
January 1 – March 31	2.4333 %	6.0 %	5.0 %	7.0 %	5.0 %	6.0 %

Prescribed interest rates are adjusted every calendar quarter.

Rates of interest for previous periods are available on the CRA Web site.

GST/HST Enquiries

To make enquiries regarding your GST/HST account, call Business Enquiries at 1-800-959-5525

To make enquiries regarding the status of specific GST/HST domestic rebate claims, call
1-800-565-9353

To make enquiries regarding the status of visitor rebate claims, call 1-800-668-4748

To obtain copies of forms and publications, call 1-800-959-2221

To order your replacement GST/HST stickers, call 1-800-959-2221.

If you are in Quebec please call the following toll-free number:
1-800-567-4692 (Revenu Québec)

The *Excise and GST/HST News* is published quarterly and highlights recent developments in the administration of the goods and services tax (GST) and harmonized sales tax (HST) as well as excise taxes and duties. This publication is provided for information purposes only and does not replace the law, either enacted or proposed. For further information on any of the articles contained in this newsletter, contact your nearest Canada Revenue Agency (CRA) tax services office or call Business Enquiries at 1-800-959-5525. Comments or suggestions about the newsletter should be sent to the Editor, *Excise and GST/HST News*, Legislative Policy and Regulatory Affairs Branch, CRA, Ottawa, Ontario K1A 0L5. ISSN 1183-689X