

Taxation

Contractors warned about PST transition

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An accounting consultant is advising construction business to increase their investment in capital assets and to cover any additional costs due to changes in the taxation system, after the B.C. government introduced legislation to end the Harmonized Sales Tax (HST).

“The government has not crystallized the transition rules at all, so contractors will need a change in their contracts to protect them,” said construction business and management consultant Ron Coleman.

“We have no idea yet what the transition rules are at all.”

B.C. Finance Minister Kevin Falcon introduced legislation in Victoria last week that will reinstate the Provincial Sales Tax (PST) on April 1, 2013.

The PST will be reinstated at seven per cent and consumers will be exempt from PST on all the goods and services that were not subject to the tax before July 1, 2010.

“Transition contracts will be subject to rules similar to those when HST was introduced,” said Coleman.

“Make sure that you include a clause in contracts

that will be in effect in April 1, 2013 to cover any additional cost due to changes in taxation.”

Currently, vehicle and equipment leases are subject to the 12 per cent input tax credit, which flows back to registered businesses.

According to Coleman, that will be reduced to five per cent and the seven per cent PST will be a cost.

Therefore, he said, it would be prudent to convert leases into purchase agreements to save seven per cent on the outstanding balance.

“Likewise, if you are considering buying vehicles, tools, equipment, supplies or any items that will be subject to PST, then do so prior to April 1, 2013 and save seven per cent,” he said.

In addition to this problem, Coleman said that in most cases, the cost of materials purchased after March 31, 2013 will be seven per cent higher, unless PST exemptions are in place.

Inventory rules have not yet been announced, but Coleman said the new rules will most likely require contractors to remit PST on inventory held at April 1, 2013.

Contractors will need to monitor this situation as it develops.

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Firms need to take transition period into account in their contracts

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"Because part of a contractor's overhead will be subject to PST and increase, it will be necessary to charge higher mark ups to cover that additional cost," said Coleman.

The following changes

in the new act are intended to make the tax system clearer and easier to understand for businesses:

- New online access for businesses, including the ability to register, update their account, and make payments.

- The due date for tax remittance and returns will be moved to the last day of the month to match GST remittance, simplifying administration for business.
- Businesses can register with their federal busi-

ness number, making registration easier.

- Retailers will be allowed to refund tax to customers in a broader range of circumstances.
- Businesses that collect and remit tax will again receive commission of

up to \$198 per reporting period (typically monthly).

Over the coming months, the Ministry of Finance will draft regulations to support provisions in the legislation.

Additional transitional

amendments will also be made before April 1, 2013.

The province intends to publicly release a final proposed version of the legislation. This could be released as early as this fall, to support business outreach and awareness.