

Facts & Tax

From Hilborn Ellis Grant LLP

June, 2006

The July 1, 2006 GST Reduction What You Should Know



we give your business a

HAND
to **SUCCEED.**

In This Issue

Reducing the GST Rate to 6% - The Transitional Rules

Capital Expenditures

New Residential Housing

Accounting Systems

Accounting for the Rate Reduction

More Information

Reducing the GST Rate to 6% - The Transitional Rules

The largest single tax-related initiative in the Budget is the reduction of the GST from 7% to 6%. The general transitional rules are as follows:

- If GST becomes payable, or is paid without becoming payable, *before* July 1, 2006, the 7% rate applies.
- If GST becomes payable on or *after* July 1, 2006, without having been paid before that day, the 6% rate applies.
- If GST is paid on or after July 1, 2006, without having become payable before that day, the 6% rate applies.

As the new proposed change takes effect mid-way through 2006, various transitional provisions are provided to deal with existing issues such as conditional sales contracts, lease agreements, work-in-process, acquisition of real property, deposits and progress payments, returned goods and bad debts.

For example, where leases exist, and the payments are due on the first of each month, GST at 6% will apply to the lease payment due on or after July 1, 2006, unless the payment was made earlier.

If a partial payment was made before July 1, 2006 for services to be performed after July 1, 2006, the 7% rate will apply to the partial payment. The balance of the invoice issued after July 1, 2006 will reflect the 6% rate. This includes invoices issued for work performed before July 1, 2006 but billed after July 1, 2006.

Capital Expenditures

Special consideration should be taken with respect to the timing of both personal and business capital expenditures. With respect to acquisitions of real property, the new rate of tax applies to a taxable purchase of real property where both the ownership and possession are transferred on or after July 1, 2006.

New Residential Housing

A special transitional provision will be provided for new residential housing. The rules are as follows:

Situation	GST Rate
Ownership <i>or</i> possession is transferred before July 1, 2006	7% rate will apply
Ownership <i>and</i> possession is transferred on or after July 1, 2006 and the agreement was signed <i>before</i> May 2, 2006	7% rate will apply, but the purchaser may be able to claim a special rebate
Ownership <i>and</i> possession is transferred on or after July 1, 2006 and the agreement was signed <i>after</i> May 2, 2006	6% rate will apply

Accounting Systems

With the reduction in the GST, businesses will need to make changes to their accounting systems. These changes may include:

- Updating tax rate tables for both accounts receivable and accounts payable modules of accounting systems;
- Adjusting sales systems to reflect the new GST rate in purchase orders and invoices;
- Revising any payment systems that automatically calculate GST, including spreadsheets that calculate input tax credits; and,
- Changing point of sale systems or cash registers to calculate the new GST rate effective July 1st.

No compensation will be provided to businesses for the costs of implementing the changes.



Facts & Tax

Accounting for the Rate Reduction

The Quick Method rates will be changed to reflect the reduced rate of GST. The new percentages will apply for reporting periods beginning on or after July 1, 2006.

If the Simplified Method is used for accounting for Input Tax Credits (ITCs), the following calculations are used to calculate your ITCs:

- Purchases/expenses made/incurred prior to July 1, 2006 -- 7/107
- Purchases/expenses made/incurred after July 1, 2006 -- 6/106

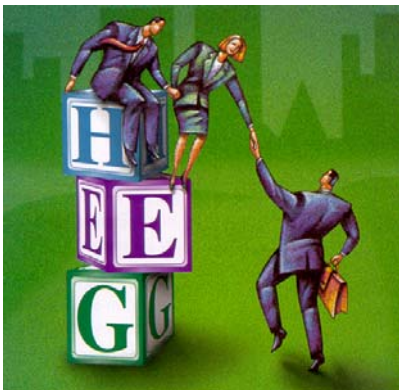
In addition, taxpayers who are required to make quarterly GST instalment payments should consider the effect of the reduction in calculating instalments in the second half of 2006.

More Information

With the introduction of this rate reduction and proposed changes to the GST legislation, Hilborn Ellis Grant LLP is here to assist you during the transition period and welcomes your questions regarding this and other budget changes.

GST Rate Reduction - Questions and Answers, is also available on the Canada Revenue Agency website at:

www.cra-arc.gc.ca/agency/budget/2006/gstrateqa-e.html



Hilborn Ellis Grant LLP
401 Bay Street, Suite 3100
P.O. Box 49
Toronto, Ontario
M5H 2Y4

Telephone: (416) 364-1359

Fax: (416) 364-9503

Website:

www.hilbornellisgrant.com

Facts & Tax is published and distributed by the partners and staff of Hilborn Ellis Grant LLP, Chartered Accountants, as information for our clients and other interested parties. Readers should consult their professional advisors before acting on the basis of material contained in this publication.

