Deloitte.

Canada
Tax

Contacts:

National Indirect Tax Leader
Janice Roper
604-640-3353

Quebec and Atlantic
Robert Demers
514-393-5156

Ontario
Mike Matthews
613-751-5310

Toronto
Danny Cisterna
416-601-6362

Doug Myrden
416-601-6197

Prairies
Jason Riche
403-267-1702

Dean Grubb
780-421-3640

British Columbia
Janice Roper
604-640-3353

Related links:

***Canadian Indirect Tax* – archive**

Deloitte Tax Services

Canadian Indirect Tax News

Ontario HST - RITC phase-out begins July 1, 2015!

June 24, 2015 (15-2)

As of July 1, 2015, the requirement for certain large businesses (i.e., businesses with taxable supplies that exceed $10 million during their last fiscal year) to recapture 100% of the input tax credits (ITCs) in respect of specified property and services (energy, telecommunications, food, beverages, entertainment, motor vehicles and motor fuels) in Ontario is being gradually phased out. This phase-out of the recaptured ITC (RITC) requirement will necessitate changes to a large business' accounting and GST/HST reporting systems.

Phase-out schedule

Over the past five years, large businesses were required to recapture 100% of the RITCs in determining their net tax for a reporting period when filing their GST/HST NETFILE returns.[1] Starting July 1, 2015, the RITC requirement in Ontario is gradually phased out over three years as follows:

Period	Ontario RITC recapture rate
July 1, 2010 to June 30, 2015	100%
July 1, 2015 to June 30, 2016	75%
July 1, 2016 to June 30, 2017	50%
July 1, 2017 to June 30, 2018	25%
July 1, 2018 and after	0%

Large businesses must continue to report RITCs at the applicable rate in a return for a reporting period during the phase-out in Ontario.

What to watch for

To the extent that a large business' reporting period straddles the periods shown in the above phase-out table, RITCs at multiple recapture rates may be required to be reported in the return.

As well, large businesses must ensure that the 100% recapture rates applies to invoices that were paid or became payable prior to July 1, 2015. As it typically takes

[1] RITCs are required to be reported in Schedule B and are reflected in the calculation of Line 108 (Total ITCs and Adjustments) of the return.

a business several weeks to process its accounts payable, this can be complicated, as the 100% recapture rate will still apply after July 1, 2015 to certain invoices while the reduced 75% recapture rate will apply to invoices dated after June 30, 2015 that are being processed at the same time.

Special care is also required where RITCs are deferred one reporting period, for leases of qualifying motor vehicles, meals and entertainment expenses and the sale or removal from Ontario of qualifying motor vehicles.

What if a large business makes a mistake?

The incorrect reporting of an RITC in a previously filed return cannot be corrected in a return for a subsequent reporting period. However, there are two options if a large business incorrectly reports RITC and wishes to correct the mistake:

1. Where the incorrect rate was applied, a large business will be required to write to the Canada Revenue Agency (CRA) and request that its returns be amended.
2. The large business can use the "Adjust a return" option through the CRA's My Business Account on-line service in other circumstances.

Interest and penalties are generally assessed against large businesses that fail to account for the RITC requirement. However, the assessment and reassessment of RITCs is subject to the legislative four-year time limit.

If you would like to discuss how the RITC phase-out will affect your business or would like implementation assistance, please contact your Deloitte Indirect Tax representative or Michael Matthews.

2 Queen Street East, Suite 1200
Toronto, ON M5C 3G7 Canada