tax tip

Ontario
Ministry of Revenue
February 2010

Prepare for Ontario's HST:
#1 – Restricted Input Tax Credits

The 2009 Ontario Budget announced temporary restrictions on input tax credits (ITCs) that would apply to certain items used by large businesses, including financial institutions, in the course of their commercial activities (i.e., the making of taxable supplies, including zero-rated supplies). The restrictions would be temporary during the initial implementation of the HST and would only apply to the Ontario portion of the HST.

Who does this apply to

The temporary restrictions on ITCs would apply to:

- large businesses (generally those making taxable supplies, including zero-rated supplies, worth more than $10 million annually); and
- the following financial institutions (or a person related to one of these institutions): banks, trust companies, credit unions, insurers, segregated funds of insurers, and investment plans.

These restrictions would not apply to:

- public service bodies as defined under the *Excise Tax Act* (Canada) (i.e., municipalities, hospital authorities, universities, public colleges, school authorities, charities and non-profit organizations); or
- items acquired for use in farming activities by a person whose chief source of income is farming, as that term is defined in the *Income Tax Act* (Canada).

What does this apply to

The restriction would generally apply to the following goods and services acquired or brought into Ontario for use by a large business:

- **road vehicles weighing less than 3,000 kilograms that must be registered for use on public highways,** including certain vehicle parts and services, as well as motor fuel (other than diesel fuel) to power those vehicles;
- **energy** other than energy used as an integral part of a process of producing tangible personal property for sale, for the design or production of equipment used in the production of tangible personal property for sale, or used directly in the activities that are eligible scientific research and experimental development;
- **telecommunication services, including** services such as local and long-distance telephone, cable and pay television, satellite television, facsimile and electronic mail, video, audio and computer link-ups and data transmission, **but not including** services such as Internet access and toll-free numbers;
- **meals and entertainment** - food, beverages and entertainment that are currently subject to an ITC repayment requirement under the federal *Excise Tax Act*.

Phase-out of the Restrictions

The ITC restrictions would apply to the Ontario component of the HST on the aforementioned items at the following rates:

- 100% for the period from July 1, 2010 to June 30, 2015
- 75%, for the period from July 1, 2015 to June 30, 2016
- 50% for the period from July 1, 2016 to June 30, 2017
- 25% for the period from July 1, 2017 to June 30, 2018
- 0% on or after July 1, 2018.

Reporting ITC Restrictions

In most cases, registrants would calculate and report their restricted ITCs in the appropriate information fields on a schedule to the GST/HST NETFILE return for the period in which the ITCs first become available.

To help simplify compliance with the restricted ITC requirements:

- an elective proxy approach would generally be available to determine, for example, the restricted amounts applicable to energy and telecommunication services, and
- an election would generally be available to account for restricted ITCs using an estimation, instalment and reconciliation approach.

For More Information:

Telephone

- Canada Revenue Agency's GST/HST Business Enquiries at 1 800 959-8287.

Online

- view ***Information Notice -Temporary Recapture of Input Tax Credits Requirement*** at ontario.ca/taxchange for more details.
- visit the CRA website at cra.gc.ca/harmonization

ISBN 978-1-4435-2117-8 (Print) • ISBN 978-1-4435-2118-5 (HTML) • ISBN 978-1-4435-2119-2 (PDF)