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TaxNewsFlash Canada

Upcoming HST Changes — Get Systems and Processes Ready

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Businesses across Canada must ensure that they prepare for upcoming HST changes and complete any appropriate adjustments to their systems and processes. These upcoming HST changes will affect businesses located in New Brunswick, Newfoundland and Labrador, Ontario and Prince Edward Island, as well as businesses that have activities in those provinces.

It is important to prepare for these changes as soon as possible since GST/HST applies to most transactions and errors in systems and processes can multiply quickly and become very expensive.

Overview of upcoming HST changes
The following HST regimes in Canada will see significant changes in the coming months:

- New Brunswick plans to increase its HST to 15% (from 13%) effective July 1, 2016
- Newfoundland and Labrador plans to increase its HST to 15% (from 13%) effective July 1, 2016 and reinstate a 15% retail sales tax on some insurance premiums
- Ontario will continue to phase out the recaptured input tax credit (ITC) rules that apply to large businesses by reducing the recapture rate to 50% (from 75%) effective July 1, 2016
- Prince Edward Island plans to increase its HST to 15% (from 14%) effective October 1, 2016.

Businesses, including non-resident businesses, that are registered for GST purposes are also registered for HST purposes. As such, any of these businesses that make supplies in

an HST province may be required to collect HST that applies for that province. Also, many large businesses across Canada incur expenses that are subject to the recapture ITC requirements.

This *TaxNewsFlash-Canada* highlights some upcoming changes that affect a wide range of businesses and some public sector entities.

HST rate increases coming

Many businesses must prepare now to get their systems and processes ready and tested for upcoming HST rate increases. New Brunswick and Newfoundland and Labrador have proposed to increase their HST rate to 15% (from 13%) effective July 1, 2016. Also, Prince Edward Island plans to increase its HST rate to 15% (from 14%) effective October 1, 2016.

Many businesses that are GST/HST registered and located in or outside these provinces will be affected if they supply goods or services that are considered made in the province under the HST place of supply rules. For example, a business in British Columbia that sells and ships goods to an address in New Brunswick would generally be required to collect New Brunswick HST.

Businesses affected by these HST rate increases will have to adjust many systems and processes depending on their operations. Specifically, these businesses should:

- Make required changes to their accounts payables, accounts receivables and invoicing systems
- Apply the HST transitional rules as required to transactions that straddle the effective dates of July 1, 2016 and October 1, 2016, as applicable
- Review contracts that have “all tax included” clauses and calculate additional tax costs
- Prepare systems to deal with returns and exchanges of goods after June 30, 2016 and September 30, 2016, as applicable
- Review how the tax changes will affect coupons and reward programs
- Adjust employee expense account templates with the new HST rates
- Prepare systems to account for HST rate changes for self-assessment and rebates on goods and services brought into and removed from the HST provinces
- Prepare for the elimination of the point-of-sale rebate in Newfoundland and Labrador for books purchased by individuals (which we understand is expected to be effective January 1, 2017).

Financial institutions and other entities, such as public sector entities, are generally not entitled to claim a full credit to offset HST paid. These entities will generally see their

unrecoverable tax costs increase. Many financial institutions that have offices in these provinces will also have to make changes to reflect the tax rate increases in the tax calculations required for filing their GST/HST returns.

Investment fund managers — Adjust your "blended rates"

Many investment fund managers will have to adjust their 2016 "blended rates" twice in the coming months to take into account the tax rate changes: July 1, 2016 and October 1, 2016. Investment fund managers that miscalculate their blended rates could face tax assessments of uncollected tax and interest that may not be recoverable from their investment plan clients.

Specifically, managers that have TATE elections with qualifying investment plans collect GST/HST and QST from their funds based on complicated calculations known in the industry as the "blended rates". The TATE election effectively helps investment plans to meet their compliance obligations as well as to manage cash flow related to the GST/HST and the QST. The blended rates take into consideration the GST/HST and the QST that apply on the managers' services based on the "place of supply" rules as well as the tax adjustment amounts transferred from the investment funds to the managers throughout the year.

Employers and their employees' pension plans — Update your tax calculations

Many employers that offer pension plans to their employees will have to review their GST/HST calculations under the GST/HST pension plan rules in light of the three HST rate increases in 2016.

In general, many employers with a registered pension plan are deemed to make taxable supplies to their pension plans on the last day of their fiscal year and to have collected the GST/HST based on some complicated rules.

For example, qualifying employers that have a December 31 year-end and are monthly GST/HST filers will have to adjust their tax calculations to account for the HST rate increases on the taxable supplies they will be deemed to have made on December 31, 2016. They are required to remit those tax amounts in their December 2016 GST/HST return, which will generally be due by the end of January 2017.

Employers — Use the right tax rates for your taxable benefits

Employers that provide taxable benefits to employees are required to calculate and remit an amount of GST/HST on many of these benefits and on related reimbursements paid by employees. The calculations of the amount of tax remittable generally depend on the nature of the benefit and the province in which the employee ordinarily reports for work. Employers will have to adjust their related processes and systems to help ensure they take into account the appropriate HST rates.

Similar rules apply for shareholders' taxable benefits.

Large businesses — Prepare for next phase-out step of recaptured ITCs

Large businesses should review and prepare their systems to get ready for the upcoming second phase of the phase-out period of the recaptured ITCs under the Ontario HST. The recaptured rate used in these calculations is expected to drop to 50% (from 75%) as of July 1, 2016. The phase-out period started on July 1, 2015 when the Ontario HST recapture rate dropped to 75% (from 100%).

Under the Ontario HST, large businesses must repay to the CRA the provincial component of the Ontario HST claimed as ITCs on the following types of specified property and services:

- Energy
- Telecommunications
- Meals and entertainment expenses
- Some motor vehicles.

These temporary recaptured ITC rules were introduced with the Ontario HST on July 1, 2010. Similar recaptured ITC rules apply for Prince Edward Island HST. However, the related phase out period for the Prince Edward Island HST will begin only on April 1, 2018.

We can help

Your KPMG adviser can help you manage the impact of these and other federal or provincial indirect tax deadlines and changes that may affect your business. We can help you manage your indirect tax compliance obligations in all relevant jurisdictions and also help you ensure that you are not missing refund opportunities. For details, contact your KPMG adviser.

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