

Harmonized Sales Tax (HST) to take effect Thursday July 1st, 2010

DO NOT DELAY READING THIS DOCUMENT

Important! IT MAKE TAKE US A WHILE TO RESPOND TO YOUR PHONE CALLS RECEIVED DURING THE FIRST FEW DAYS IN JULY. This tax change will affect hundreds of stores using BookManager. Our office will not be open on July 1st (for Canada Day) and we will likely experience a heavy volume of calls in the first few days of July. As a result, you should review the information below **now** so that you can quickly make changes to the tax tables at the close of business on June 30th. In most cases you should not need further assistance.

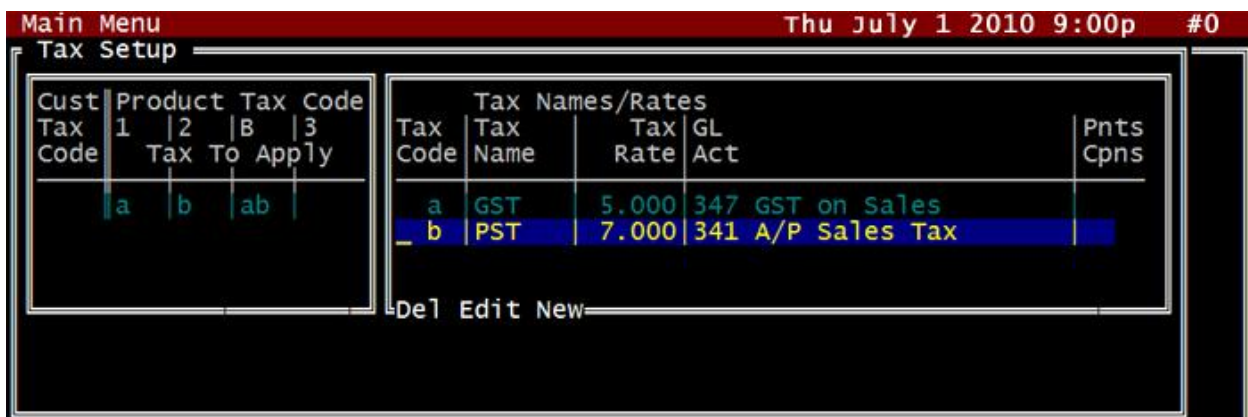
If you do nothing on July 1st, provincial taxes will still be applied by BookManager, in which case your fist HST report will have to include both the GST and PST collected and shown on the end-of-day sales reports. In other words, you will not be in serious violation of the new tax rules.

***** Note *****

We sent an email to everyone last week that explained most of these steps. We have since learned that taxing Frequent Buyers Points is not required by the federal government. We have also received some feedback that has allowed us to enhance the document.

The transition from GST/PST to HST is fairly simple:

Use **[Alt] + [S]**etup --> **[F]** Point-of-Sale --> **[H]** Sales Tax Tables to access your Tax Setup screen.



The screenshot shows the 'Tax Setup' screen in the BookManager application. The title bar indicates 'Main Menu', 'Thu July 1 2010 9:00p', and '#0'. The screen is divided into two main sections. The left section is titled 'Cust Product Tax Code' and shows a table with columns for 'Tax Code', '1', '2', 'B', and '3'. Below this, there are three rows: 'a', 'b', and 'ab'. The right section is titled 'Tax Names/Rates' and shows a table with columns for 'Tax Code', 'Tax Name', 'Tax Rate', 'GL Act', and 'Pnts Cpns'. Below this, there are two rows: 'a' for 'GST' with a rate of 5.000 and GL Act '347 GST on Sales', and 'b' for 'PST' with a rate of 7.000 and GL Act '341 A/P Sales Tax'. At the bottom of the screen, there are menu options: 'Del Edit New'.

Cust	Product	Tax Code
Tax Code	1 2 B 3	Tax To Apply
	a b ab	

Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
a	GST	5.000	347	GST on Sales
b	PST	7.000	341	A/P Sales Tax

Del Edit New

Your system should have a screen similar to the one above. In BC, the Provincial tax rate was 7% (shown in the example) and 8% in Ontario. The PST in BC and Ontario will be combined with the 5% GST and the name changes to HST. BC will charge 12% HST and Ontario will charge 13%. Nova Scotia already collects HST, but their rate will increase to 15% on July 1st. Both Newfoundland and New Brunswick remain with their 13% HST. All other provinces and territories will continue charging 5% GST plus their provincial sales tax (if any).

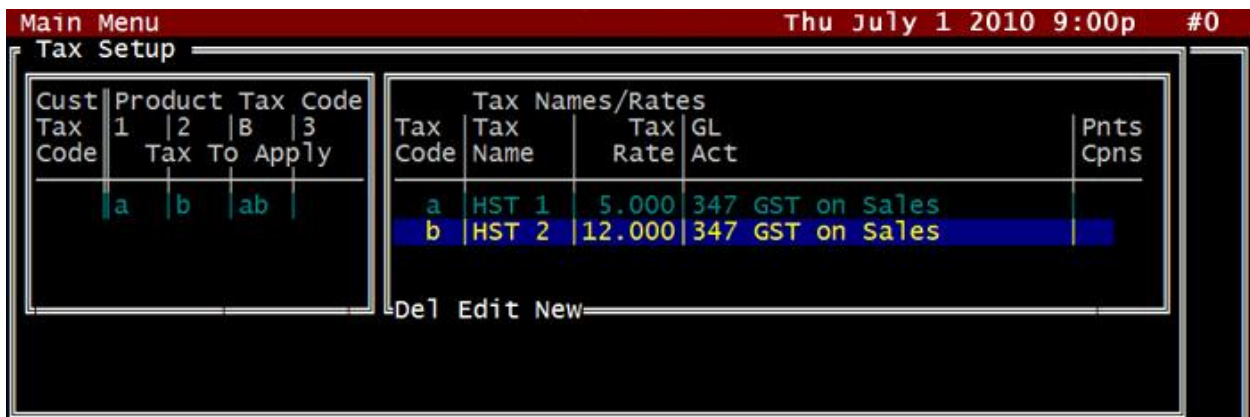
***** Note *****

Both Quebec and PEI charge provincial taxes but the tax is applied to total of the sale after adding the GST. BookManager has a special tax code (e.g. ab+) that must be used to ensure that PST is charged on the GST.

Certain goods such as books will be taxed at the 5% HST. Technically, the full HST is being charged and then the provincial portion is being rebated. Receipts can be shown with either the full HST and then a rebate on a second line, or they can show just the net tax being charged. For BookManager systems we have opted to show the 12% HST on one line and 5% HST on another line (and a combined tax total for convenience). Receipts generated by the latest version of BookManager clearly show the tax rate being applied to each item.

For BC and Ontario stores, follow these steps to change the tax names and rates:

Use the right arrow key to move into the Tax Names window. Then [E]dit each tax.



In Ontario, HST 2 will be 13.000 instead of 12.000. Notice that the GL Act has been changed to "347 GST on Sales." Now use the left arrow key to move to the Product Tax Code window. Edit this and remove the "ab" from the B column.

Main Menu				Thu July 1 2010 9:00p		#0			
Tax Setup									
Cust Tax Code	1	2	B	3	Tax Names/Rates				
	Tax	Tax	To	Apply	Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
	a	b			a	HST 1	5.000	347 GST on Sales	
					b	HST 2	12.000	347 GST on Sales	

Del Edit New

The columns 1, 2, B and 3 refer to the tax codes used in the **F4** Classification file. Press **F4** to access this screen. Below is an example of what we used **before** making changes for HST.

Main Menu			
Classification File			
Classification	Se	Tx	%%
ADVENT -		1	
ART -		1	
ART -	X	B	
ART -COLLECTG		1	
ART -PHOTOG		1	
AUDIO -	X	B	
B C -		1	
B C -	X	B	
B C -OKANAGAN		1	
B C -ZNOPOINT		1	
BIOGRAPH-		1	
BIOGRAPH-CANADA		1	
BOOKMARK-	X GF	B	
BOOKMARK-BOOKPL	X GF	B	
BUSINESS-		1	
BUSINESS-CAREERS		1	
BUSINESS-FINANCE		1	
BUSINESS-LAW		1	
BUSINESS-SELFC	X	B	

Del New Edt Indx Prnt Srch

Your Tx column will likely have either a 1 (GST) or B (Both GST and PST). You now need to change all rows that have B to 2. This means that an ISBN with a Class that is assigned Tx 2 will now charge tax "b" (e.g. 12% HST 2).

*** Tip ***

Press **F9** once when your cursor is in the Tx column. This will speed up editing the rest of the entries.

Main Menu				
Classification File				
Classification		Se	Tx	%%
ADVENT	-			1
ART	-			1
ART	-	X		2
ART	-COLLECTG			1
ART	-PHOTOG			1
AUDIO	-	X		2
B C	-			1
B C	-	X		2
B C	-OKANAGAN			1
B C	-ZNOPOINT			1
BIOGRAPH-				1
BIOGRAPH-CANADA				1
BOOKMARK-		X	GF	2
BOOKMARK-BOOKPL		X	GF	2
BUSINESS-				1
BUSINESS-CAREERS				1
BUSINESS-FINANCE				1
BUSINESS-LAW				1
BUSINESS-SELFC		X		2

De1 New Edt Indx Prnt Srch

Important! If you leave any Classes with " " (blank), "B", or "3" Tx code, the items related that class will not be taxed because there is no tax associated with them in our example tax setup screen.

In addition to this tax change, some products sold in your store may now be taxed differently. For example, in BC magazines were PST exempt but will now be charged 12% HST. We had to edit our Magazine class and change the Tx code from 1 to 2. We have learned that Audio Books are now 5% HST and so we had to change the Tx for them from B to 1. Government websites have the new rules for charging HST on various goods and services. You must review these rules to ensure that all of the items you offer for sale are attached to a Class that is using the appropriate tax rate (British Columbia [rules](#); Ontario [rules](#); Federal HST rebate on books [rules](#)).

For most bookstores, you are now done!

*With the above changes completed you are ready to open for business and begin charging the new tax. Examine receipts carefully to ensure that the correct rates are being applied. BookManager is not responsible for incorrect tax calculations. **THIS DOCUMENT IS ONLY A GUIDE TO HELP YOU UNDERSTAND THE PROCESS.** Contact your accountant or local government agent to ensure that you are following the rules and have programmed your system correctly.*

The rest of this document explains the finer details of taxation in Canada (Consider yourself lucky...in Washington state they have over 300 geographic tax codes and rates that must be correctly applied when a book is shipped from the store to somewhere else in Washington!)

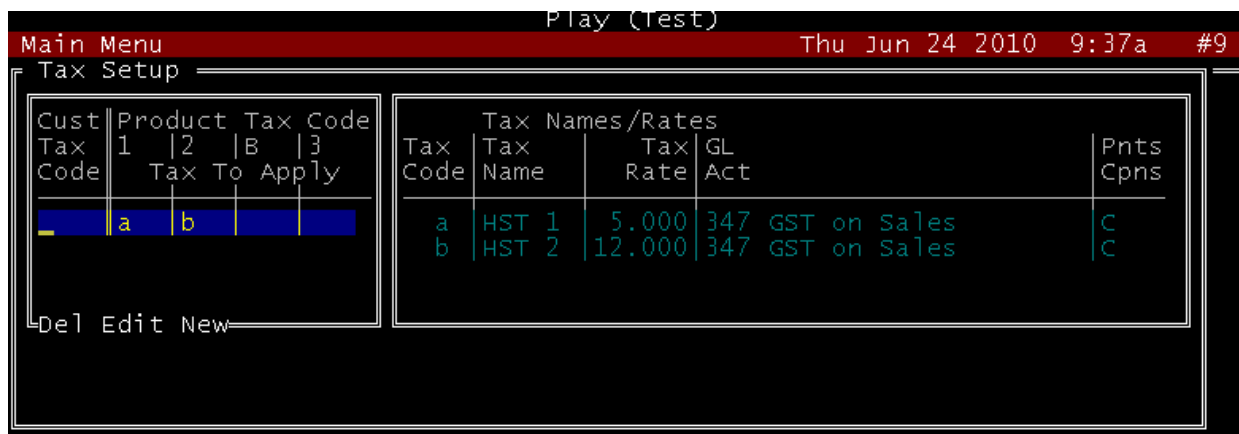
Taxing Frequent Buyer Points

In our earlier email (sent June 16th, 2010) **we incorrectly advised you to make changes that would force charging tax on the redeemed Frequent Buyer points. We have since contacted the federal government HST hot line and**

have been told that Frequent Buyer Point redemptions are treated like a discount and therefore HST is applied only on the sale after the points are applied. We were warned that this verbal conversation was not binding and that we would have to write the government to receive a written legal ruling. In other words, use what we've learned at your own risk. Taxing Frequent Buyer points was enabled by putting a "P" in the Pnts/Cpn column in the Tax Setup Screen. Edit this and remove the "P" to stop charging tax on Points.

Taxing Coupons

By default, when you use the Coupon tender in the POS to discount a sale, the total of the items purchased is reduced by the coupon amount and then the taxes are recalculated on the new lower total. However, Coupons that have a fixed dollar amount and are redeemable by the manufacturer are considered "cash" instead of a discount. This means that the value of the coupon cannot be used to reduce the tax charged. To force BookManager to tax coupons you need to make a change in the Tax Setup screen.



In this example, we have added "C" to the Pnts/Cpns column for both tax "a" and "b".

The rules for taxing coupons is rather extensive and complicated. Once again, we are advising you to make sure that you are following your provinces rules, especially if you handle a large volume of coupons. For example, it appears that a "buy 5 get the 6th free" manufacturer promotion is exempt from the tax. In this case, you would either sell the 6th item at 0\$, or use the Discount tender (instead of the Coupon tender,) which discounts the taxable total.

Are we having fun yet? Check out this next section regarding food services.

Taxing food services

According to some online research, in Ontario, restaurant services worth \$4 and less will pay 5% HST and 13% HST on purchases over \$4. To handle this tax in BookManager you must add a third tax type (8%) and then use the Product Tax Code B and set the appropriate **F4** Classes used for food to apply Tx code B.

Main Menu					Thu July 1 2010 9:00p				#0
Tax Setup									
Cust Tax Code	1	2	B	3	Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
	Product Tax Code Tax To Apply								
	a	b	ac		a	HST 1	5.000	347 GST on Sales	
					b	HST 2	12.000	347 GST on Sales	P
					c	HST 3	8.000	347 GST on Sales	4

Notice that we have created "HST 3" and entered "4" into the Pnts/Cpns column to identify the dollar threshold. When a transaction with a muffin worth \$3 is sold, tax "a" 5% HST will be used. However, if a \$3 latte is added to the purchase, the food total is now \$6 and so both the 5% (tax "a") and 8% (tax "b") (13% in total) will be charged on these items.

Selling goods out of your province

When you ship an item to another province you must charge the appropriate HST/GST rate used in that province. In Newfoundland, New Brunswick and Ontario this will be 13%, 12% in BC, 15% in Nova Scotia, and 5% everywhere else (and 0% if outside of Canada). Of course if it's a book, there is only 5% HST in all of these cases, but the shipping charges will have to be at the higher rate!

The 6] Customer file has a Tx field that you can use to link the customer to the Tax Setup screen. The Cust Tax Code column that normally has only one row (with a blank Cust Tax Code use for most customers) can be used to add tax rules based on the type or location of the customer.

Main Menu					Thu July 1 2010 9:00p				#0
Tax Setup									
Cust Tax Code	1	2	B	3	Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
	Product Tax Code Tax To Apply								
	a	b	ac		a	HST 1	5.000	347 GST on Sales	
12	a	d			b	HST 2	12.000	347 GST on Sales	P
					c	HST 3	8.000	347 GST on Sales	4
					d	HST 4	12.000	347 GST on Sales	

This example would be from a store located in Ontario. A customer from BC in their Customer file with a tax code of 12 will be charged tax "a" (5%) on items attached to an [F4] Class with tax "1" and tax "b" (12%) on items attached to [F4] Class with tax "2". For example, if the shipment contained a \$40 book with \$10 shipping, the customer pays 5% on \$40 and 12% on \$10.

Main Menu					Thu July 1 2010 9:00p				#0
Tax Setup									
Cust Tax Code	Product Tax Code			Tax Names/Rates					
	1	2	B	3	Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
	a	b		ac	a	HST 1	5.000	347	GST on Sales
12	a	d			b	HST 2	12.000	347	GST on Sales
5	a	a			c	HST 3	8.000	347	GST on Sales
					d	HST 4	12.000	347	GST on Sales

We've now added a Cust Tax Code row and called it "5". A customer in Manitoba will be assigned this code and they will pay 5% on both the book and the shipping costs. **You only need to add a Cust Tax Code for provinces that have different tax rules than you own.**

Customers exempt from tax

If you have customers exempt from tax, you can either remove the tax code from each item in the POS transaction (e.g. Edit each line and blank out the Tx code) or, you setup another customer type so that this happens automatically when that customer's account is linked to the sale.

Main Menu					Thu July 1 2010 9:00p				#0
Tax Setup									
Cust Tax Code	Product Tax Code			Tax Names/Rates					
	1	2	B	3	Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
	a	b		ac	a	HST 1	5.000	347	GST on Sales
12	a	d			b	HST 2	12.000	347	GST on Sales
5	a	a			c	HST 3	8.000	347	GST on Sales
X					d	HST 4	12.000	347	GST on Sales

We used X to denote eXempt. The 1, 2, B and 3 columns are left blank. Customer using Tx X will not be charged taxes.

In Ontario there is some confusion about tax treatment for First Nations people. Apparently, they may be exempt from only the provincial portion of the HST (e.g. 8%). If this were true, yet another Cust Tax Code would be needed, and the Product Tax Code 2 column would need to have an "a" (5%) tax used instead of the "b" (13%) tax.

***** Note *****

The Customer file also has two fields called TX1# and Tx2#. These are used to store a customer's tax exempt # (an old, old feature in BookManager). If you put anything into these fields the corresponding tax will NOT be applied to the customer's sale.

The latest version of BookManager has three new filters in the 6] Customer file [F]ilter screen. You can now obtain a list of customers that have something in the Tx, Tx1# and Tx2# fields. This allows you to build a Customer filtered list to review these customers and clean up the tax codes that have been assigned to them over the years. At some point in the future we will be using the Tx1 and Tx2 fields as reference only (i.e. taxes will still be applied but based on the Tx code field).

BookManager versions after July 1 2010

With the introduction of the HST in BC and Ontario, we made some minor changes to help clarify this increasingly complex system of taxation. Receipts and invoices generated by the latest version of BookManager have been changed to help identify the taxes being applied to various items. This version also allows using the same Tax Name for each tax (i.e. they can all be called HST as opposed to HST 1 HST 2, etc.). Each tax is then shown with it's tax code letter (lowercase a-z) and the tax name you gave it and the rate charged (e.g. a HST 5%).

For example, books on a receipt will show a Tx code "a" and magazines will show Tx code "b". The taxes at the bottom will show corresponding "a" and "b" taxes as well as the percentage charged for each tax. This should help your customers understand how the taxes were applied.

There are literally hundreds of pages of government documents explaining all of the HST taxation rules. The rules for the transition from PST to HST are equally complex (e.g. how to handle a returns or refunds that had PST). Despite the name change, Harmonized Sales Tax appears to be anything but a simple and harmonious tax for Canadians.

Intelligence Test (if you managed to read ALL of this document)

Your store is in BC and you ship a First Nation individual located in Ontario a book, a book with a CD, a toy and a newspaper plus shipping costs less the manufacturer's \$2 off coupon for the book. How much tax do you charge? Hmm... selling my bookstore and opening a lemonade stand sounds like a appealing move, that is unless I live in Ontario and I sell the regular lemonade for 3.99 (5% tax) and the large one for 4.99 (12% tax). I give up. :-)

If you require additional assistance with setting up your tax codes, please contact us directly.

Michael Neill & the crew at BookManager
ph: 250-763-4415
mail@bookmanager.com
www.bookmanager.com