



Ontario and British Columbia: Transition to the Harmonized Sales Tax – Tour Packages

The Government of Ontario and the Government of British Columbia have each proposed a harmonized sales tax (HST) that will come into effect on July 1, 2010.

The HST rate in Ontario will be 13% of which 5% will represent the federal part and 8% the provincial part. The HST rate in British Columbia will be 12% of which 5% will represent the federal part and 7% the provincial part.

This info sheet reflects the proposed tax changes as announced in:

- the 2009 Ontario Budget and in the Information Notice No. 3, *General Transitional Rules for Ontario HST* released by the Government of Ontario on October 14, 2009;
- the News Release issued by the Government of British Columbia on July 23, 2009 and the Tax Information Notice – HST Notice #1, *General Transitional Rules for British Columbia HST* released by the Government of British Columbia on October 14, 2009; and
- the News Release issued by the Department of Finance on February 25, 2010, *Place of Supply, Self-Assessment and Rebate Rules for the Harmonized Sales Tax (HST)*.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet explains how to calculate the goods and services tax (GST) and the HST on a tour package sold on or after May 1, 2010 and before July 2010 where elements of the package are supplied during the period that includes the July 1, 2010 implementation date of the HST in Ontario and British Columbia.

Note: The transitional rules that apply to property and services supplied in Ontario and British Columbia during the period that includes July 1, 2010 do not apply when a tour package is sold before May 2010 and when a tour package is sold on or after July 1, 2010.

Meaning of significant terms used in this info sheet

“Exempt” means not subject to the GST/HST.

“First supplier” of a tour package means the registrant that first supplies the package in Canada. Subsequent registrant suppliers may also act as a “first supplier” under certain conditions. For more details, see the information under the heading “Resale of tour packages”.

“Not subject to tax” means not subject to the GST/HST because the property or service is supplied outside Canada.

“Registrant” means a person who is registered, or is required to be registered, for GST/HST purposes.

“Zero-rated” means subject to the GST/HST at a rate of 0%.

Introduction

Tour operators usually purchase property and services such as accommodation, transportation, and sightseeing excursions which they assemble into tour packages that they sell for an all-inclusive price. To determine the amount of tax they have to charge on a tour package, registrant tour operators must prorate the selling price based on the value of the taxable and the non-taxable property and services included in the tour package. These calculations take into account elements of tour packages that would be subject to the HST in a particular province and they are generally done by the first supplier of a tour package. In some cases, these calculations have to be done by subsequent suppliers of tour packages.

For more details, see the information under the heading “Resale of tour packages”.

The rules to calculate the amount of tax to be charged on a tour package remain the same under the HST. Tour operators still have to identify each element of the package and determine which elements are not subject to tax, exempt or zero-rated and which elements would be subject to either the GST or the HST if they were supplied separately. To do this, they have to determine in which province these elements would be supplied.

This info sheet should be read together with the following publications:

- GST/HST Memorandum 27.1, *Calculating the GST/HST on Tour Packages* which explains what a tour package is for GST/HST purposes and how to calculate the tax on tour packages; and
- Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of supply rules for determining whether a supply is made in a province* which explains the place of supply rules proposed to be in effect on and after May 1, 2010.

Tour packages sold on or after May 1, 2010 and before July 2010

When a tour package includes elements sold in Ontario or British Columbia on or after May 1, 2010 and before July 2010, tour operators must also consider the transitional rules to determine which tax applies to those elements.

This info sheet does not explain the transitional rules for each of the elements that usually form part of a tour package. For information on these transitional rules, refer to:

- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Passenger Transportation Services* (GI-054);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Services* (GI-056);
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Admissions* (GI-058); and
- *Ontario and British Columbia: Transition to the Harmonized Sales Tax – Goods* (GI-070).

The following is an example of a typical tour package for an overseas visitor to Canada. We will use this example throughout this info sheet to explain how to calculate the tax on a tour package sold on or after May 1, 2010 and before July 2010.

Example 1

A tour operator incurs the following costs when acquiring property and services to assemble a tour package:

Flight London (England) – Ottawa (Canada) on June 28, 2010.....	\$450
2 nights' accommodation in Ottawa for June 28 and 29, 2010 (\$100 per night)	200
Transportation by bus Ottawa – Toronto on June 29, 2010.....	50
6 nights' accommodation in Toronto for June 30 to July 5, 2010 (\$100 per night)	600
Admission to a two-day event (June 30 – July 1, 2010)...	150
Transportation by train Toronto – Vancouver on July 6, 2010 (arrival on July 10, 2010).....	1,200
2 nights' accommodation in Vancouver for July 10 and 11, 2010 (\$150 per night).....	300
Flight Vancouver (Canada) – London (England) on July 12, 2010	<u>500</u>
Total	\$3,450

The tour operator adds a 10% mark-up ($\$3,450 \times 10\% = \345). On May 2, 2010, the tour operator sells the tour package to a non-resident for \$3,795.

Step 1: Determining the taxable portion and non-taxable portion

The first step is to identify the elements that form part of the taxable portion and the non-taxable portion of the tour package.

The taxable portion of a tour package includes elements that, if supplied separately, would be subject to the 5% GST or to the HST rate in effect in a particular province. These elements are usually short-term accommodation, domestic transportation services, excursions and admissions to events.

The non-taxable portion includes elements that, if supplied separately, would be zero-rated, exempt or not subject to tax, such as zero-rated passenger transportation services or supplies made outside Canada.

Example

From Example 1, the tour operator determines that the two flights London – Ottawa and Vancouver – London, totaling \$950, form the non-taxable portion of the tour package because they are zero-rated supplies of passenger transportation services.

The taxable portion of the tour package consists of the accommodation in Canada, the bus and train transportation services and the admission to the event. In this example, the bus and train transportation services are not part of a continuous journey with the airfare.

Step 2: Determining the GST-taxable portion and the HST-taxable portions

The GST-taxable portion includes the elements that, if supplied separately, would be subject to GST.

The HST-taxable portions include the elements that, if supplied separately, would be subject to the HST in effect in a participating province.

To determine which elements form part of the GST-taxable portion and which elements form part of the HST-taxable portions, the tour operator must determine in which province the elements would be supplied if they were supplied separately. If some of the elements are supplied in Ontario or in British Columbia, the tour operator must also consider when the supply is made to determine if a transitional rule applies.

Example

For each element of the tour package supplied in Example 1, the tour operator determines the following:

Accommodation in Ottawa:

Each night of accommodation in Ottawa is a supply made in Ontario before July 2010 and GST would apply if it was supplied separately from the tour package. Consequently, it forms part of the GST-taxable portion of the tour package.

Bus transportation service:

The bus transportation service is a supply made in Ontario before July 2010 and GST would apply if it was supplied separately from the tour package. Consequently, it forms part of the GST-taxable portion of the tour package.

Accommodation in Toronto:

Since each night of accommodation is a lease interval, the tour operator determines that the accommodation provided for the night of June 30 (\$100) forms part of the GST-taxable portion because it is a supply made in Ontario and the lease interval begins before July 2010 and ends before July 31, 2010.

The accommodation provided for the nights of July 1 to July 5, 2010 (\$500) forms part of the 13% HST- taxable portion because each night of accommodation is a supply made in Ontario and each lease interval begins on or after July 1, 2010.

Admission to the event:

The admission to the event is a supply made in Ontario based in the proposed place of supply rules. The transitional rules for admissions to an event provide that when more than 10% of the event to which the admission relates takes place on or after July 1, 2010:

- GST applies to any amount that relates to the portion of the event that takes place before July 2010; and
- HST applies to any amount that relates to the portion of the event that takes place on or after July 1, 2010.

Therefore, 50% of the amount for the admission (\$75) forms part of the GST-taxable portion and 50% (\$75) forms part of the 13% HST-taxable portion.

Transportation by train Toronto – Vancouver on July 6, 2010:

The train transportation service is a supply made in Ontario. The service forms part of the 13% HST-taxable portion of the tour package because it is a supply made in Ontario and the service begins on or after July 1, 2010.

Accommodation in Vancouver:

Each night of accommodation in Vancouver is a supply made in British Columbia on or after July 1, 2010. Consequently, it forms part of the 12% HST-taxable portion of the tour package.

In summary:

The cost of each property and service included in the taxable portion of the tour package is as follows:

Property and services	GST-taxable portion	12% HST-taxable portion	13% HST-taxable portion
Accommodation in Ottawa	\$200		
Transportation by bus	50		
Accommodation in Toronto	100		\$500
Admission	75		75
Transportation by train			1,200
Accommodation in Vancouver		\$300	
Total	\$425	\$300	\$1,775

Step 3: Calculating the taxable percentages

The next step is to calculate the taxable percentages of each taxable portion of the tour package.

The percentage for the GST-taxable portion is calculated by dividing the total cost attributable to the GST-taxable portion by the total cost of acquiring all the property and services included in the tour package.

The percentage for the 12% HST-taxable portion is calculated by dividing the total cost attributable to the 12% HST-taxable portion by the total cost of acquiring all the property and services included in the tour package.

The percentage for the 13% HST-taxable portion is calculated by dividing the total cost attributable to the 13% HST-taxable portion by the total cost of acquiring all the property and services included in the tour package.

Example

From Example 1, the tour operator calculates the percentage for the GST-taxable portion and the HST-taxable portions as follows:

- GST-taxable portion: $\$425 \div \$3,450 = 12\%$
- 12%-HST-taxable portion: $\$300 \div \$3,450 = 9\%$
- 13%-HST-taxable portion: $\$1,775 \div \$3,450 = 51\%$

Step 4: Determining the consideration for each taxable portion

To determine the consideration for each taxable portion of a tour package, tour operators multiply the selling price of the tour package by the percentage of each taxable portion.

Example

From Example 1, the tour operator sells the tour package for \$3,795.

The tour operator determines the consideration for the GST-taxable portion and the HST-taxable portions of the tour package as follows:

	GST-taxable portion	12% HST-taxable portion	13% HST-taxable portion
Selling price	\$3,795.00	\$3,795.00	\$3,795.00
Taxable percentage	12%	9%	51%
Consideration for each portion	\$455.40	\$341.55	\$1,935.45

Step 5: Calculating the GST and the HST

Tour operators calculate the GST on tour packages by applying the GST on the consideration for the tour package that is attributable to the GST-taxable portion.

They calculate the 12% HST by applying the 12% HST on the consideration for the tour package that is attributable to the 12% HST-taxable portion.

They calculate the 13% HST by applying the 13% HST on the consideration for the tour package that is attributable to the 13% HST-taxable portion.

Example

From Example 1, the tour operator calculates the GST and the HST on the tour package as follows:

Selling price for the tour package	\$3,795.00
GST ($\$455.40 \times 5\%$)	22.77
12% HST ($\$341.55 \times 12\%$)	40.99
13% HST ($\$1,935.45 \times 13\%$)	251.61
Total	\$4,110.37

Resale of tour packages

The previous calculations are done by the first supplier of a tour package. They are also done by any subsequent registrant supplier in Canada when elements of the tour package that were previously subject to the GST would now be subject to HST because they would be supplied during or after the transitional period. The subsequent supplier would then be considered the first supplier of the tour package.

This is the case where the first supplier sells a tour package before May 2010 to a registrant tour operator who, in turn, sells the package on or after May 1, 2010, and that tour package includes elements that will be supplied in Ontario or British Columbia on or after July 1, 2010.

Example 2

The registrant tour operator in Example 1 sells the tour package to another registrant tour operator in April 2010. Because the sale is made before May 2010, all elements of the tour package (except the zero-rated passenger transportation services) form part of the GST-taxable portion of the tour package. The zero-rated passenger transportation services form part of the non-taxable portion of the tour package.

Using the calculations provided in Example 1, the tour operator determines that the percentage of the taxable portion of the tour package is 72% and the consideration for the GST-taxable portion is \$2,732.40. The tour operator charges the GST as follows:

Selling price for the tour package	\$3,795.00
GST ($\$2,732.40 \times 5\%$)	<u>136.62</u>
Total	\$3,931.62

The registrant tour operator that acquired the tour package sells it in May 2010. Because the transitional rules apply to this sale and only the GST had been charged on the original purchase of the tour package, the second tour operator is considered the first supplier of the tour package. Consequently, the second tour operator must do all the calculations, as indicated in Example 1, to calculate the tax to be charged on the tour package.

Paying or crediting the GST/HST rebate to non-residents

Non-residents purchasing an eligible tour package may receive a GST/HST rebate amount at the point of sale from the registrant tour operator that sold them the package. The rebate amount that a registrant tour operator can pay or credit is usually equal to 50% of the tax paid. For more information, refer to *Foreign Conventions and Tour Incentive Program – Non-Residents Purchasing Tour Packages: Rebate for Eligible Tour Packages* (GI-032).

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. You may also visit their Web site at www.revenu.gouv.qc.ca to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthstech.