

GST/HST Rate Reduction: Checklist for SMEs

DIN0613-0711

Is your business ready for the GST/HST Rate Reduction?

On January 1, 2008, the goods and services tax (GST) rate will be lowered from 6% to 5%. This also means that the harmonized sales tax (HST) rate will be reduced from 14% to 13% in New Brunswick, Nova Scotia and Newfoundland & Labrador.

The majority of CFIB members have told us that the GST/HST rate reduction is a positive move by the federal government to help lessen the high level of taxes placed on small- and medium-sized businesses and consumers. As a business owner who collects and remits GST/HST, there are some steps that you will need to take prior to the new lower rates taking effect on January 1, 2008.

To assist you, CFIB is providing a checklist of various areas you may need to address, as well as highlights of the general transitional rules. Given that the GST/HST tax affects businesses differently, this checklist should be used as a general guide for your business. For detailed information on the GST/HST rate reduction you should consult your accountant or the Canada Revenue Agency.

GST/HST Implementation Checklist

Sales and Billing Processes

- Update GST/HST rate in sales equipment, such as cash registers, to charge the correct rate of tax.
- Ensure any revenues collected via automated payments from customer bank accounts are appropriately adjusted.
- Update price lists, catalogues and other sales materials that are preprinted with the new tax rate.
- Update website or online payment software for businesses that sell products or services over the internet.

Purchasing and Accounting Processes

- Update accounts payable software.
- Update input tax credit calculations.
- Update taxable benefit calculations.
- Update formulas and spreadsheets, such as expense reports.

- Invoices received during the transition period should be entered carefully, as the business will be receiving invoices with tax rates at both the new and old rates¹.
- Once the new rate takes effect, review automatic bill payments to make sure the rate change has taken effect.
- Watch for potential effects on rebate amounts and refund calculations² (eg. GST/HST housing rebate and GST/HST Quick Method).
- Businesses that cannot recover the full amount of the GST/HST may have to revise budget calculations for projects or general operations.
- Cash flow projections may also change.

¹ Any amounts invoiced before January 1, 2008 should be invoiced at the 6% GST rate or 14% HST rate.

² The rates for GST/HST rebates and refunds have not changed, however, some of the calculations have changed due to the lowered rate.

New GST/HST Implementation Rules

General Transitional Rules*

- If GST/HST becomes payable, or is paid without having become payable, before January 1, 2008, the 6% GST rate or the 14% HST rate will apply.
- If GST/HST becomes payable on or after January 1, 2008, without having been paid before that date, the 5% GST rate or the 13% HST rate will apply.
- If GST/HST is paid on or after January 1, 2008, without having become payable before that day, the 5% GST rate or the 13% HST rate will apply.
- If either the date of an invoice, or the payment date under a written agreement, is earlier than the day the invoice is issued, GST/HST becomes payable on the earlier date.
- Provisions of the Excise Tax Act that normally determine when the GST/HST is payable will apply to determine the appropriate rate of tax. For example, in the case of a lease, GST/HST becomes payable on the earliest day the payment is required to be made under the lease agreement.

*Source: Department of Finance and Canada Revenue Agency, November, 2007.

In addition, for certain types of transactions specific transitional rules will apply. For more information on the specific transitional rules or any questions on the GST/HST rate reduction contact the Canada Revenue Agency GST/HST Rate Reduction Hotline at 1 866 959-7797 or consult their website at <http://www.cra-arc.gc.ca/E/pub/gi/notice226/README.html>

If you have questions pertaining to this handout you can also contact CFIB Member Services at member@cfib.ca.

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