



CHARTERED ACCOUNTANTS

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June 26, 2006

Dear Valued Client

**RE: GST RATE REDUCTION**

As everyone is now likely aware, **effective July 1, 2006 the GST rate will be reduced from 7% to 6%.**

**BASIC TRANSITIONAL RULE**

The basic GST transitional rule is fairly straight forward. Under the basic rule, GST that is paid or payable before July 1<sup>st</sup> will be subject to the 7% rate. GST that is paid or payable after July 1<sup>st</sup> will be subject to the 6% rate.

The GST rules that determine when GST becomes payable on a transaction have not changed. Generally, it is the invoice date that determines when an amount becomes payable.

**REAL ESTATE**

Under the transitional rules, sales of real property will usually be taxed at 6% if closing occurs on or after July 1, 2006. However, there are special transitional rules with respect to the sale and construction of new real estate. In particular;

- If ownership or possession of a home is transferred before July 1<sup>st</sup> the 7% rate will apply to all consideration paid.
- The 7% rate will also apply if the purchase agreement was entered into on or before May 2, 2006 and closing occurs after June 30, 2006. CRA has indicated that in such situations, purchasers will be entitled to a GST rebate (refund of GST) of 1%. To claim the GST rebate the purchaser must complete an application form and file it with the CRA.

New home purchasers who have agreed to pre-July closings may be able to reduce the applicable GST from 7% to 6% by delaying their closings until after July 1, 2006. In fact, many large ticket purchases will benefit if closing occurs after July 1, 2006.

**GENERAL BUSINESS ISSUES**

We can all agree that a tax reduction of any sort is generally good news for businesses. However, a reduction to the GST can create many unforeseen implementation and transitional problems. Many businesses will need to ensure their accounting systems and other systems are properly updated for the change.

The following are just a few examples of the many business systems that will require updating:

- Accounting systems;

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- Cash registers/sales systems; and
- Electronic and paper purchase order systems.

There are numerous areas that will need to be addressed for every specific business. When planning and implementing these changes it should be kept in mind that government has stated that further GST reductions are anticipated.

### QUICK METHOD OF ACCOUNTING

Many small businesses and proprietors utilize the "Quick Method" to determine their GST. The Quick Method rates will also be changed to reflect the reduced rates of GST. The new rates will apply for reporting periods beginning on or after July 1<sup>st</sup>. For reporting periods that straddle July 1<sup>st</sup>, you will need to separate amounts that became due before July 1<sup>st</sup> from amounts due after that date and apply the appropriate rate to each total. The rates are the following:

- Remittance Rates – Businesses that purchase goods for resale

Before July 1, 2006	2.5%
After July 1, 2006	2.2%

- Remittance Rates – Businesses that provide services

Before July 1, 2006	5.0%
After July 1, 2006	4.3%

We trust the above provides an overview of the GST transitional issues that your business may likely be facing. Please contact your Berris Mangan advisor with any questions you may have regarding the GST transitional matters.

Yours very truly,

**Berris Mangan**  
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