

Some of your tax questions answered...

***** Note *****

The below suggestions, instructions and screenshots are taken from the latest version of BookManager, released September 8th, 2010. Therefore, some of the Setup menu options may be slightly different – please don't hesitate to contact us with any questions, or if you wish to update your BookManager and need assistance.

On August 23rd, 2010 I spoke with Tess at Revenue Canada (604 691 4511) and was given a verbal opinion on a few of the common HST questions that we have received from our booksellers. I was told that a written ruling on the written questions I had submitted to them was not possible, and as such I was informed that the conversation could not be binding in the event of a dispute. **In other words, the explanations that I received and the interpretation of them below are only being provided for your convenience.**

- 1) **Spoken Audio Books** are now taxed the same as books (e.g. 5%) whereas the provincial tax used to be charged. Therefore, audio books should be assigned to a Class that uses just the 5% HST/GST.
- 2) **Magazines** are no longer treated like a book (now taxed at full HST). **Newspapers** purchased in Ontario are treated like a book (taxed at 5% HST/GST). Newspapers in BC are taxed at the full HST rate. **This demonstrates the fact that tax rules may differ from province to province, and as such we cannot be 100% certain that our advice is correct for your situation.**
- 3) **Frequent buyer points** are treated like a discount, which means that taxes are calculated after deducting the redeemed points. Access the Alt Setup j) Sales Tax screen and remove any "P" code that may have been assigned to a Tax Rate. A few years back we had advised some Ontario retailers to insert the "P", which is no longer needed.

Tax Names/Rates				
Tax Code	Tax Name	Tax Rate	GL Act	Pnts Cpns
a	HST	5.000	347 HST on Sales	P

- 4) **Manufacturer's Coupons:** It appears that the only type of coupon that must be treated like cash is one that offers a fixed dollar amount off the item. For example, if a customer purchases a \$10 item and then presents a \$2 off manufacturer's coupon, they must be taxed on the \$10 rather than the after-coupon price of \$8 (normally, the store will then submit these coupons to their vendor for a rebate). However, an in-store coupon of \$2 off is deemed to be a discount and as such the tax would be applied after deducting the coupon. Finally, manufacturer coupons that do not involve a fixed dollar amount (e.g. buy 3, get the 4th free) are treated like a discount (even if the store will be rebated by its vendor).

By default, BookManager treats the POS Coupon tender like an in-store or buy-3-get-1-free coupon. If you deal with several \$off manufacturer's coupons, the **[Alt] + Setup j)** Sales Tax screen will need to have a "C" added to the Tax Rates for each tax rate.

***** Note *****

With GST/PST provinces, some stores thought that only the PST followed these coupon rules. It appears that the GST (and now the HST) follows these rules, which is why you need a "C" beside all of the Tax Rates.

Tax Names/Rates					
Tax Code	Tax Name	Tax Rate	GL Act		Pnts Cpns
a	HST	5.000	347	HST on Sales	C
b	HST	12.000	347	HST on Sales	C
c	HST	13.000	347	HST on Sales	C
d	HST	15.000	347	HST on Sales	C
<u>e</u>	HST	0.000	347	HST on Sales	C

***** Hint *****

If you need to handle both types of coupons, you can create an Inventory ISBN (maybe use "COUPON" as the ISBN number) and assign it to a Class that has no taxes. You can assign either \$0 or a negative value to the price. For the \$2 off coupons, enter COUPON as the ISBN to have the sale reduced by \$2 without affecting the taxes.

- 5) **Shipping charges:** When shipping is added to the customer's invoice, it is considered to be part of the cost of their goods, and as such the tax treatment on the shipping follows the same rules as the goods being shipped. For example, if you are shipping books, you need only charge 5% HST on the shipping. However, if you are shipping a calendar you must charge the higher HST. If the shipment contains both books and non-books you can proportion the shipping costs; however, this process is likely too complex in a practical sense, and so the tax rate should probably be based on what the majority of the shipment contains.

Shipping out of province: Essentially, in the simplest of terms, you must charge the appropriate tax, according to the destination province. For example, a calendar sent from BC to BC is charged 12% HST; to Manitoba is charged 5% GST; to Ontario is charged 13% HST, to Nova Scotia is charged 15%, and to the USA 0%.

BookManager's tax tables can be setup to handle all of these situations (e.g. one Customer Tax Code per province and also four Tax Rate rows with 5%, 12%, 13% and 15%). Each out-of-province customer's card is then set to the appropriate province tax code.

***** Note *****

The new version of BookManager allows you to set/override the customer's tax code at the start of their POS transaction. The override feature is useful for one-time

- 6) **Tax Exempt Customers:** If you sell to customers who are not charged a particular tax, you can create Customer Tax Code that exempts them of all taxes or just certain taxes. For example, we have created a Customer Tax code called GST, which uses 5% no matter what type of taxable product they purchase. We also have an "X" Customer Tax Code which is linked to a Tax Rate row set at 0% so that no tax is charged no matter what they purchase.

Tax Setup				
Cust Tax Code	Product Tax Code	1	2	3
		Tax	To	Apply
	a	b		
XMPT	e	e		
ON	a	c		
NS	a	d		
NL	a	c		
AB	a	a		

Tax Names/Rates					
Tax Code	Tax Name	Tax Rate	GL Act		Pnts Cpns
a	HST	5.000	347	HST on Sales	C
b	HST	12.000	347	HST on Sales	C
c	HST	13.000	347	HST on Sales	C
d	HST	15.000	347	HST on Sales	C
e	HST	0.000	347	HST on Sales	C

!!! Important !!!

Using the Customer file Tx1 and Tx2 fields to exempt taxes is no longer an option. These fields are now used only as a place to store a customer's tax# (usually for audit purposes). You must use the Tax Code field to make them exempt. The increasing complexity of taxes has made it unreliable to use the Tx1 and Tx2 fields.

***** TIP *****

You can also remove taxes from a sale by editing each item and clearing the Product Tax code assigned to it. However, if this is done excessively you may be charged the tax (and a penalty) if the government audits you and you are unable to prove the reason for exempting the sale from taxes. By assigning a Customer Tax Code to a customer and their invoice, it is much more clear why the taxes were not charged.

- 7) **Ontario food services:** *Are you having fun yet?* A coffee shop charges 5% HST on food purchases that are billed on a single receipt valued at under \$6. If the receipt is over \$6 (worth of food items,) then the 13% HST rate is applied to all of the food items purchased.

The **[Alt] Setup j)** Sales Tax screen has a place to enter the \$ threshold for a particular Tax Rate. In this case though you will need to create a new Tax Rate at 8% (i.e. the provincial portion of the HST) with a code letter of "f" (or any letter you have not already used). Enter in the dollar threshold value for this tax (using the example above, this would be 6 – meaning the tax comes into play only on purchases over \$6). Food items will then be assigned to a unique Class tax code (e.g. we use "3"), and all of the Customer Tax Code columns for Product Tax Code "3" will be set to "af", meaning tax "a" 5% GST will always apply, and tax "f" 8% HST will be applied only if the food items purchased exceed \$6.

That was easy!

- 8) **Quebec GST and QST:** In Quebec non-book items are taxed at 5% GST and then 7.5% QST, except that the QST is calculated **after** the GST is added to the item (i.e. a tax on tax). The Customer Tax Code column "B" needs to have "ab+." The "+" means that after charging the "a" tax rate, charge the "b" tax rate on both the item's value and the value of the "a" tax.
- 9) **First Nations People:** In Ontario, First Nations are now exempt from the 8% provincial portion of the HST but they still must pay the 5% GST portion. If you created a Customer Tax Code called "GST", and had it use the regular 5% tax rate, you could simply use that code when selling to a First Nation customer. However, the government rules state that you must report the amount of

HST (13%) on goods that were sold at 5% GST to First Nations. When you file your GST/HST remittance, if you fail to separate and properly report these exemptions, you have to pay the 8% tax even though you did not collect it.

First, create a HST Tax Rate row and set it to 0% (unless you already have one.) We used the letter “z” as the code for this tax rate. Then create a Customer Tax Code called “FN”. For Product Tax Code that are normally charged the 13% HST, enter “az”. Non-book items will now be sold with 5% GST and 0% HST.

Tax Setup									
Cust Tax Code	Product Tax Code			Tax Names/Rates			Pnts Cpns		
	1	2	B	3	Tax Code	Tax Name		Tax Rate	GL Act
ON	a	c			a	HST	5.000	347 HST on Sales	C
NS	a	c			b	HST	12.000	347 HST on Sales	C
NL	a	c			c	HST	13.000	347 HST on Sales	C
AB	a	a			d	HST	15.000	347 HST on Sales	C
SK	a	a			z	HST	0.000	347 HST on Sales	C
QC	a	a							
YT	a	a							
NB	a	c							
NT	a	a							
NU	a	a							
PE	a	a							
MB	a	a							
GST	a	a							
FN	az								

The important thing to know is that your Month-end POS report will indicate the taxable amount of the items sold to customer “FN” at 0% tax, but only those items that were not already tax-exempt (e.g. books). This will allow you to correctly complete the GST/HST paperwork.

K.I.S.S. method: Your **other** option when dealing with First Nation customers is to charge them the full tax and then respectfully ask them to submit their receipts to the government to obtain a refund of the 8%. The government has allowed this option to handle cases where the retailer was technically unable to eliminate charging the tax (and not be made liable for it later on).

I hope that these examples have helped you to understand the HST better.

Michael Neill
 TBM BookManager Ltd.
 Phone 250.763.4415
mneill@bookmanager.com