

PROVINCIAL SALES TAX RATE CHANGE - OCTOBER 28, 2006

Effective October 28, 2006, the Provincial Sales Tax rate was reduced from 7% to 5%.

The new 5% tax rate applies to all taxable sales made on or after October 28, 2006.

TRANSITIONAL RULES

Taxable Goods

The **7% tax rate** applies to taxable goods purchased before October 28, 2006. This includes:

- goods received by customers prior to October 28, 2006, but paid for on or after that date;
- goods purchased on credit where the purchaser takes legal title or possession of the goods before October 28, 2006, even though the purchaser pays the credit card company, financing company or vendor after the effective date;
- deferred payment arrangements where the purchaser receives possession of the goods before October 28, 2006 but is not required to make payment until after that date. For example, a customer buys a stereo on October 1, 2006 but is not required to make any payments until 6 months later. Even though payment has been deferred until after the effective date, the sale is considered to have been completed on credit prior to October 28, 2006 and tax applies at 7%.

The **5% tax rate** applies to taxable goods purchased on or after October 28, 2006. This includes goods that are delivered or provided to customers on or after October 28, 2006 even if the goods were ordered or paid for before that date.

Taxable Services

Since nothing tangible changes hands, the sale of a taxable service is generally considered complete when payment for the service is due or payment has been made, whichever occurs first.

The **7% tax rate** applies to all payments for taxable services that were made or became due before October 28, 2006 even if the services are provided after October 28, 2006 or during a period that spans October 28, 2006 (this is similar to the transitional rules used by the Canada Revenue Agency when the GST was reduced from 7% to 6%).

The **5% tax rate** applies to all payments for taxable services that are made or become payable on or after October 28, 2006 even if the contract for the services was entered into before the effective date.

Leases

Tax generally applies at the time that a lease payment becomes due.

The **7% tax rate** applies to all lease payments that were made or became payable before October 28, 2006.

The **5% tax rate** applies to all lease payments that are made or become payable on or after October 28, 2006 even if the lease was entered into prior to that date.

If a lease payment is for a period that straddles October 28, 2006, the lessor should prorate the tax according to the tax rate in effect during each part of the billing period. If payment for that part of the period after October 27, 2006 has already been billed or paid at 7%, the lessor should provide a credit adjustment in a future billing period.

Utilities

Telecommunications services (telephone, internet, cable television, etc.) are taxable services and are subject to the rules set out above for taxable services. Tax applies based on the date that payment for the service is due or paid. Vendors of telecommunications services are not required to prorate their charges if a billing period straddles October 28, 2006.

The provision of taxable electricity (non-residential) is a supply of tangible personal property. Therefore, if a billing period spans October 28, 2006 the supplier should prorate the tax according to the tax rate in effect during each part of the billing period. If payment for that part of the period after October 27, 2006 has already been billed or paid at 7%, the vendor should provide a credit adjustment to the customer in a future billing period.

Real Property Contracts

Contractors are required to pay tax at the rate that is in effect at the time that they purchase taxable goods or services for use in completing real property contracts, regardless of when the contract for the real property improvements was entered into.

Lodging

Taxable lodging provided prior to October 28, 2006 is subject to tax at 7%. Charges for lodging provided on or after October 28, 2006 are subject to tax at 5%.

Refunds

Refunds of tax for returned goods or cancelled sales must be provided at the rate of tax that was applied to the original sale.