

HST GUIDE FOR SOCIAL HOUSING PROVIDERS

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INTRODUCTION

BC Housing has prepared this guide to help non-profit, co-op and charitable housing providers understand how the Harmonized Sales Tax for BC (HST) applies to social housing operations.

Some housing providers may also provide a variety of other services in the community. How HST applies to these services is beyond the scope of this guide, although the basic concepts outlined here may apply to other operations as well.

Please note, this guide provides general guidelines, but we cannot guarantee housing providers will correctly apply the HST to their operations as a result. In addition, this guide is based on the legislation (proposed and enacted) and administrative interpretation available as of June 30, 2010.

All of the information contained in this guide is subject to change.

Please contact your accountant or the Senior Manager, Operational Support, at BC Housing if you need more information. You can also visit the CRA website for more on the HST. Contact information for the CRA is listed in the appendix.

What's in this Guide?

In this introduction, we list the most frequently asked questions about the HST for quick reference. The answers include some HST terminology. Please refer to the glossary, beginning on 48, for definitions.

Chapter one outlines HST basics: how HST works, how to register for HST, filing GST/HST returns, and revenues that are not subject to HST.

In chapter two, we explain input tax credits (ITCs) and rebates, which includes the amount of rebate you can claim depending on the rebate status you have with the CRA, and how to claim ITCs and rebates.

Chapter three describes how to recover the HST paid during construction or renovation, and the HST you're liable for when construction or renovation is complete.

We outline accounting procedures for HST in chapter four.

Chapter five explains the HST transition rules relevant to Housing Providers.

Chapter six explains the CRA audit process.

Frequently Asked Questions

Does HST apply to us?

HST involves collecting the tax, paying the tax and recovering the tax:

Collecting HST

You may have to register for HST if you provide taxable goods and services, such as commercial leases¹:

- Registration is voluntary if your annual revenues from taxable goods and services are less than the:
 - \$50,000 threshold for charities and non-profits; and
 - \$30,000 threshold for all other organizations.
- Organizations with annual revenues from taxable goods and services above these thresholds must register for the HST, except charities with less than \$250,000 per year in total revenues (including donations, grants and subsidies), which can opt not to register.
- A registered organization must charge HST on any taxable goods and services it provides, regardless of the amount of revenues received from such activities.

Paying HST

Generally, HST applies to most property and services acquired by housing providers. Being a charitable or non-profit housing provider does not provide an exemption from the tax. Certain Indian Bands are not subject to HST. But, the Province and other provincial organizations, which were previously exempt from GST, are subject to HST.

Recovering HST

There are two mechanisms for recovering the HST paid out: claiming Input Tax Credits (ITCs) and rebates.

Only organizations registered for the HST can claim ITCs, to recover the HST paid to provide taxable goods and services. When ITCs cannot be claimed, qualifying organizations can claim partial rebates of the HST they pay.

Your organization does not have to be registered for HST in order to claim rebates. However, if you are not registered, you can only claim rebates semi-annually or annually. If you are registered, you simply file rebate claims based on your HST reporting period (i.e., monthly, quarterly or annually). If you are filing annually or quarterly, you can elect to file monthly to recover the HST you paid more quickly.

See chapter two, beginning on page 17, for more on ITCs and rebates.

¹ Commercial leases by charities are generally exempt unless the charity makes an election to treat them as taxable.

You cannot register for the HST if you do not provide any taxable goods and services. For example, if you only provide residential accommodation for periods of a month or more, you cannot register, as this service is HST exempt. Conversely, if you are registered because you previously provided taxable goods and services, and anticipate doing so again in the future, you are not required to de-register.

See page 11 for more information on registering for HST.

Do we have to register for the HST for new construction?

BC Housing requires you to register for HST as soon as you initiate a new housing project because registering allows you to claim ITCs for the HST you pay on construction costs.

What's the difference between an input tax credit (ITC) and a rebate?

If you are registered for HST, you can claim an ITC to recover all the HST you pay on purchases related to any taxable goods and services you provide. If you are not registered, you cannot claim ITCs.

However, you may be eligible to claim a rebate on some of your purchases if you are a charity, a qualifying non-profit organization, or have municipality status. The rebate is a percentage of the HST paid, depending on the status of the housing provider. You do not have to be registered to claim a rebate.

Refer to chapter two for more information on rebates and ITCs.

What's the difference between a charity, a designated municipality, and a qualifying non-profit organization?

Charity

For HST purposes, you have charity status only if:

- You are a registered charity, with a registration number issued by the Canada Revenue Agency; and
- You can issue official income tax receipts for donations.

Charities are eligible to claim a 54.08 per cent² rebate of the HST paid on purchases, regardless of whether or not you are registered for HST, when the HST cannot be recovered through ITCs or a larger municipal rebate (see next section below).

Municipality Status

² The charity rebate comprises a 50 per cent rebate of the five per cent federal portion of the HST and a 57 per cent rebate of the seven per cent provincial portion of the HST, combined the effective rebate rate is 54.08 per cent.

Under HST legislation, CRA may grant municipal status to a housing provider who provides rent-gear-to-income (RGI) housing. This status allows you to claim an 85.42 per cent³ rebate of the HST paid on expenses incurred in providing this housing. You must apply for municipality status, and CRA will determine whether your organization meets the criteria for a municipal designation.

Qualifying Non-profit Organization

To be a qualifying non-profit organization, you must receive at least 40 per cent of total revenues from government funding. You can then claim a 54.08 per cent⁴ rebate of the HST paid on purchases, if ITCs or a larger municipal rebate cannot be claimed.

See pages 18 to 20 for more information on charitable, municipal and qualifying non-profit status.

What are some examples of government funding?

The following sources qualify as government funding.

- Federal, provincial or municipal governments.
- A corporation controlled by the federal government, a provincial government or a municipality that funds charitable or non-profit endeavors as one of its main purposes.
- A trust, board, commission or other body established by the federal government, a provincial government or a municipality that also funds charitable or non-profit endeavors.
- An Indian band, as defined by federal legislation.

Consequently, funding from BC Housing, Canada Mortgage and Housing Corporation (CMHC), a regional health authority, or a provincial ministry qualify as sources of government funding. You must obtain a certificate from a health authority certifying that the payments are government funding.

See page 20 for more on the government funding test.

We only incur \$20,000 a year on taxable expenses. Why should we bother accounting for HST?

In the current climate of limited resources, the amount you recover could be significant to your organization.

If the amount of the rebate does not justify spending considerable time recording the HST transaction by transaction, you can use a simplified approach to save time. Simply

³ The municipal rebate comprises a 100 per cent rebate of the five per cent federal portion of the HST and a 75 per cent rebate of the seven per cent provincial portion, combined the effective rebate rate is 85.42 per cent.

⁴ Qualifying non-profits are eligible for the same rebate as charities.

add up all the HST paid during your reporting period from your invoices, and claim the rebate at the appropriate rate on that amount. If you are not registered, you can only file the rebate claim either annually or every six months.

How do we record HST?

Expenditures

If you are entitled to a rebate or an Input Tax Credit, deduct the amount of the rebate or ITC from your total purchase cost. ITCs should be recorded as an HST Input Tax Credit Receivable on the balance sheet, while rebates should be recorded as an HST Rebate Receivable on the balance sheet. The amount to record under operating expenses should be the net cost to you.

For example, if you are entitled to claim an ITC:

- Your total purchase is \$112
- \$12 is HST
- Record \$100 in operating expenses
- Record \$12 as HST ITC receivable

If you are entitled to claim a 54.08 per cent charitable or qualifying non-profit rebate:

- Record \$105.51 in operating expenses
- Record \$6.49 as HST Rebate receivable

Revenues

The amount of HST you charge should not be recorded as part of your revenues. Record this amount as an HST payable on the balance sheet. For example:

- You have taxable revenues of \$200
- \$24 is the HST you must charge
- \$224 is the total amount you collect
- \$24 should be recorded as HST payable
- Record the net \$200 as revenue on the income statement

Refer to chapter four, beginning on page 38, for more on HST accounting.

Will a new building or a change in operations affect our HST status?

Developing a new building or making a change in your current operations may affect your existing HST status. Consult your accountant or CRA about the impact on your status before embarking on any building projects or changes.

Let's say you currently have municipality status for all of your rent-geared-to-income units, and are converting some to non-RGI units. Municipality status does not apply to

these converted non-RGI units, so you would no longer be able to claim a municipal rebate on them.

Charitable status would not be an issue, as long as the purpose of a new building falls within the types of activities included in the purpose of the charity.

In addition, most charities must allocate donated funds in the year the donations are received. If donated funds are being used to finance a project and are a significant portion of the total annual funds you receive, you may have to obtain special permission from CRA to allow you to accumulate sufficient funds beyond that year to complete the project.

Funding sources for a new project must also be reviewed to ensure you continue to meet the 40 per cent government funding test in order to claim a rebate as a qualifying non-profit organization.

See page 20 for more information on the 40 per cent funding test.

How do I change my HST filing period when a development starts, and again when it's complete?

During construction, it's a good idea to file monthly so you can recover the HST you pay on building expenses as soon as possible. When the building is complete, you may opt to file less frequently.

You initially choose your filing period when you register for the HST. Later, you can change your HST reporting period by submitting an HST form GST20, *Election for GST/HST Reporting Period*. A copy is included in the appendix.

The change can only take effect at the beginning of your fiscal year. The election must be filed no later than two months after the day it is to take effect. For example, let's assume you currently file annually using a calendar year, so your fiscal year starts January 1:

- You are planning to start a new housing project in April of the following year, with completion in October, and want to file monthly during construction.
- You must submit the election form by the end of February in the construction year (two months after your fiscal year starts).
- To return to annual filing the year after construction, you must submit another election form by the end of February the following year.

See page 13 for more on changing your HST filing frequency.

The Canada Revenue Agency told us to de-register. What does this mean?

The CRA assumes your organization no longer has any taxable activities and no intent of engaging in taxable activities in future. If this assumption is accurate, then you are no longer required to be registered, and CRA can cancel your HST registration. However, this assumption may not be correct because:

- Your organization may be involved in taxable activities CRA is not aware of;
- You may be planning some taxable activities in the foreseeable future, such as developing another social housing project; or
- You may have completed a building but have not yet claimed all the ITCs by the interest adjustment date (IAD). As long as your organization is registered, you can continue to claim ITCs on the construction costs, generally up to four years. Certain registrants with more than \$6 million per year in taxable revenues have between two and three years to claim input tax credits.

In these situations, insist your organization remain registered.

Can we claim both an ITC and a rebate on the same building?

You cannot file a claim to recover the same HST as both a rebate and an ITC. However, there may be situations where you can claim part of the HST incurred on a particular expenditure as an ITC, and a portion of the balance as a rebate. For example:

- You are registered for HST.
- You operate a four-storey facility where the bottom floor is commercial space and you collect HST on the rent, and the top three floors are residential.
- You incurred \$1,000 in expenses related to the whole facility and paid \$120 in HST.
- You would be entitled to claim an ITC for 25 per cent of the HST you paid, since the commercial space uses 25 per cent of the building area ($\$120 \times 25\% = \30).
- You could also claim either a:
 - 54.08 per cent rebate on the remaining HST, as a charity or qualifying non-profit: ($\$120 \text{ HST} - \$30 \text{ ITC} = \$90 \times 54.08\% \text{ rebate} = \48.67), or
 - 85.42 per cent rebate on the remaining HST, if you have municipality status and all the residential units are RGI units: ($\$120 \text{ HST} - \$30 \text{ ITC} = \$90 \times 85.42\% \text{ rebate} = \76.88).

See pages 18 to 20 for information on claiming rebates and input tax credits.

Sometimes we rent out our meeting space. Does this mean we have commercial activities and should charge HST?

Generally renting meeting space is considered taxable, regardless of whether the space is in a commercial or residential area, so you would have to charge HST. However, there are two exceptions:

- If you are a small supplier and are not registered for the HST, you are not required to charge HST.
- If your organization is a registered charity, meeting room rentals and commercial leases are exempt, unless your organization is registered for HST and you either:
 - Elect to make these items taxable by filing HST form GST26, *Taxable Real Property Election Form*. Choosing to make commercial leases and rentals taxable means you must charge HST and are entitled to claim ITCs on costs relating to the leases/rentals, or
 - Have municipality designation and the room rentals are in a building with RGI units.

See page 14 for more information on taxable activities. A copy of the GST26, *Taxable Real Property Election Form* is included in the appendix

CRA is going to audit us. What should we do?

The auditor will usually want to review your operations and test a sample of transactions. A four-year period is open to a CRA audit, although the auditor may review only two years. If you have developed a new housing project during the audit period, CRA will probably review the HST accounting for the project. When the audit is done, the auditor will give you a copy of the proposed assessment, and give you 30 days to respond with any further information you may have regarding the assessment. Additional time may be granted upon request.

When the audit is complete, a notice of assessment will be issued. Any tax owing, plus interest and penalties are due and payable upon issuance. You have 60 days to appeal an assessment.

If you are being audited on a new housing project, or are assessed on a new development, please advise the Senior Manager, Operational Support, at BC Housing. See *Chapter 6* for more on CRA audits.

CHAPTER 1: HST BASICS

Pre-HST

The Goods and Services Tax (GST) is a five per cent tax charged on most property, goods and services supplied in Canada. The federal government introduced the GST in 1991 as part of the *Excise Tax Act*. Before July 1, 2010, BC collected a seven per cent Provincial Sales Tax (PST) on most goods and certain services. The PST was introduced in 1948, as the *Social Service Tax Act*.

How HST Works

Effective July 1, 2010, BC harmonized the PST with the GST. This means the provincial government repealed the PST, and the GST rate applicable to taxable supplies made in BC increased from five per cent to 12 per cent. This rate is the harmonized sales tax or HST.

The HST is not a new tax; it is simply a new rate of GST. Except for a limited number of goods eligible for point of sale rebates, such as books, the HST will apply to any property or services that were subject to GST. For example, most contract services charged five per cent GST but not PST. These services are now subject to 12 per cent HST.

Here's how the HST works. Most businesses charge 12 per cent HST on taxable goods and services they provide, and pay HST on expenses such as inventory purchases, space rentals and various services used in operations. The business is allowed to claim a refund of all HST incurred on these purchases, which is called an input tax credit.

Generally, the same rules apply to housing providers who provide taxable goods or services and are registered for HST. If you are registered for HST, you must charge HST on the sale of taxable goods and services. However, being registered also allows you to recover the HST you paid on expenses, related to these goods and services, as an ITC.

The difference between the HST charged and HST claimable as an ITC is net tax. If the net tax is positive, the difference is remitted to CRA, which administers the HST. If the net tax is negative, a refund is claimed.

Certain goods and services are exempt from HST. If you supply exempt goods and services, you cannot claim an ITC to recover the HST you paid on expenses related to the exempt goods and services. For example, exempt services include residential accommodation of a month or longer. Since you don't charge HST on these rentals, you cannot claim an ITC for the HST incurred in providing the rental accommodation, such

as repair and maintenance costs. Exempt goods and services are explained in more detail on page 14.

HST Example

The following example illustrates how HST works.

A housing provider who is registered⁵ for HST rents out commercial office space. To provide this space, the housing provider incurs expenses for utilities and office supplies. The taxable revenues and expenses are:

| | |
|--|----------------|
| <i>Taxable revenues:</i> | |
| Commercial rent | \$2,000 |
| HST collected ($\$2,000 \times 12\%$) | <u>\$240</u> |
| Total | \$2,240 |
| <i>Taxable expenses:</i> | |
| Utilities | \$500 |
| Office supplies | <u>\$50</u> |
| Subtotal | \$550 |
| HST paid ($\\$550 \times 12\%$) | \$66 |
| <i>Net tax to remit</i> | |
| HST collected less HST Paid ($\\$240 - \\66) | \$174 |

HST Registration

If you are already registered for GST, you do not have to re-register for HST, as you are automatically an HST registrant.

Organizations that provide taxable goods or services in Canada, with annual taxable revenues that exceed a specific threshold, must register for the HST. The threshold is \$50,000 for public service bodies and \$30,000 for all other organizations. Zero-rated goods and services are included in this total revenue calculation, and are explained on page 14.

The term “public service body” includes non-profit organizations, registered charities, municipalities, school authorities, public colleges, universities and hospital authorities.

⁵ Special rules apply to housing providers that are charities: see page 19 for more information.

Small Suppliers

A small supplier generally means a business or organization with annual revenues from taxable goods and services of less than \$30,000. The threshold for housing providers and other public service bodies is \$50,000. Organizations with annual taxable revenues below these thresholds are not required to register for the HST. In addition, charities with annual revenues of less than \$250,000 are not required to register, even if their taxable annual revenues exceed \$50,000.

Small suppliers can choose to register voluntarily, if you have revenue from taxable goods and services. If you register, you are required to charge HST on any taxable goods or services you provide. Generally, the benefit in registering is the ability to recover additional amounts of HST.

New or Substantially Renovated Social Housing Projects

All housing providers developing new social housing projects or substantially renovating a residential complex must register for HST *before* the start of construction, even if you are a small supplier. Substantial renovation is considered new construction, and generally requires 90 per cent or more of the interior of an existing residential building to be renovated or altered.

Registering for HST allows you to claim Input Tax Credits to recover the HST incurred on construction. In addition, electing to file monthly allows you to recover HST more quickly, which can impact your cash flow. Once you are registered, you must charge HST on any taxable goods and services you provide.

If you are not registered, you cannot claim ITCs on the HST you pay on construction materials and services. However, as soon as you register, you can begin claiming these ITCs, which are significant during construction.

When you register, you can choose to file your GST/HST return annually, quarterly or monthly, provided your annual revenues from taxable goods and services are less than \$500,000. However, we recommend you file monthly during construction to claim your ITCs as soon as possible.

How to Register for HST

Canada Revenue Agency assigns a nine-digit account number to your organization, called a business number (BN), to deal with various types of business accounts. Different types of accounts are identified by the following letters:

- **RP** - A payroll account number has the nine-digit business number, followed by the letters "RP" to denote a payroll account, and another four-digit number, which is generally "0001," unless the organization has more than one payroll account.

- **RT** – An HST account number has the same nine-digit business number, followed by the letters “RT” to denote an HST account, and the four-digit suffix (e.g., 12345 6789 RT 0001).
- **RR** – Similarly, a charity account number has the same nine-digit business number, followed by the letters “RR,” and the four-digit suffix number, which is also generally 0001.

Housing Providers without a Business Number

If you do not already have a business number, you need to complete HST form RC1, *Request for a Business Number*, and submit it to your local CRA office, along with a copy of your certificate of incorporation, if you are incorporated under the *Business Corporations Act*, *Society Act* or *Cooperative Association Act*. A copy of this form is included in the appendix.

If you do not know whether your organization has a business number, you can contact the CRA to find out. See the appendix for contact information.

Housing Providers with a Business Number

If you already have a business number but are not registered for the HST, you need to complete and submit HST form RC1A, *Business Number (BN) – GST/HST Account Information*, to register. You’ll find a sample form in the appendix.

A common error is to assume having a business number means the organization is registered for HST. For example, a charity may have a BN for its payroll and charity status, but not be registered for HST.

Your organization is only registered for HST once you apply to register and receive a BN with an “RT” extension (e.g., 12345 6789 RT0001) from the CRA. This separate HST business number is needed for filing GST/HST returns.

Filing GST/HST Returns

Organizations registered for HST are required to file GST/HST returns. The filing period is based on an organization’s annual taxable revenues, but registrants can elect to file more frequently, as outlined below:

| Assigned and optional reporting periods | | |
|--|----------------------------------|----------------------------------|
| Annual Taxable Supplies | Assigned reporting period | Optional reporting period |
| \$1,500,000 or less | Annual | Monthly or Quarterly |
| More than \$1,500,000; up to | Quarterly | Monthly |

| | | |
|------------------------|---------|----------------------|
| \$6,000,000 | | |
| More than \$6,000,000 | Monthly | None |
| Charities | Annual | Monthly or Quarterly |
| Financial Institutions | Annual | Monthly or Quarterly |

Housing providers generally have less than \$1,500,000 in annual taxable revenues, and as a result, are only required to file annual GST/HST returns. However, if your society incurs significant amounts of HST, we recommend you file monthly or quarterly to recover the HST you pay more quickly.

Electing or Changing Filing Frequency

CRA uses the term election to indicate when an organization can choose among options that make it easier to comply with HST regulations. These options allow you to adapt HST requirements to your activities, and each election has eligibility requirements.

When you first apply for a business number, you can elect to file GST/HST returns monthly, quarterly or annually (depending on your annual revenues from taxable goods and services), by checking the appropriate box in section B3 of the application form RC1, *Request for a Business Number*. See the sample form in the appendix.

If you already have a BN, but are applying for an HST number, select monthly, quarterly, or annual HST filing by checking the appropriate box in section four of the HST form RC1A, *Business Number (BN) – GST/HST Account Information*. See the sample form in the appendix.

If you already have an HST number and filing period, you can change the filing frequency by submitting form GST20, *Election for GST/HST Reporting Period*. This form asks for your current reporting period and the alternate filing period you wish to elect. A sample form is included in the appendix.

The change can only take effect at the beginning of your fiscal year. The election must be filed no later than two months after the day it is to take effect, in most instances. For example, assume you filed annually in 2009 using a calendar year, so your fiscal year starts January 1. You must submit this form before the end of February 2010 to file monthly in 2010 and subsequent years. However, if you want to change from quarterly to annual filing, you have three months after the beginning of your fiscal year to submit the form.

Revenues/Receipts Not Subject to HST

Most businesses charge HST on most of their revenues. However, there are exceptions where the HST is not charged. These exceptions fall into four categories: payments not exchanged for goods and services, zero-rated goods and services, exempt goods and services, and non-taxable goods and services.

1) Payments Not Exchanged for Goods or Services

In some cases, a housing provider, particularly in the non-profit or public sector, may receive a payment that is not being exchanged for goods or services. The most common examples include:

- Grants
- Donations
- Subsidies.

These payments are a voluntary transfer of money or contribution given to the housing provider, and the person giving does not receive any benefits, services or goods in return. The HST does not apply to these types of receipts.

2) Zero-Rated Goods and Services

The term zero-rated means the goods or services are considered taxable, but tax is charged at zero per cent, so no tax is actually collected. Consequently, an organization providing zero-rated goods and services does not collect any HST. However, the organization can still claim an input tax credit for the HST paid on expenses, because the goods and services are classified as taxable.

Common categories of zero-rated goods and services include:

- Prescription drugs
- Medical devices
- Basic groceries
- Agricultural and fishing goods
- Exported goods and services
- Certain international transportation services.

This list illustrates general categories. The HST legislation contains more detail for determining whether or not a particular item is zero-rated. However, housing providers are not generally involved in providing zero-rated goods or services.

3) Exempt Goods and Services

HST does not apply to goods and services that are designated exempt in the HST legislation. You do not charge HST when you provide exempt services.

The main difference between exempt and zero-rated goods and services is that organizations providing exempt goods and services cannot claim an ITC. However, you may be able to claim a rebate for part or all of the HST paid on purchases. Rebates are explained on page 17.

For example, renting residential accommodation for periods of at least one month is considered exempt, regardless of who provides the accommodation. This exemption affects most social housing providers. The following housing related services are also exempt:

- Residential condominium services
- Short term residential accommodation, if the charge is \$20 per day or less
- Accommodation of less than one month provided to relieve individual poverty, suffering or distress
- Parking leases with residential or condominium tenants, when the parking space comes with the residence

Other types of exempt services include:

- Most educational and health care services
- Most government services
- Financial services
- Child care services

4) Non-Taxable Goods and Services

Certain types of goods and services are deemed non-taxable. As with exempt goods, HST is not collected on these revenues, and the person providing these goods cannot claim ITCs for HST paid on expenses. The most common example is goods provided by unregistered small suppliers or individuals who are not involved in commercial activity, such as making crafts or holding garage sales.

From a consumer's point of view, there is no difference between zero-rated, exempt or non taxable goods and services, because no tax is paid for any of these supplies. The primary difference is that an HST registrant can claim ITCs for HST incurred on expenses related to making zero-rated goods and services.

CHAPTER 2: RECOVERING HST

There are two mechanisms for recovering the HST you pay on taxable goods and services: claiming input tax credits and claiming rebates.

Input Tax Credits

You will pay HST on most purchases and expenses related to taxable activities. Generally, an organization registered for HST can claim an ITC for 100 per cent of the HST paid on expenses related to taxable goods and services (including zero-rated). You claim your ITCs on the GST/HST Return.

Rebates

Organizations that provide exempt goods and services cannot claim ITCs for HST incurred on expenses related to these goods and services. The same applies to non-taxable goods and services, if the organization is a small supplier who has not registered for HST. However, you may still qualify for an HST rebate in these situations. A rebate is a partial refund of the HST you claim on a rebate claim form, which is filed with the GST/HST Return.

Different rebate rates apply to the five per cent federal and seven per cent provincial portion of the HST. The net effective rebate or, combined rate, can be used to calculate the rebate claimable; however, you report the federal and provincial portions separately on the GST/HST rebate claim form. The following rebates are available to different types of organizations:

| Public Service Body | Federal 5% | Provincial 7% | Combined^{6 7} |
|------------------------------------|-------------------|----------------------|-------------------------------|
| Qualifying Non Profit Organization | 50% | 57% | 54.08% |
| Charity | 50% | 57% | 54.08% |
| Municipal | 100% | 75% | 85.42% |
| University/college | 67% | 75% | 71.67% |
| Schools | 68% | 87% | 79.08% |
| Hospitals | 83% | 58% | 68.42% |

⁶ If the HST rate changes, the combined factors will also change.

⁷ Different rates may apply to claim rebates on new housing developments

These types of organizations often provide exempt goods and services, so they don't collect HST on these revenues, and cannot claim an ITC for any HST they incur related to the exempt revenues. The federal and provincial governments established the rebates to ensure these organizations do not pay more tax under the HST than under the previous federal and provincial sales taxes.

Qualifying for Rebates

Housing providers pay HST on many expenses. To obtain a rebate for some of the HST paid, both your development *and* your organization must qualify.

Qualifying Developments

To claim a partial or full rebate of the HST incurred on social housing-related expenses, at least 10 per cent of the units in your development must be provided to one or more of the following groups:

- Seniors
- Youth
- Students
- Individuals with a disability or otherwise in need of assistance
- Individuals whose eligibility for occupancy depends on a means or income test.

Most of the social housing developments BC Housing funds meet at least one of the criteria to qualify for a rebate.

Qualifying Organizations

Your organization's status becomes relevant in determining how much of an HST rebate you can claim.

Three categories of HST rebates can apply to housing providers:

- Designated municipalities
- Registered charities
- Qualifying non-profit organizations.

1) *Designated Municipality*

Housing providers who deliver rent-geared-to-income housing are eligible to apply for municipality status. Once designated as a municipality, the housing provider can claim a 100 per cent rebate of the federal portion and 75 per cent of the provincial portion (combined rebate of 85.42 per cent) of the HST incurred in providing RGI housing. If your society supplies RGI units, apply for the municipal designation as soon as possible, so you can start claiming HST rebates.

The municipal rebate applies only to the HST you pay on expenses related to the RGI housing. For example, if 60 per cent of the units are RGI, and 40 per cent are non-RGI, you can only claim the 85.42 per cent municipal rebate on 60 per cent of the HST you incur on operating expenses.

However, if you have charitable or qualifying non-profit organization status, you can claim a 54.08 per cent combined rebate on the balance of the HST incurred on expenditures relating to the non-RGI units. If you are not a charity or a qualifying non-profit, no HST rebates can be claimed for these units. Charities and non-profits are explained in the next two sections.

Applying for Municipal Designation

You must send a letter to the Canada Revenue Agency requesting a municipal designation. A sample letter is included in the appendix.

CRA only approves a municipal designation when proof of subsidy is available, generally in the form of a signed operating agreement. Your operating agreement is usually available when project commitment occurs. Housing providers developing new projects should apply for designation at the project commitment stage to ensure you can claim the highest possible rebate when the project is completed.

A housing provider does not have to be a registered charity or qualifying non-profit organization (see below) in order to be designated as a municipality.

2) Registered Charities

For HST purposes, registered charities must have a registration number issued by CRA, and can issue official income tax receipts for donations. Housing providers who are registered charities are entitled to claim a rebate of 50 per cent of the federal portion and 57 per cent of the provincial portion (combined rebate of 54.08 per cent) of HST incurred. If the charity has been designated as a municipality, see the previous section.

If you are not a registered charity, the only other way to claim the 54.08 per cent rebate is to qualify as a non-profit organization (see next section).

To learn more on how to qualify and apply to be a registered charity, refer to CRA Guide T4063, *Registering a Charity for Income Tax Purposes*, or visit the CRA website at www.cra-arc.gc.ca.

3) Non-profit Organizations

Non-profit definition

The HST legislation defines a non-profit organization as:

“...a person (other than an individual, an estate, a trust, a charity, a public institution⁸, a municipality or a government) that was organized and is operated solely for a purpose other than profit; no part of the income of which is payable to, or otherwise available for the personal benefit of, any proprietor, member or shareholder thereof.”

Government Funding Test

Qualifying non-profit organizations are entitled to claim a rebate of 50 per cent of the federal portion and 57 per cent of the provincial portion (combined rebate of 54.08 per cent) of HST.

A qualifying non-profit organization must receive at least 40 per cent of total revenues from government or a qualifying agency, including BC Housing, CMHC, or a regional health authority.

Health authorities must supply a completed HST form GST322, *Certificate of Government Funding*, certifying that the funding qualifies as government funding.

The following are qualified government funding sources:

- Federal, provincial or municipal governments.
- A corporation controlled by the federal government, a provincial government, or a municipality that funds charitable or non-profit endeavors as one of its main purposes.
- A trust, board, commission or other body established by the federal government, a provincial government or a municipality, which also funds charitable or non-profit endeavors.
- An Indian band, as defined by federal legislation.

Government funding does not include payments for other goods and services sold to the government, such as land, consulting services or educational seminars.

⁸ A public institution means a school, college, university, hospital or local authority that is also a charity.

Calculating your government funding ratio

The ratio of government to total funding is calculated using the following formula:

$$GF \div [GF + A + (75\%)B] \times 100\%$$

GF = The amount of government funding received or receivable during the year, as reported in the housing provider's annual financial statements.

A = The total of any income from interest or dividends, capital contributions to the housing provider, and loans from parties who are not independent or neutral to your organization.

B = The total revenue from goods or services supplied by the housing provider, including memberships and sponsorships.

The following example illustrates how to apply the 40 per cent funding test to determine if a non-profit organization qualifies for the rebate:

ILLUSTRATION OF 40% FUNDING TEST CALCULATION

1) Government Funding

| | | |
|----------------------------|------------------|-----------|
| - BC Housing subsidy | \$50,000 | |
| - Health Authority subsidy | \$50,000 | |
| Total subsidies | <u>\$100,000</u> | GF |

2) Investment Income

| | | |
|-------------------|---------|----------|
| - Interest income | \$1,000 | A |
|-------------------|---------|----------|

3) Other Revenues

| | | |
|-----------------------|------------------|---------------------------|
| - Rental revenue | \$150,000 | |
| - Commercial leases | \$20,000 | |
| - Commercial parking | \$5,000 | |
| - Laundry | \$3,000 | |
| - Meeting room rental | \$2,000 | |
| Subtotal | <u>\$180,000</u> | |
| | x 75% | <u>\$135,000</u> B |

| | |
|--------------|-------------------------|
| Total | <u>\$236,000</u> |
|--------------|-------------------------|

| | | |
|---|--|-------------------|
| Percentage of government funding | = $[\text{GF} / (\text{GF} + \text{A} + (75\%)\text{B})] \times 100$ | |
| | = $\$100,000 / \$236,000 \times 100$ | <u>42%</u> |

First year of operations

New housing providers usually cannot qualify for the HST rebate until the end of the first year. If the 40 per cent funding test is met using the first year's financial statements, your organization will be deemed qualified and can claim the HST rebate retroactively to the beginning of that first year.

In certain circumstances, if you can demonstrate the 40 per cent government funding threshold will be met, by providing funding agreements and operating budgets, CRA may allow you to qualify within the first year, rather than waiting until the fiscal year end. Contact CRA to find out if this condition applies to you.

Second year of operations

If this is your second year of operations, you will qualify for the HST rebate if you met the 40 per cent government funding test in either the first year or second year of operations.

Three or more years of operations

If you have been operating for more than two years, you will qualify for the HST rebate if the average of government funding in the two preceding years is 40 per cent or more, or the government funding test is met at the end of the current year.

Housing providers do not necessarily have to meet the 40 per cent government funding test every year in order to qualify for the HST rebate. For example, a housing provider who met the funding test in each of the first two years, but not the third, would qualify for the HST rebate in all three years.

The majority of housing providers funded by BC Housing qualify as non-profit organizations under HST legislation. Some larger groups, have other sources of funding and donations, and as a result, may not meet the 40 per cent government funding test.

A qualifying non-profit organization may be eligible to claim both the municipal rebate, if you have municipality status (see page 18), and the qualifying non-profit rebate. For example, some of your units may be eligible for the municipal rebate, and other units for the qualifying non-profit rebate.

Managing Multiple Rebates

Accounting for rebates is relatively straightforward when you are eligible for just one rebate. But the process can be a bit more complicated if you are eligible for two different rebates and file GST/HST returns each month or quarter.

For example, if you are eligible for a municipal rebate and a registered charity/qualifying non-profit rebate, because you have both RGI and non-RGI units, you would apply for both rebates. To reduce paperwork and simplify the accounting process in this situation, you may wish to consider the following alternative.

Claim HST as Charitable or Qualifying Non-profit Status, and then Adjust at Year End

Rather than figuring out the proportion of expenses to claim at municipal status and at charitable or qualifying non-profit status each month or quarter, an alternative is to claim the charitable or qualifying non-profit rebate on all the HST rebate claims you file during the year. At the end of the year, you can assess the proportion of RGI housing

for the entire year, and submit a municipal rebate claim for the outstanding amount on your final claim.

For example, let's assume:

- A housing provider incurs \$50,000 in taxable expenses during the year (five per cent federal and seven per cent provincial portions of HST are incurred).
- Since 75 per cent of the units are RGI, the housing provider has been designated as a municipality as well as a qualifying non-profit organization.

Step 1: HST paid during the year would total $(12\% \times \$50,000) = \$6,000$

Step 2: During the year, the housing provider would claim 54.08 per cent of the HST incurred, as a qualifying non-profit, totaling $(\$6,000 \times 54.08\%) = \$3,245$

Step 3: In the last GST/HST return of the year, the housing provider could claim the outstanding amount of the municipal rebate for the 75 per cent RGI units: $(85.42\% - 54.08\% \times 75\% \times \$6,000) = \$1,410$.

HST Status of Social Housing Revenues

Social housing providers receive revenues that can include:

Non-Taxable Revenues

- Grants
- Donations

Exempt Revenues

- Residential unit rentals
- Residential parking
- Residential laundry (user operated)
- Interest or other investment income

Taxable Revenues

The following revenues are potentially taxable:

- Leases of commercial space for offices or retail use.
- Commercial parking rentals (to people who are not residents).
- Meeting room rentals, regardless of whether the room is located in residential or commercial space.

Whether these revenues are taxable depends on your organization's circumstances:

- If your organization is not registered for HST and is not required to be registered because you're a small supplier, these revenues are not taxable.
- If your organization is a registered charity and is registered for the HST, all of these revenues are exempt, unless you have made an election using HST form GST26, *Taxable Real Property Election*. A sample form is included in the appendix.
- If your organization is a non-profit and is registered for HST, the commercial parking and room rentals are taxable. The commercial leases will also be taxable, if you make an election using HST form GST26.

If you elect to make these revenues taxable, you must charge HST on them. You can claim ITCs to recover the HST you pay for operating expenses to acquire the property or to make improvements, based on the proportion used for taxable commercial purposes.

If you do not elect to make these revenues taxable, you will not be able to claim ITCs, but you may be entitled to claim a rebate.

You must submit an election form for each property with commercial space, because electing to make the commercial activities of one property taxable does not affect your other properties.

Housing providers may have other sources of revenue, such as offering courses or running a thrift store; however, the HST status of these revenues is beyond the scope of this guide. Also, if you supply taxable goods or services outside of BC a different rate of tax may apply. The "place of supply" rules that govern the applicable tax rate are also beyond the scope of this guide. If you deal with out of province customers, contact your accountant or CRA for information and guidance.

Claiming ITCs

If you are registered for HST, you can claim input tax credits for HST you paid on expenses related to providing taxable goods and services, such as commercial leases. There are three methods for claiming ITCs, depending on the circumstances: the normal method, the special quick method, and the charity method.

1) Normal Method

This method does not apply to charities unless the charity has elected to use this method (see the Charity Method on page 27).

a) Operating Expenses

To claim an ITC under the normal method, at least 10 per cent of an operating expense must be used for taxable activities, such as commercial leases. If 90 per cent or more of the expense relates to taxable activities, you can claim the full ITC. You can claim a portion of the ITC for expenses when the taxable use is between 10 per cent and 90 per cent. The table below illustrates these three categories:

| Taxable Use | ITC Claim |
|--------------------|------------------------|
| Less than 10% | No ITC |
| 10% - 89% | Claim proportional ITC |
| 90% or more | Claim full ITC |

b) Capital Expenses

The above rules do not apply to purchases of capital property, which include equipment and real property such as land and buildings. For these items, you can claim a full ITC if the property is acquired for use primarily (over 50 per cent) in taxable activities; otherwise no ITC can be claimed. Special rules apply to real property with both residential and commercial space (see page 40).

2) Special Quick Method

The special quick method is a simplified accounting option available to:

- Certain public service bodies
- Some qualifying non-profit organizations
- Certain designated charities whose main purpose is to provide employment or employment-related assistance to people with disabilities
- Non-profit facility operators providing facilities for mentally or physically challenged residents with:
 - Individual nursing and personal care under the direction of qualified medical and nursing staff
 - Assistance with activities of daily living and social, recreational and other related services to meet residents’ psychosocial needs
 - Meals and accommodation.

The special quick method may not apply to many housing providers. For example, it does not apply to most registered charities, although designated municipalities can currently opt to use this method.

For housing providers who qualify, this method eliminates the need to determine the extent to which operating expenditures are used in taxable versus exempt activities.

When you use the special quick method, you continue to charge the 12 per cent HST on any taxable goods and services you supply. However, you only remit a specified percentage of the HST collected. The percentage applicable to non-profit organizations in B.C. is 8.4%.

Using this approach means you remit only a part of the tax you collected. You cannot claim input tax credits on operating expenditures using this method. Instead, you keep a portion of the tax collectible on taxable revenues in lieu of claiming such input tax credits.

Certain goods and services are not included in the special quick method calculation including:

- Sales of land and buildings.
- Zero-rated goods and services (see page 14 for details).
- New developments on which you had to assess the amount of HST owing at completion, using self-supply rules. The self-supply rules apply to new construction and substantial renovations only, and are explained on page 31.

Because you keep part of the tax you collect using the special quick method, you do not claim ITCs on most of your purchases and expenses. However, you can claim an ITC for the following items:

- Purchases of, and improvements to, capital real property used primarily in taxable activities.
- Purchases of, or improvements to, capital personal property such as computers and vehicles used primarily in taxable activities, where the cost of the property exceeds \$10,000.

If you want to use this special quick method, you must submit HST form GST287, *Election for Special Quick Method*, to CRA. A sample form is included in the appendix.

3) Charity Method

Most registered charities that provide taxable goods and services are required to use the charity method of accounting for HST input tax credits. However, you can opt to use the normal method detailed above if you:

- Provide zero-rated goods or services,
- Provide goods or services outside Canada, or

- Have at least 90 per cent taxable revenues.

Using the charity method, registered charities do not claim any ITCs for HST paid on operating expenditures, and only the 54.08 per cent rebate is claimed. To compensate for the unclaimed ITCs, you keep 40 per cent of the HST you charged on taxable revenues such as commercial rentals. Please note that you must still charge 12 per cent HST to the recipient of these goods and services, but you report only 60 per cent of that amount as collectible HST on your GST/HST return.

Claiming Both ITCs and Rebates

Some housing providers may provide both taxable and exempt goods and services. In this case, you may be able to claim ITCs for the portion of HST related to your taxable activities, and rebates for the portion of HST related to your exempt activities.

For example, a housing provider operates a facility with 25 per cent commercial space and 75 per cent social housing units.

Rental income from the commercial space is usually taxable, so the housing provider can claim an ITC for the HST incurred on utility costs for the commercial space.

Rental income from the social housing is exempt, so the housing provider cannot claim an ITC for the HST incurred on utility costs for these units. However, if you qualify, you can claim an HST rebate.

As this example illustrates, overall facility expenditures must be allocated between taxable and exempt activities. For instance, an ITC may be claimed for the commercial portion of repair and maintenance work (25 per cent) done for the entire facility, and if eligible, the applicable HST rebate on the balance.

The GST/HST return form GST62 and rebate claim form GST66 are the same for charities and qualifying non-profit organizations. However, you cannot combine the rebate claims or returns for a charity and a qualifying non-profit onto a single rebate claim or return form; each organization must file separately.

ITC Example

The following example illustrates the three methods for calculating ITCs and rebates: A Housing provider operates a facility with 25 per cent taxable commercial rentals and 75 per cent exempt residential units. The housing provider does not have municipality status; however, is eligible for the 54.08 per cent charity/qualifying non-profit organization HST rebate.

Taxable Revenues

| | |
|--------------------------------|----------|
| Commercial rental revenue | \$50,000 |
| HST collected (\$50,000 x 12%) | \$6,000 |

Taxable Purchases

| | |
|--|----------|
| Taxable operating expenses (i.e., utilities) | \$20,000 |
| HST paid on purchases (\$20,000 x 12%) | \$2,400 |

| | all HST collected | 8.4% of HST included revenues | 60% of HST collected |
|---|---|--|--|
| HST collectible to report | | | |
| ITC to claim | all HST relating to taxable activities | none | none |
| Rebate | 54.08% of HST relating to exempt activities | 54.08% of HST incurred on operating expenditures | 54.08% of HST incurred on operating expenditures |
| <i>Using the information above:</i> | | | |
| a) HST collectible | \$6,000 | \$4,704 (8.4% x \$56,000) | \$3,600 (60% x \$6,000) |
| b) ITC claimable | \$600 (25% x \$2,400) | \$0 | \$0 |
| c) Rebate | \$973 (54.08% x (\$2,400 - \$600)) | \$1,298 (54.08% x \$2,400) | \$1,298 (54.08% x \$2,400) |
| Net amount to remit to CRA (a-b-c) | \$4,427 | \$3,406 | \$2,302 |

CHAPTER 3: BUILDING OR RENOVATING SOCIAL HOUSING

HST on New Construction or Substantial Renovations

This chapter explains how to account for HST on the costs of building a new social housing development, including projects with both residential and commercial space.

Substantially renovating an existing facility is considered new construction under the HST rules. If you will be involved in a major renovation or converting a non-housing facility into a housing development, please contact your accountant or the Senior Manager, Operational Support, at BC Housing, to determine the HST implications of the project.

Social Housing Projects

Construction or substantial renovation of social housing is considered a taxable activity, even if you have municipal, charitable, or qualifying non-profit status. For tax purposes, you are deemed to be the seller of your project. As a result, you are entitled to claim input tax credits for the HST paid on construction, allowing you to recover 100 per cent of the HST incurred on these expenditures.

1) Claiming Input Tax Credits during Construction

If you have not already done so, housing providers building new social housing developments should register for the HST. Registering entitles you to claim ITCs for all HST incurred during construction on:

- Feasibility, architectural, engineering and other consulting costs
- Construction costs
- Landscaping and other finishing costs
- Land acquisition – If you buy land for social housing and HST applies to the purchase, the tax will be fully recoverable; however, HST does not apply when the land for a social housing project is leased from another entity.

While ITCs can be claimed after the project is completed, we recommend you claim the ITCs for these costs during construction to recover the funds more quickly.

You can claim an ITC for any HST related to the housing project, as soon as you receive the supporting documentation (typically the invoice). It is not necessary to wait until the invoice has been paid to claim the ITC.

If you have not claimed all the ITCs related to the construction process by the interest adjustment date, you can continue to claim them for up to four years from the invoice date, but you should claim them as soon as possible. The IAD is the date

you take out a mortgage for the development, and happens when you shift from the construction phase to occupancy.

Registrants with more than \$6 million in taxable revenues have less time to claim ITCs. Depending on the circumstances, the timeframe ranges from two to three years from the invoice date.

2) Your Liability for HST at Project Completion (Self-Supply)

HST registered housing providers are entitled to recover all of the HST incurred when developing a new housing project as ITCs. However, you are also liable for self-assessing the HST once the project is completed, under the “self-supply” rules. Here’s how the rules work:

- Generally, HST applies to the selling price of newly constructed or substantially renovated housing.
- Developers are required to pay the HST as if they had purchased the housing.
- As a result, a housing provider is considered both the seller *and* buyer for new developments funded by BC Housing.
- These rules mean you have supplied yourself with housing (self-supplied), and must assess and pay the amount of HST owing.

While you were considered the seller during the construction phase, once your social housing project is completed, you are considered the buyer of a taxable supply.

As a buyer, you are liable for self-assessing the HST equal to the greater of:

- 12 per cent of the fair market value of the project, including the land and building, or
- HST paid on specified development costs including the land acquisition, any improvements made to the property, and construction costs such as materials, supplies, equipment, contractors and consultants.

Certain items are excluded from the specified development costs, including the HST paid on:

- Preliminary architectural and engineering work
- Training by consultants
- Rezoning costs
- Soil, topography and environmental studies
- Landscaping

Typically, the fair market value of social housing projects is generally less than the actual cost. In this case, BC Housing will calculate the HST you owe at the IAD, based on the specified development costs.

Since you are a registered municipality, charitable organization or qualifying non-profit, as a 'buyer' you are eligible to claim a partial rebate of the HST payable at the IAD. As a result, the self-assessed HST will be reduced by the amount of your rebate. BC Housing will make this adjustment, if applicable, and advise you of the net amount of HST payable on the completed project.

The self-supply rules only apply to residential property. When a facility contains both residential and commercial space, it is treated as two separate properties for HST purposes, the commercial component and the residential component. The self-supply rules apply to the residential component only.

Self-Supply Worksheet

BC Housing uses the following worksheet to calculate the net HST payable when a new social housing project is completed under the self-supply rules.

CALCULATION OF HST SELF-SUPPLY LIABILITY WORKSHEET

1) Calculation of HST Payable by Society

| | | | | |
|--|----|-------|----|---------|
| Total actual HST paid on project (incl. furniture and appliances)* | | | \$ | 496,000 |
| Less: HST paid on proposal development costs (pre-construction) | \$ | 2,800 | | |
| Less: HST paid on preliminary architect / engineering work | \$ | 7,200 | | |
| Less: HST on consulting training | \$ | 500 | | |
| Less: HST paid on rezoning costs | \$ | 500 | | |
| Less: HST paid on soil / topography / environmental studies | \$ | 1,500 | | |
| Less: HST paid on development costs charges, if any (**) | \$ | 1,000 | | |
| Less: HST paid on landscaping | \$ | 2,500 | \$ | 16,000 |

HST Payable - Line 103 of GST/HST Return \$ 480,000

* Include HST on land, if land was purchased by society and purchase was subject to HST

** Deduct any HST paid to a municipality for repair, maintenance, and installation work for public water distribution systems, sewers and drainage system; installing, replacing, repairing and removing street or road signs, or barriers, street or traffic lights; repairing or maintaining roads, streets, sidewalks, or similar or adjacent property; or installing accesses or egresses. Such supplies are exempt and any HST charged is in error.

2) Calculation of Rebate Claimable by a Charity or Qualifying NPO

| | | | | |
|---|--------------------|-------------|--------|------------|
| A) Society IS designated as a municipality AND project has RGI units | | | | |
| Enter % of RGI Units | 60% | Rebate rate | 85.42% | \$ 288,000 |
| Enter % of Non RGI Units | <u>40%</u> | Rebate rate | 62.50% | \$ 120,000 |
| Total (must=100%) | <u><u>100%</u></u> | | | |

Rebate Claim - Line 309 of rebate Form 66 and Line 11 of GST/HST Return \$ 408,000

B) Society is NOT designated as a municipality OR project has no RGI Units

Rebate Claim - Line 309 of Rebate Form 66 and Line 11 of GST/HST Return \$ 300,000

There are two parts to the worksheet:

Part 1) HST on Specified Development Costs

In the first part of the worksheet, BC Housing calculates the actual HST you paid on specified development costs to build the project, less the items that are excluded.

For example, if the total specified costs for a particular housing project were \$4,000,000, the HST owing would be (\$4,000,000 x 12%) = \$480,000 HST.

Part 2) Rebate Claimable

In the second part of the worksheet, we calculate the amount of the rebate you are entitled to.

If the project has RGI units and you have been designated as a municipality, you can claim a rebate of 85.42 per cent of the HST payable on the completed project for the RGI units.

If your project does not have any RGI units, there is a special rebate claimable. Generally, if you purchase new housing, you are entitled to claim a rebate of 71.42 per cent of the provincial portion of the HST as long as the housing value is \$525,000 per unit or less. The Province allows public service bodies to claim this rebate if it is higher than the rebate they would otherwise be entitled to claim. Since charities and qualifying non-profit organizations can only claim a 57 per cent rebate of the provincial portion of the HST incurred on non-RGI housing, the higher rebate applies. Instead of the regular combined rate of 54.08 per cent, the new combined rebate rate is 62.5 per cent. The rebate of the provincial portion is claimed on a different rebate form.

If the development has both RGI and non-RGI units, the amount of rebate you can claim must be allocated by the proportion of these units. For example, if 60 per cent of the units are RGI, and 40 per cent are non-RGI, you can claim a rebate of 85.42 per cent for the RGI units and a 62.5 per cent rebate for the non-RGI units:

Please note that the *Self-Supply Worksheet* should not be submitted to CRA. If CRA questions the self-supply amount calculated for your organization, or plans to audit you on a new housing development, please advise the Senior Manager, Operational Support, at BC Housing.

A copy of the worksheet is included in the appendix.

It is important to apply for municipal designation as soon as possible, if you are building RGI units, to ensure you can claim the maximum rebate when the project is completed (see page 19 for information on how to apply).

3) Timing of HST Liability

The HST owing on a new development is due in the reporting period when the building is substantially complete and one or more residential units have been rented.

At BC Housing, we have adopted a policy of remitting the HST based on the interest adjustment date, which normally occurs at substantial completion and first occupancy.

For example, if you file on a quarterly calendar basis and IAD is February 2010, the net HST payable is reported on your GST/HST return for the quarter ending March 31, 2010, and payment is due at the end of April 2010.

Projects with Housing and Commercial Space

1) Commercial Activities in Social Housing Projects

We recommend you elect to make any commercial space in a new social housing project taxable, so you can recover all the HST incurred in constructing the commercial space. File the election form, *Taxable Real Property Election*, before project completion, and specify IAD as the effective date.

When you elect to make commercial space taxable, you:

- Charge HST on the lease or rental of the commercial space.
- Claim ITCs on operating expenditures related to the property, such as maintenance and utilities, based on the percentage used in relation to commercial activities.
- Treat any subsequent sale of the commercial portion of the property as taxable.

If you elect to make the commercial space taxable, and subsequently use some or all of the space for your own HST exempt purposes, you may become liable for the HST on that space. Consult your accountant if this situation arises.

Remember, residential rentals of a month or longer are exempt and cannot be made taxable. See page 15 for more on exempt goods and services.

2) HST on a Mixed Use Property

When the commercial space is taxable

If you develop a social housing project that contains both residential and commercial rental space, and file the election form to make the commercial space taxable, the HST applies as follows:

Development

During construction, you can claim a full ITC for all the HST you paid to construct the entire facility.

Completion

A property that includes both residential and commercial space is treated as two separate properties for HST purposes. The self-supply rules discussed on page 31 only apply to the residential part of a mixed-use property. As a result, you owe HST only on the residential portion of the facility when the development is completed, but not on the commercial portion.

When the commercial space is not taxable

If you develop a social housing project that contains both residential and commercial rental space, and have not filed an election form to make the lease/rental of the commercial space taxable, the lease/rental of this space is exempt from HST. In this situation, the HST applies to the residential portion as follows:

Development

During construction, you can claim an ITC for the proportion of the HST related to the residential part of the project only. No ITC can be claimed for HST on the commercial portion.

If you are eligible for the 54.08 per cent charity/qualifying non-profit rebate you can claim the rebate for the HST paid on the construction of the commercial portion. The municipal rebate does not apply to commercial activities.

Completion

When the development is complete, you do not owe any HST on the commercial portion of the property, but do owe HST on the residential portion, as explained in the section on self-supply rules on page 31.

New Construction Checklist

Here are the steps to take when building a new development, with page references for more information on each step:

| TASK | PAGE |
|--|------|
| Register for the HST as soon as possible. If you do not have a business number, fill out HST form RC1, <i>Request for a Business Number</i> , and submit it to the local CRA office. Select monthly filing in section four. | 12 |
| If you already have a business number, but are not registered for the HST, submit HST form RC1A, <i>Business Number (BN) – GST/HST Account Information</i> , to register and elect monthly filing. | 12 |
| If you are already registered and are not filing monthly, change to a monthly reporting period during construction by submitting an HST Form GST20, <i>Election for GST/HST Reporting Period</i> . | 13 |
| If you will be providing rent-geared-to-income units, send a letter to the CRA requesting municipal designation so you are eligible to claim an 85.42 per cent net effective rebate. | 18 |
| <p>File monthly GST/HST returns until construction is complete, when you can elect to file quarterly or annually:</p> <ul style="list-style-type: none"> • Enter your input tax credits on line 108 of the return for HST incurred on costs related to developing the project, to the extent available, and any other input tax credits you qualify for. • Enter any HST collectible on taxable goods and services you supply on line 105 of the return. | 42 |
| If you are eligible for rebates, file monthly claims during construction, using the <i>Rebate Application Form</i> . | 42 |
| When claiming rebates, enter the total, from line 409 of the HST rebate claim form, on line 111 of the GST/HST return. Remit the net amount owing if positive, or claim a refund if the net amount is negative. | 43 |
| Submit the <i>GST/HST Return</i> and <i>Rebate Application Form</i> together each month. | 43 |

CHAPTER 4: HST ACCOUNTING

This chapter explains how to account for the HST and how to complete GST/HST returns and rebate claims.

Determining HST Paid or Payable

You can determine the total amount of HST paid or payable by adding up the HST incurred on expenditures. Typically, the HST is shown as a separate amount on invoices or other purchase documentation. However, in some instances, the HST is included in the price you pay. In this case, you calculate the HST as 12/112 of the amount paid. For example:

$$\text{Item purchased} \quad \$35 \times (12/112) = \$3.75 \text{ HST}$$

If you reimburse an employee for a taxable expense, such as purchasing office supplies, your organization is deemed to have made the expenditure and you can claim the HST included in the reimbursement.

Self-Assessment Requirements

In some situations, a housing provider may acquire property or services from outside BC and be required to self-assess tax for these acquisitions. Self-assessment is only required when the property or service is acquired for use, in whole or in part, to make exempt supplies.

When taxable goods are imported into BC from outside Canada, only the five per cent GST is charged at the border. You must self-assess the seven per cent provincial portion of the HST and report such amounts as HST collectible. If these goods are used for RGI housing and you have been designated as a municipality, you can claim a rebate of 75 per cent of the self-assessed provincial portion of the HST. Otherwise, you can claim a rebate of 57 per cent of that tax if you qualify for the charity/qualifying non-profit rebate.

If you purchase taxable services or intangible property (non-physical asset) for use in BC, from a non-resident supplier who is not registered for GST/HST, you must self-assess the 12 per cent HST and report such amounts as HST collectible. To the extent the services or intangible personal property are used in supplying RGI housing and you have been designated as a municipality, you can claim a rebate of 85.42 per cent of the self-assessed HST. Otherwise, you can claim a rebate of 54.08 per cent of that tax if you qualify for the charity/qualifying non-profit rebate.

When taxable property or services are acquired from a GST/HST-registered supplier in Canada, for use in BC, and the supplier charges only the five per cent GST, you must self-assess the seven per cent provincial portion of the HST and report these amounts as HST collectible. If the supplies are used for RGI housing and you have been designated as a municipality, you can claim a rebate of 75 per cent of the self-assessed provincial portion of the HST. Otherwise, you can claim a rebate of 57 per cent of that tax (assuming you qualify for the charity/qualifying non-profit rebate).

Recording HST

Here is one example of how you can record and account for the HST. Your accountant may be able to help determine the method that best suits your needs and accounting abilities.

1) Claiming Rebates Only

Housing providers who only claim rebates may wish to set up two accounts: an HST receivable account and a clearing account. If you are designated as a municipality, but not all your units are rent-geared-to-income, three accounts are suggested:

- One to record the 85.42 per cent rebate receivable on RGI units,
- One to record the 54.08 per cent rebate receivable on non-RGI units, and
- A clearing account.

While waiting for a refund, the clearing account allows you to easily segregate rebate claims you have already submitted to CRA from amounts not yet claimed.

To process expenditures that include HST, post the appropriate portion of the HST to your HST receivable account. At the end of your reporting period, claim the HST using the *Rebate Application Form*. See how to complete this form later in this chapter, on page 42. A copy is included in the appendix.

When you determine the amount of rebate you will be claiming from CRA, you can transfer that amount into the clearing account to keep the amounts you have paid and claimed separate. When the rebate is received, post the cheque to the clearing account. Then you repeat the process for your next reporting period.

Rebate Example

Assume a qualifying non-profit organization is operating a housing-only complex and incurs \$10,000 in taxable expenses (utilities, repairs, etc.). There are no other taxable transactions during the reporting period. The HST payable on the expenses is $(\$10,000 \times 12\%) = \$1,200$. The housing provider is entitled to the 54.08 per cent net effective rebate.

1) Accounting entry to record payment of expenses

| | | | |
|--------|---------------------------------------|-------------|-------------|
| Debit | Operating Expense | \$10,551.04 | |
| | ($\$11,200 - 54.08\%$ of $\$1,200$) | | |
| Debit | HST receivable account | \$648.96 | |
| | (54.08% of $\$1,200$) | | |
| Credit | Cash | | \$11,200.00 |

2) Accounting entry to close out rebate at month end when the GST/HST return is filed

| | | | |
|--------|------------------------|----------|----------|
| Debit | HST clearing account | \$648.96 | |
| Credit | HST receivable account | | \$648.96 |

3) Accounting entry to record receipt of HST rebate from CRA

| | | | |
|--------|----------------------|----------|----------|
| Debit | Cash | \$648.96 | |
| Credit | HST clearing account | | \$648.96 |

If the rebate received from CRA includes interest, do not credit the interest to your HST receivable account. Set up an interest income account for the interest amount. Only the rebate amount should be posted to the receivable account. Interest will only be included if the CRA takes more than 21 days, from the date of filing, to pay you the rebate.

2) Claiming Rebates and ITCs

We recommend housing providers who are registered for HST, and claim ITCs and rebates, set up four accounts:

- HST collectible account,
- HST rebate account,
- Input tax credit account, and
- Clearing account

If you qualify for both, municipal and charity/qualifying non-profit rebates, then two rebate accounts should be set up.

Post any HST you charge on taxable revenues to the HST collectible account, unless you are using the charity or simplified methods. In this case, post only the specified percentage of the HST charged on revenues is posted to the HST collectible account.

When you process expenditures that include HST, post the portion of HST related to taxable activities to the input tax credit account, and 54.08 per cent of the balance, if any, to the rebate account, assuming you are entitled to that rebate.

At the end of your reporting period, report the balance in the HST collectible and input tax credit accounts on your GST/HST return, and report the balance in the rebate account on the rebate claim form. Close out the balances in these three accounts to the clearing account.

If the net amount is payable, post the cheque you issue to pay the net amount to the clearing account. Similarly, if the net amount is a refund, post the refund cheque, net of any interest received, to the clearing account when you receive it. Any interest should be posted to a miscellaneous revenue account. Similarly, if you are late in paying an amount and are assessed interest, the interest payment should be posted to a miscellaneous expense account, not to one of the four HST accounts.

ITC/Rebate Example

Assume a housing provider has 25 per cent taxable commercial space and 75 per cent HST exempt residential space, and incurs \$40,000 in taxable expenses, like utilities and repairs, during a reporting period.

The HST payable on the expenses is $(\$40,000 \times 12\%) = \$4,800$. Rent from the commercial space is \$20,000, so the housing provider collected $(\$20,000 \times 12\%) = \$2,400$ in HST. The housing provider is a qualifying non-profit, registered for the HST, eligible for the 54.08 per cent combined rebate rate.

1) Accounting entry to record payment of expenses

| | | | |
|--------|--------------------------|--|-------------|
| Debit | Expense | \$41,653.12 | |
| | | <i>(\$44,800 cash minus the ITC and rebate claims)</i> | |
| Debit | ITC claimable/receivable | \$1,200.00 | |
| | | <i>(25% of \$4,800 HST payable on expenses)</i> | |
| Debit | HST rebate receivable | \$1,946.88 | |
| | | <i>(54.08% of remaining HST after ITC claim)</i> | |
| | | <i>(\$4,800 - \$1,200 = \$3,600 x 54.08% = \$1,946.88)</i> | |
| Credit | Cash | | \$44,800.00 |

2) Accounting entry to record commercial rentals

| | | | |
|--------|-----------------|--|-------------|
| Debit | Cash | | \$22,400.00 |
| Credit | Rental revenue | | \$20,000.00 |
| Credit | HST collectible | | \$2,400.00 |

3) Accounting entry to close out accounts when return filed

| | | | |
|--------|--------------------------|--|---|
| Debit | HST clearing account | | \$746.88 |
| | | | <i>(\$2,400 - \$1,200 - \$1,946.88 = -\$746.88)</i> |
| Debit | HST collectible account | | \$2,400.00 |
| Credit | ITC claimable/receivable | | \$1,200.00 |
| Credit | HST rebate receivable | | \$1,946.88 |

4) Accounting entry to record receipt of net refund from the CRA

| | | | |
|--------|----------------------|--|----------|
| Debit | Cash | | \$746.88 |
| Credit | HST clearing account | | \$746.88 |

Again, if the amount refunded by CRA includes interest, credit the interest amount to an interest account, not the HST clearing account.

This accounting summary assumes a housing provider has the time and resources to record the HST transaction by transaction. If not, you can use a more simplified method.

Smaller housing providers can determine the HST “in bulk,” after the fact. For example, if you are only eligible for rebates, you could simply add up all of the HST paid during the reporting period from your invoices and claim the rebate based on that total amount.

Please note that the HST input tax credits and rebates you claim should not be recorded as revenue. Net these ITC and rebate amounts against the expenses they relate to. For example, if you spent \$1,120 on a purchase and \$120 of the invoice was HST, you are entitled to claim it as an ITC, as your real expense was \$1,000. When you recover the \$120 HST as an ITC, it is not considered revenue.

Filing HST Rebate Claims

All housing providers who qualify for a rebate must complete and file an *HST Rebate Application Form (GST66)* to claim the rebate. A sample form is included in the appendix; although, this form is being amended to reflect the BC rebates.

1) *When to File a Rebate Claim*

If you are registered for HST, you must file your rebate claim with your GST/HST return for the reporting period you have chosen, either monthly, quarterly or annually.

If you are not registered for the HST, rebate claims can be filed semi-annually or annually. Although you have up to four years to claim rebates from CRA, BC Housing requires you to file rebate claims at least annually.

2) **Completing the Rebate Claim Form**

All housing providers must complete sections A to E of the rebate claim form, which cover:

- Identification for your organization
- Your claim period
- Any amount offset in your GST/HST return, if applicable
- Certification of the accuracy of the information you are providing
- Details of your rebate claim

Qualifying non-profit organizations also have to submit HST form GST523, *Non-Profit Organizations – Government Funding*, annually to qualify for the HST rebate. The form asks for information on your sources of funding to confirm your eligibility as a qualifying non-profit. A copy of HST form GST523 is included in the appendix. Registered charities are not required to complete this form.

If you receive funding from a regional health authority, you must also obtain an HST form GST322 from the health authority. A copy of the form is included in the appendix.

3) **Designated Municipalities**

If you have been designated as a municipality, you can claim a rebate for 100 per cent of the federal portion of HST, and 75 per cent of the provincial portion of the HST incurred on expenses related to your RGI units. Report the two rebate amounts separately on the rebate form. You can calculate the separate amounts by:

- Dividing the balance in your municipal HST rebate account by 0.8542
- Multiplying the result by 5/12 to get the federal rebate portion, and
- Multiplying the result by 5.25/12 to get the provincial rebate portion.

You can include the HST payable on any RGI units in a newly completed building, under the self-supply rules. See page 31 for an explanation of how the self-supply

rules work. Enter these amounts on the designated line of section E on the claim form.

4) Charities and Qualifying Non-profits

Charities and qualifying non-profit organizations can claim a rebate for 50 per cent of the federal portion of HST, and 57 per cent of the provincial portion of HST incurred on expenses related to providing social housing. This rebate is only for amounts not previously claimed using the municipal rebate on RGI housing.

Report the two rebate amounts separately on the rebate form. You can calculate the separate amounts by:

- Dividing the balance in your HST rebate account by 0.5408
- Multiplying the result by 2.5/12 to get the federal rebate portion and
- Multiplying the result by 3.99/12 to get the provincial rebate portion.

This rebate does not include HST payable on a newly completed or substantially renovated building. The combined rebate claimable is 62.5 per cent of the HST payable under the self supply rules. This rebate consist of a 50 per cent rebate of the 5 per cent federal portion of the HST, which is claimable as part of the federal rebate and 71.43 per cent of the 7 per cent provincial portion of the HST. This provincial portion is claimed on a separate new housing rebate claim form (which had not been released by the CRA at the time this guide was completed).

See page 31 for information on the self-supply rules.

Section E of the rebate claim form has separate lines for charities and qualifying non-profit organizations to enter HST rebate amounts.

Filing GST/HST Returns

If you are registered for the HST, you must complete and file a GST/HST return, even if you do not provide any taxable goods and services and are only claiming rebates.

If you provided any taxable goods and services (items you charged HST on) during your reporting period, enter the HST collectible on line 105 of the GST/HST return. This amount should include the 12 per cent HST payable on a new development under the self-supply rules (see page 31 for details).

If you are entitled to claim input tax credits during your reporting period, enter these amounts on line 108 of the GST/HST return. This amount should include ITCs for HST incurred on costs related to developing a project.

If you are entitled to claim rebates, enter the total amount from line 409 of the HST rebate claim form GST66, on line 111 of the GST/HST return.

CHAPTER 5: TRANSITION RULES

General Transitional Rules

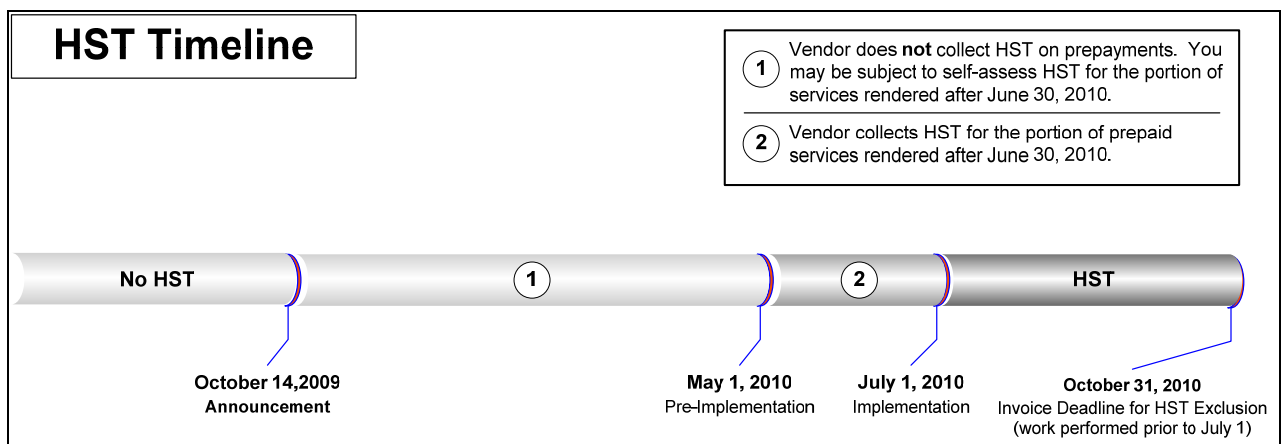
The HST comes into effect July 1, 2010. This chapter explains some of the general transitional rules, although there are some specific exceptions to these rules. Contact your accountant or the CRA for more information.

Generally GST and, where applicable, PST, apply to any taxable goods and services supplied before July 1, 2010, while HST applies to any taxable goods or services supplied after June 30, 2010.

If you receive an invoice or pay for property or services between October 14, 2009 and May 1, 2010, that will be delivered after June 30, 2010 (in whole or in part), you are required to self-assess the seven per cent provincial part of HST on the portion delivered post June 30, 2010. If the work is substantially complete (90 per cent or more) before July 1, 2010, the work is not subject to HST provided you have received the invoice by October 31, 2010. There are relatively few situations where this would occur. The most common examples would be equipment maintenance contracts or software licenses. Self-assessment is *not* required when a property or service is acquired exclusively for use in taxable activities, such as commercial leases.

Effective May 1, 2010, GST/HST registrants who invoice or receive payment for property or services that will be delivered in whole or in part after June 30, 2010, must collect the seven per cent provincial portion of HST.

Below is timeline that illustrates the HST implementation:



Transitional Rules for New Housing

There are special transitional rules when the construction or substantial renovation of a new housing project began before July 1, 2010, and the IAD falls after June 30, 2010. If you are involved in such a project, contact the Senior Manager, Operational Support, at BC Housing for further information.

Relevant Publications

There have been several Notices published by the CRA, two of which may be applicable to housing providers:

| Publication | Date Issued |
|---|---|
| HST Notice #1, <i>General Transitional Rules for British Columbia HST</i> | October 14, 2009, revised April 6, 2010 |
| HST Notice #3, <i>Residential Housing - New Housing Rebates and Transitional Rules for British Columbia HST</i> | November 18, 2009 |

These HST notices may be confusing, so CRA has produced several *GST/HST Info Sheets*, written in plain language with examples and diagrams to help explain the concepts.

Both the HST Notices and the GST/HST Info Sheets can be found on the CRA website.

CHAPTER 6: AUDITS

Canada Revenue Agency Audits

An auditor from the Canada Revenue Agency (CRA) will advise you of the intent to audit and when the audit will occur. You can ask CRA to defer the audit if you have a valid reason, such as the suggested time falls within a busy period for the organization, or a key employee will be on vacation. CRA will usually accommodate the request.

The auditor's approach will vary, depending upon the size and complexity of your organization. Generally, the auditor will want to review the nature of the organization's operations and test a sample of transactions. The period open to an audit is four years, although the auditor may review only two years. If you have developed a new housing project during the audit period, CRA will almost certainly review the HST accounting for the project, and the project valuation for self-supply purposes. See page 31 for more information on self-supply rules.

When the audit is done, the auditor will give you a copy of the proposed assessment, and give you 30 days to respond with any further information you may have regarding the assessment. Additional time may be granted upon request.

When the audit is complete, a notice of assessment will be issued. Any tax owing, plus interest and penalty, is due and payable upon issuance. Interest and penalty will accrue on unpaid assessments. You have 60 days to appeal an assessment.

If you are being audited on a new housing project, or are assessed on a new housing development (self-supply), please advise the Senior Manager, Operational Support, at BC Housing.

GLOSSARY

| | |
|--|---|
| BC Housing: | BC Housing is the provincial government agency that develops, manages and administers social housing across the province, in partnership with non-profit housing providers, the private sector and other levels of government, health authorities and community agencies. |
| Business Number (BN): | The Canada Revenue Agency assigns a nine-digit account number, called a business number (BN), to deal with various types of business accounts. You must apply to the CRA for a BN. |
| Canada Mortgage and Housing Corporation (CMHC): | CMHC is the national housing agency of the federal government, and provides subsidies for housing developed under federal and federal/provincial housing programs. |
| Canada Revenue Agency (CRA): | The Canada Revenue Agency administers tax laws for the federal government and most provinces. |
| Designated municipality: | CRA considers rent-geared-to-income housing to be a municipal activity. Consequently, the CRA will designate housing providers supplying RGI housing as municipalities for the purpose of claiming rebates. Under HST legislation, a designated municipality is entitled to claim a rebate of 100 per cent for the federal portion of HST and 75 per cent of the provincial portion (net effective rate 85.42 per cent) of HST incurred in providing RGI housing. |
| Election: | The Canada Revenue Agency uses the term election to indicate when a business or housing provider can choose among options that make it easier to comply with HST regulations. These options allow you to adapt HST requirements to your business activities, and each election has eligibility requirements. |
| Exempt goods and services: | HST is not charged on goods and services designated as exempt. Organizations cannot claim an input tax credit for the HST paid on purchases related to the provision of exempt goods and services. Exempt services include rentals of residential accommodation for a month or more, sales of used residential property, and certain health services. |

| | |
|--|---|
| Goods and Services Tax (GST): | GST is a value added tax, levied under the <i>Excise Tax Act</i> , on most goods and services supplied in Canada. The GST rate is five per cent, except in provinces that have harmonized their sales tax systems (see below). |
| Harmonized Sales Tax | The Harmonized Sales Tax refers to the rate of tax applicable to supplies made in provinces that have repealed their provincial sales taxes and “harmonized” with the GST. Effective July 1, 2010, Ontario harmonized at a rate of 13 per cent, while BC harmonized at 12 per cent. New Brunswick and Newfoundland are also harmonized at 13 per cent. Nova Scotia is also harmonized and effective July 1, 2010 the rate was increased to 15 per cent. |
| Housing provider: | Non-profit housing societies and housing co-operatives that own and manage affordable housing developments are also referred to as housing providers. |
| Input tax credit (ITC): | Businesses pay HST on most purchases and expenses related to taxable activities. An input tax credit is a full refund of this HST, claimed in the GST/HST return. Generally, an organization registered for the HST is entitled to claim an input tax credit for 100 per cent of HST paid on expenses related to taxable goods and services (including zero-rated), subject to certain specific exceptions. |
| Inputs | Any goods or services purchased to produce taxable items are considered inputs. |
| Interest adjustment date (IAD): | IAD is the date your organization takes out a mortgage for a development, which occurs when the project goes from the construction phase to occupancy. |
| Non-RGI rents: | Non-rent-geared-to-income (non-RGI) rents are not based on tenants’ ability to pay relative to their income, and generally house tenants who can afford to pay rents closer to the market rent. |
| Non-taxable goods and services: | Supplies of goods and services, by persons not registered for GST/HST, are non-taxable. HST is not collected on these revenues, and the person producing these goods cannot claim input tax credits for the HST paid on expenses. |

| | |
|--|--|
| Operating agreement: | The operating agreement is the contract that defines the roles and responsibilities of a housing provider and BC Housing, the criteria for selecting tenants and members, resident rent/housing charge contributions, rent reviews, budget and financial reporting requirements, subsidy payments, record keeping requirements, the operational review process, minimum insurance and liability coverage, and the process for terminating an operating agreement. |
| Provincial Rental Housing Corporation (PRHC): | PRHC owns real estate for social housing, and may lease the land to non-profit societies and housing co-operatives. BC Housing acts as the operating agent for PRHC. |
| Public service bodies: | Under HST legislation, public service bodies include non-profit organizations, registered charities, municipalities, school authorities, public colleges, universities and hospital authorities. |
| Qualifying non-profit: | Qualifying non-profit organizations are entitled to claim rebates of 50 per cent of the five per cent federal portion, and 57 per cent of the seven per cent provincial portion (combined rate 54.08 per cent), of HST that cannot be claimed as an input tax credit. To qualify, a non-profit must receive at least 40 per cent of total revenue from government, or a qualifying agency, including BC Housing, CMHC, and/or a regional health authority. |
| Rebate: | A rebate is a partial recovery of HST paid, and is available to public service bodies. These organizations often provide exempt or non-taxable goods and services, and cannot claim input tax credits for any HST incurred on expenses, but may qualify for a partial rebate of the HST instead. |
| Registered charity: | For HST purposes, registered charities must have a registration number issued by the Canada Revenue Agency, which enables them to issue official income tax receipts for donations. Housing providers who are registered charities are entitled to claim a rebate of 50 per cent of the five per cent federal portion, and 57 per cent of the seven per cent provincial portion (combined rate 54.08 per cent), of HST that cannot be recovered by claiming input tax credits. |

| | |
|---------------------------------------|---|
| Rent-geared-to-income (RGI): | In social housing, many people with low or modest incomes pay 30 per cent of gross household income toward the rent/housing charge, which is called rent-geared-to-income, or RGI, housing. |
| Self-supply rules: | Self-supply refers to the liability to pay the HST when a new housing development or a substantial renovation of an existing housing development is complete. The housing provider is deemed to have sold and repurchased the development, and is therefore liable for the HST. |
| Small supplier: | Organizations considered small suppliers are not required to register for the HST. A small supplier is a business or organization with annual revenues from taxable goods and services of less than \$30,000. The threshold for public service bodies, which include charities and non profit organizations, is \$50,000. In addition, a registered charity with less than \$250,000 in annual revenues is also a small supplier, even if taxable revenues exceed \$50,000. |
| Substantial renovation | Substantial renovation is considered new construction and requires the renovation or alteration of 90 per cent or more of the interior of an existing residential building. |
| Taxable goods and services: | HST is charged on taxable goods and services. HST registered organizations must collect the 12 per cent HST on most goods and services they supply in BC, although some specific goods and services are not taxed. |
| Zero-rated goods and services: | Zero-rated goods or services are considered taxable, but tax is charged at zero per cent, so no tax is collected. An organization providing zero-rated goods and services is not required to collect HST, but the organization can still claim an input tax credit for HST paid on expenses, because the goods and services are classified as taxable. Prescription drugs, medical devices and basic groceries are a few examples of zero rates goods and services. |

APPENDICIES

Appendix 1: Contact Information

Appendix 2: Forms

Appendix 1: Canada Revenue Agency Contact Information

Website: www.cra-arc.gc.ca

TELEPHONE NUMBERS:

| | |
|---|--|
| Information and services for businesses Business and GST/HST registration | 1-800-959-5525 |
| Forms and publications Order publications online or download from the CRA site | 1-800-959-2221 |
| <i>e-service</i> Helpdesk for businesses To get help using GST/HST NETFILE, or GST/HST TELEFILE | 1-877-322-7849 Helpdesk hours of service Monday to Friday 3:45 a.m. to 8:00 pm |

ADDRESSES:

Burnaby-Fraser Tax Services Office

Office address:

9737 King George Highway
Surrey, BC V3T 5W6
Fax: 604-587-2010

Office hours:

8:15 a.m. to 4:30 p.m.
Service by appointment only
To book an appointment call:
1-800-959-5525

Mailing address:

PO Box 9070, STN Main
Surrey, BC V3T 5W6

Northern BC and Yukon Tax Services Office

Office address:

280 Victoria Street
Prince George, BC V2L 4X3
Fax: 250-561-7869

Office hours:

8:15 a.m. to 4:30 p.m.
Service by appointment only
To book an appointment call:
1-800-959-5525

Mailing address:

9755 King George Highway
Surrey, BC V3T 5E1

Southern Interior BC Tax Services Office

Office addresses:

277 Winnipeg Street
Penticton, BC V2A 1N6

100 - 1620 Dickson Avenue
Kelowna, BC V1Y 9Y2
Fax: 250-492-8346

Office hours:

8:15 a.m. to 4:30 p.m.
Service by appointment only
To book an appointment call:
1-800-959-5525

Mailing address:

9755 King George Highway
Surrey, BC V3T 5E1

Vancouver Tax Services Office

Office/ mailing address:

1166 West Pender Street
Vancouver, BC V6E 3H8
Fax: 604-689-7536

Office hours:

8:15 a.m. to 4:30 p.m.
Service by appointment only
To book an appointment call:
1-800-959-5525

Vancouver Island Tax Services Office

Office/ mailing address:

1415 Vancouver Street
Victoria, BC V8V 3W4
Fax: 250-363-8188

Office hours:

8:15 a.m. to 4:30 p.m.
Service by appointment only
To book an appointment call:
1-800-959-5525

Appendix 2: Forms

Request for a Business Number Form RC1

You can use this form to request a business number if your organization does not already have one.

- If you are applying for an HST number it is necessary to complete parts A and B of the form.
 - When completing section A4, make sure you refer to the taxable activity you are registering for. If you are registering because you will be developing a new housing project, include this information. If you are registering for another taxable activity, state what the activity is.
 - When completing section A5, answer yes to the first question, yes or no, depending on the facts, to the second question, no to the next three questions, and yes to the last question.
- Complete part C if you have employees.
- You must complete and sign part F to certify the information in the form.

Business Number - HST Account Information Form RC1A

Use this form to request an HST number if your organization already has a business number. You must complete the entire form.

- When completing section two, answer yes to the first question, yes or no, depending on the facts, to the second question, no to the next three questions, and yes to the last question.
- When completing section six, make sure you refer to the taxable activity you are registering for. If you are registering because you will be developing a new housing project, include this information. If you are registering for another taxable activity, indicate what the activity is.
- You must complete and sign the certification section at the bottom of the form.

Sample Municipal Designation Letter

Canada Revenue Agency
Director, Public Service Bodies and Government Division
Excise and GST/HST Rulings Directorate
320 Queen Street
Place de Ville, 14th Floor
Ottawa, Ontario K1A 0L5

Date

Dear Sir/Madam:

Re: Request for Municipal Designation

We are writing to request that (*insert the full name of your organization*) be designated as a municipality, under subsection 259(4) of the *Excise Tax Act*. (*Organization name*) supplies rent-geared-to-income social housing in (*a facility/facilities*) in the province of BC. At least 10 per cent of the units in the facility are rent-geared-to-income. We enclose the following information in support of our designation request:

- 1) A copy our constitution and bylaws,
- 2) A copy of the subsidy agreement (signed and dated),
- 3) Our charitable registration number (if a charity), and
- 4) A copy of our Certificate of Incorporation

We request that the designation be made effective (*the latest of:*

- *The date the organization was formed;*
- *The date the organization began supplying rent-geared-to-income housing; or*
- *Four years prior to the designation request, as organizations have up to four years to claim rebates).*

We understand that we will be entitled to claim the municipal rebates in respect to GST/HST incurred on expenditures related to providing rent-geared-to-income housing, upon receiving the municipal designation.

Please contact me if you require additional information regarding our request for designation as a municipality.

Yours truly,

Signature/Title

Calculation of HST Self-Supply Liability Worksheet

File #: _____
 Society Name: _____
 Project Location: _____

IAD: _____

1. Calculation of HST Payable by Society

| | | |
|--|-----------|----------|
| Total actual HST paid on project (incl. furniture and appliances)* | \$ | - |
| Less: HST paid on proposal development costs (pre construction) | \$ | - |
| Less: HST paid on preliminary architect/engineering work | \$ | - |
| Less: HST paid on consulting training | \$ | - |
| Less: HST paid on rezoning costs | \$ | - |
| Less: HST paid on soil/topography/environmental studies | \$ | - |
| Less: HST paid on development cost charges (**) | \$ | - |
| Less: HST paid on landscaping | \$ | - |
| HST Payable - Line 103 of HST Return | \$ | - |

* Include HST on land if land was purchased by society and purchase was subject to HST

Deduct any HST paid to a municipality for repair, maintenance, and installation work for public water distribution systems, sewers and drainage system; installing, replacing, repairing and removing street or road signs, or barriers, street or traffic lights; repairing or maintaining roads, streets, sidewalks, or similar or adjacent property; or installing accesses or egresses. Such supplies are exempt and any

** HST charged is an error.

2. Calculation of Rebate Claimable by a Charity or Qualifying NPO

A. Society **IS** designated as a municipality **AND** project has RGI units

| | | | | | |
|--------------------------|------|-------------|--------|----|---|
| Enter % of RGI Units | 60% | Rebate Rate | 85.42% | \$ | - |
| Enter % of Non RGI Units | 40% | Rebate Rate | 54.08% | \$ | - |
| Total (must = 100%) | 100% | | | | |

Rebate Claim - Line 309 of Rebate Form 66 and Line 11 of HST Return

B. Society is **NOT** designated as a municipality **OR** project has no RGI Units

Rebate Claim - Line 309 of Rebate Form 66 and Line 11 of HST Return

Prepared by: _____ Date: _____

Approved by: _____ Date: _____

DO NOT SEND THIS FORM TO THE CANADA REVENUE AGENCY
 ADVISE THE MANAGER, FINANCE, AT BC HOUSING IF THE CRA AUDITS THE SOCIETY