

General HST Backgrounder

June, 2010

What is the HST?

The Harmonized Sales Tax, or HST, combines the provincial sales tax with the federal Goods and Services Tax (GST), to create a single, federally administered HST.

The HST is a Value Added Tax (VAT), and applies to most purchases of goods and services in Nova Scotia, New Brunswick, Newfoundland & Labrador, British Columbia and Ontario.

In Nova Scotia, the HST rate is 15 per cent – 5 per cent GST combined with a 10 per cent provincial sales tax.

The HST operates the same way as the Goods and Services Tax (GST), which is in place across Canada, and is applied to the same types of goods and services.

Except for Alberta, provinces not using the HST levy both the GST and separate sales and other taxes. Alberta is the only province that does not charge sales tax.

What gives the provinces authority to charge HST?

The HST is levied by the Government of Canada, under the *Excise Tax Act Canada*.

Participating provinces must enter a federal-provincial agreement called the Comprehensive Integrated Tax Coordination Agreement (CITCA). A CITCA was first signed in 1997 between Nova Scotia and Canada, as well as New Brunswick and Newfoundland & Labrador. This sets out each party's responsibilities and how the revenue is shared. CITCA agreements provide for the GST and provincial sales tax to use the same tax base, and include a formula for the sharing of revenue between the federal government and the province.

Nova Scotia, Ontario and British Columbia have signed new CITCAs, effective July 1, 2010.

Items that are charged HST

Most goods and services supplied in Nova Scotia are subject to the Harmonized Sales Tax (HST), which has been in place since 1997.

Effective July 1, 2010, the Government of Nova Scotia will increase the rate of the HST and offer a number of HST rebate programs to offset the amount of the provincial portion of the HST for certain products and services.

However, the basic features of the HST will not change in 2010.

Goods and services are taxable unless they are specifically listed as exempt.

What goods are “zero rated”?

Some goods and services are taxable at the rate of 0 per cent (‘zero-rated’). This means that HST is not charged on the sale or supply of these goods and services.

Suppliers of zero-rated goods and services may claim Input Tax Credits (ITCs) for the HST paid to produce the goods or supply the service.

Some common examples of zero-rated goods and services are:

- Basic groceries such as milk, bread and vegetables;
- Agricultural products such as grain, raw wool;
- Prescription drugs and drug dispensing fees;
- Medical devices.

Canada Revenue Agency maintains the list of zero-rated goods.

What goods are exempt from HST?

Some items are exempt from the HST. Suppliers of these items are not eligible for ITCs for the tax they pay.

Some common examples of exempt goods and services are:

- Used residential housing;
- Long-term residential accommodation and residential condominium fees;
- Most health care and dental services;
- Childcare services;
- Most services provided by financial institutions;
- Many educational services.

Canada Revenue Agency maintains the list of exempt goods in Canada.

Calculating HST on purchases

HST is based primarily on the selling price of a commodity or service. The selling price may include federal and provincial taxes that are not part of the HST, such as excise taxes on fuel and tobacco and environmental fees supporting recycling.

Administration of the HST

Administration of the HST is performed by the Canada Revenue Agency, on behalf of participating provinces.

The Canada Revenue Agency collects HST, processes applications, and makes rulings and interpretations on the application of HST policy. Consumers must deal with the CRA for any of these or other administrative needs.

The CRA can be contacted toll free at 1-800-959-5525 or through their website at www.cra-arc.gc.ca/menu-e.html .

Revenue Sharing from the HST

Revenues from the HST are shared by the Government of Canada and the five participating provincial governments.

Nova Scotia receives 10 per cent of the HST, while the Government of Canada receives the remaining 5 per cent.

The federal-provincial agreement establishes a revenue allocation arrangement between the participating provinces and the Government of Canada. Revenues are estimated before the start of each calendar year and the province receives installment payments based on that estimate.

Economic, statistical and administrative data is used to determine each province's share of a declared revenue pool. The formula is under constant review by representatives from each government to ensure it properly reflects the allocation of revenues.

Tracking HST revenues for each transaction

The Government of Canada and the provinces do not track GST or HST revenues on a transaction by transaction basis.

In particular, this would pose administrative difficulties for businesses that would have to calculate the portion of their spending in each product or service area. Presently, businesses submit total HST amounts for their entire operation, not itemized by commodity or service. They are required to ensure the correct rate is applied.

Can a province make changes to the HST?

Yes, CITCA allows participating provinces to make changes in the provincial portion of the HST once in any twelve-month period. Rate changes must occur at the beginning of a quarter. Ontario and British Columbia cannot change their rate during the first two years however.