

Beck and Associates

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HST Issues for Contractors

Will Anyone miss the PST?

- Problems with PST
 - Too complex, always problems with the PST Auditor
 - Two returns – GST & PST – completely different rules
 - Cascading effect – real cost of PST is hard to trace
- Contractors pay PST as the "user" of materials in construction services contracts
- Self-assessment of PST on materials and equipment purchased from outside BC

HST Impact on Contractors and their Customers

- Basically, GST @ 12%
 - Costs - PST replaced by refundable HST, so your costs will come down
 - Revenues – Construction services now s.t. 5% will become s.t. 12% tax
 - HST will be "flow-through", refundable to General Contractors and Developers
 - Commercial construction projects - huge savings compared to PST system
 - Developers of residential projects - "Net HST" after new housing rebates
 - Home renovation services - HST not refundable to homeowners
 - Municipalities get 75% HST rebate, e.g. infrastructure
 - Charities get 57% HST rebate
 - Hospitals, schools, universities - no HST rebate yet announced by government

Special Rules for HST

- Motor fuel exemption – Carbon taxed, no refundable HST
- Large business ITC restrictions on provincial component (HST and not GST)
 - Restrictions if revenues > \$10M (associated corps, worldwide sales)
 - 5 year restriction followed by 3 year phase out;
 - Restrictions on energy, telecommunication services, road vehicles less than 3,000 kgs. and meals & entertainment. (50% GST ITCs – 0% HST)

Transitional Rules for HST – HST Notice #1 dated Oct. 14, 2009

- HST on sale of real property (other than residential property) if ownership and possession are transferred on or after July 1, 2010
- Residential sales agreements may be grandfathered if entered into < Oct.14/09
- General transitional rules regarding services;
 - HST on prepaid services starting on May 1, 2010
 - HST to extent of prepaid services, i.e., to be performed after June 30, 2010
 - No HST if the service is 90% or more completed at June 30, 2010

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HST Issues for Contractors (Cont'd)

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Transitional Rules for HST – HST Notice #1 dated Oct. 14, 2009 (Cont'd)

- The above general rules do not apply broadly to the Construction Sector
 - Contractors must collect HST on progress payments received as of Oct. 14/09 if the service is not performed before July 1, 2010
 - The "prepaid" HST will be remitted for the July 2010 reporting period
 - Pg. 15 of HST Notice #1 - needs clarification - Implies construction contracts more than 3 months will be excluded from the general "90% complete" rule;
 - Will construction contracts < 3 mth be HST-free if >90% complete at Jun 30/10?
 - Will contracts in excess of 3 months have HST applicable on the costs to complete at July 1, 2010, even if more than 90% completed at that time?
- Transitional PST Inventory Rebate for residential real property contract - applies only to PST-paid inventory of materials not installed in a residential project at July 1, 2010

Transitional Contracting Issues

- Existing Fixed Price Contracts with Standard Taxation clauses – You might have to reduce the Fixed Price for PST cost savings realized after June 30/09
 - Reduced costs of equipment, supplies and direct materials
 - Subcontracts should cost less because subcontractors will realize savings too
 - Embedded PST? OR PST on purchased and/or uninstalled materials?
- New Bids / Contracts need to contemplate HST and partial or no PST
 - Bid Prices should state that GST / HST is excluded
 - Transparency with customers regarding potential PST savings / reductions

What to do in the meantime

- Defer capital asset additions that would have PST
- Reduce inventory where the purchase is subject to PST
- Try to have a good cut off and bill jobs for work done at June 30, 2010
- Ask your suppliers to reduce their costs to reflect their PST savings
- Remember - HST is a cash flow issue but not a cost for your business