Details

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Get Systems Ready for Next RITC Phase-Out Period Starting July 1, 2016

Canadian Tax Adviser

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Many large companies must get their systems ready for the second phase-out period of the recaptured input tax credit (RITC) rules in Ontario effective July 1, 2016. Various accounts and calculations related to the specified property and services subject to the RITC rules could be affected, including common area maintenance charges and employee expense accounts.

Qualifying large businesses will benefit as the recapture rate decreases to 50% (from 75%) for expenses incurred as of July 1, 2016. However, these businesses still have to report 100% gross RITC amounts when they file their electronic GST/HST returns and allocate the expenses to the appropriate recapture rate (e.g., 75% and 50%). As a result, large businesses have to carefully recalculate their RITC amounts if their systems applies the recapture rate to the expense at the time of data entry.

Background

The RITC requirements effectively restricts the input tax credits (ITCs) for the provincial component of the HST in respect of a specified property or services acquired, imported or brought into Ontario. A specified property or service includes qualifying energy, telecommunications, meals and entertainment expenses and motor vehicles under 3,000 kilograms.

Large businesses subject to the RITC rules cannot simply forgo their ITC claim and not report the RITC in their GST/HST return. As such, qualifying large businesses would generally claim their related ITCs in the appropriate reporting period and report the RITCs as required. Ontario's RITC rules have applied since the introduction of the HST July 1, 2010 at a recapture rate of 100%. As originally announced, the three-year phase-out period began July 1, 2015.

In general, a large business is defined as a business with more than $10 million in annual revenues, including revenues from related entities, as well as most financial institutions.

Next phasing out of the RITC in Ontario

The recapture rates for the RITC will be phased out over three years, as follows:

Recapture periods	Ontario RITC recapture rate
July 1, 2015 to June 30, 2016	75%
July 1, 2016 to June 30, 2017	50%
July 1, 2017 to June 30, 2018	25%
July 1, 2018 and beyond	0%

The recapture rate that applies to a particular specified property or service is the rate that applies at the time the HST first became payable, or was paid without having become payable for that particular property or service. As such, businesses have to review their data entries to make sure that the appropriate recapture rate (100%, 75% or 50%) applies for a particular invoice.

Large businesses have to include in Schedule B of the GST/HST Netfile return the gross amount of RITC for the particular recapture period. Some large businesses that change their systems to include the new 50% recapture rate as of July 1, 2016 will have to manually recalculate the gross RITC amount for the particular reporting period when they file their GST/HST return. Otherwise, these large businesses may report the net RITCs (i.e., already reduced to 50%) on Schedule B, on which a 50% recapture rate will apply again, potentially creating a tax liability.

In some circumstances, large businesses may have to allocate the gross RITCs between recapture rates, such as where their reporting period straddles July 1, 2016.

Large businesses should also keep in mind that the new 50% recapture rate may also affect other systems and calculations, such as employee expense accounts and their estimation/reconciliation RITC method, if applicable.

Properly reporting RITCs

As a reminder, where RITCs were not reported correctly for a prior reporting period, businesses cannot simply adjust the current reporting period to remit any additional tax owing. Large businesses must correct the particular reporting period that related to that particular RITC. Interest

Publications

Canadian companies may be interested in these recent publications:

- TaxNewsFlash
- Global Tax Adviser
- Canadian Tax Adviser
- Transfer Pricing Highlights
- Trade Matters
- These publications, among many others, are available at www.kpmg.ca.

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and penalties can apply to RITC errors.

While large businesses are required to keep records to determine the person's liabilities and obligations, the CRA has noted that large businesses may record either the total amounts of gross RITC or net RITC in its books and records.

We can help

Your KPMG adviser can help you review how the reductions of the recapture rate during the phase out period will affect your systems, costs and GST/HST returns. We can assist you with your various indirect tax compliance obligations.

For more information, contact your KPMG adviser.

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