These are an observer’s notes from a general overview presentation of the impact of HST on the film and television industry. The presentation was prepared by Ernst & Young. These notes are not inclusive of the entire presentation, nor do they represent a comprehensive assessment of the full impact of HST. Each individual company has particular circumstances and should consult with their own accountant or direct specific questions to CRA.

► As of May 5, 2010 all the provincial legislation amendments have passed. It is anticipated the regulations (fine print) from CRA will be released during May.

► A key date of the HST implementation is May 1st. Vendors that are pre-billing the provision of services that will begin or continue past July 1st must begin billing HST.
New rules:

- determine in which province the supply occurs, because not all provinces have HST. See below, Place of Supply rules.
- determine jurisdiction where transaction takes place.
- prepayment
Preparing for the HST

Harmonized Sales Tax
Setting the stage

► Provincial sales taxes in BC (7%) and Ontario (8%) to be replaced with HST of 12% and 13%, respectively

► Effective 1 July 2010

► Model for tax is existing HST in Atlantic provinces
  ► Generally, same tax base and rules as GST
  ► Point of sale exemptions for certain items

► Single tax = simplification and economy for taxpayers

► Certain ITC restrictions

► Each province that has elected to participate in the HST program has the ability to determine the provincial tax portion of the total. For BC the HST will be 12% (5% GST and 7% provincial).

► It is important to know that the highest rate of HST will be used as the default percentage charged. Nova Scotia will be increasing the provincial portion of their HST for a combined HST total of 15%. This will now be the highest HST amount.

► Items that were previously not subject to GST, “zero rated”, will continue to be zero rated. Goods and Services that are currently GST exempt, i.e. rent of an apartment, will remain exempt.

► Items that were previously subject to GST will now be subject to HST.

► Some point of sale exemptions will continue to apply for the PST portion and only GST will be charged, confirm with your suppliers which items qualify.
  ► Residential heat and gas invoices will show the 12% HST charge with a 7% rebate.
  ► In BC, a gas and diesel rebate at the pump of the 7% portion of the HST.

► There will no longer be PST filing on transactions that occur after July 1st. It will all be HST filing. CRA will be the auditor. PST filing is still expected for transactions that occur prior to July 1st.

► ITC restrictions are only for large businesses with revenues of over $10 Million in the previous year.

► The onus is now on the vendor to determine the appropriate HST chargeable, PST self-assessments will no longer occur.

► See Place of Supply Rules for more information.
Impact on film and television production companies:
  - eliminates unrecoverable PST. Now pay 12% HST that can be recovered, becoming a cashflow cost.
  - When billing for services provided to a Canadian customer, add 12% HST to invoices. The customer can claim the tax on their HST return.
  - Non-resident customers that are currently zero rated will remain so.
Place of Supply Rules (on items currently GST applicable):

- **Goods by way of sale**: The vendor is responsible for determining the appropriate amount to tax. If it is a store sale, the percentage is determined by which province the store is located in. If it is an online sale, it is determined by where the product is delivered to. Examples – (1) If an item was purchased in BC it would be charged with 12% HST, if the same item was purchased in AB it would be charged 5% GST. (2) If an online purchase was made and delivered to AB, 5% GST would be applicable, if the same purchase was delivered to BC it would be HST applicable.

- **Lease**: Where did the delivery of the equipment to the customer occur?

- **Service**: Where is the customer located? Where are the invoices being sent to? Vendors have to charge customer’s provincial HST. If the supplier does not have the customer’s address, then the highest HST rate must be charged.

- All individuals or corporations registered for GST are automatically registered for HST.
### Harmonized Sales Tax
#### New proposed place of supply rules

<table>
<thead>
<tr>
<th>Intangibles – General Rules</th>
<th>Place of supply</th>
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<tbody>
<tr>
<td>Where property can be used only primarily in the participating provinces:</td>
<td>Particular participating province</td>
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<tr>
<td>Where property can be used only in a particular participating province</td>
<td>Participating province in which the greatest portion of rights would be used if all rights were used</td>
</tr>
<tr>
<td>Where property can be used in more than one participating province</td>
<td>Non-participating province</td>
</tr>
<tr>
<td>Where property can be used only primarily outside participating provinces</td>
<td>Province of the recipient</td>
</tr>
<tr>
<td>Where use of property not geographically specific:</td>
<td>Participating province with the highest rate</td>
</tr>
<tr>
<td>Where address of the recipient is known</td>
<td></td>
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<tr>
<td>Where address of the recipient is unknown</td>
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</tbody>
</table>

Intangibles: can be defined as the “supplier” having proprietary rights and giving license to use those rights in some form to a “customer”. For example, broadcast licenses may be considered Intangible, as would the rights to a website. Determined by the date the agreement is entered into.

Check with your accountant or CRA regarding specifics on the new rules for “Intangibles”.

Harmonized Sales Tax
Accounting for HST

Revenue
- Charging the correct rate
- Reporting HST charged

Expenses
- Capturing HST paid
- Claiming input tax credits

Restricted input tax credits

Accounting for HST:
- remit the same way as GST
- capture amount of HST paid to claim back

Restricted ITC (companies with revenues of $10 Million+ in the previous year) – can’t claim HST back, though they are still able to claim the GST portion.
Harmonized Sales Tax
Input tax credit restrictions

- Similar to Quebec restrictions
- Apply to large businesses and certain financial institutions
- Apply for 8 years with 3-year phase-out
- Don’t apply to resale/resupply
- Apply to provincial component of HST only (8% or 7%)

Restricted ITC (companies with revenues of $10 Million+ in the previous year) – can’t claim HST back, though still able to claim GST portion.
Input Tax Credit Restrictions – Examples by category

► Energy – direct billing to company only (not through building operating costs)
► Telecommunications – long distance, blackberry minutes & email plans (not rental of BB or phone)
► Road Vehicles of LESS than 3,000 kg – for purchase and lease of vehicles
► Fuel for road vehicles (except in BC)
► Food, beverages and entertainment – meals, entertainment, catering can not be claimed, but income tax rules (50%) still apply.
► Reporting of restricted ITC – possibility of being agent for non-resident – would affect BC tax credits
► Mitigating the Impact – companies have to track what they are not going to claim and report on their GST return.
Intangibles – it is the date of the agreement that rules. If billing customers under an agreement signed before July 1st, then bill tax appropriately (GST vs HST).

Check with your accountant or CRA regarding specifics on the new rules for “Intangibles”.
Harmonized Sales Tax
Transitional rules

► Film production services
► Purchase of goods and services
► PST considerations

Transitional Rules –
► If 90% of service is performed before July 1st then confirm with your accountant regarding billing for the other 10%.
► If delivered equipment or goods prior to July 1st then pay applicable GST & PST.

Lease agreements – if paid up front can be refunded where overpaid PST. Companies have until Dec. 31/10 to file refund claims for over payment of PST.

Confirm with your accountant or CRA regarding specifics on the transitional rules that will best suit your individual company needs.
Harmonized Sales Tax
Transitional rules – planning

► Defer purchases of capital assets if possible to save PST

► Recovery of embedded PST in existing contracts with suppliers

► Vendor negotiations for lower price

It is possible to save on taxes by ordering equipment now and having it delivered after July 1st (recover PST through HST filing). Discuss with your accountant any possible benefits of employing such a strategy.

Vendors tax costs go down (file only one tax claim vs two).
Harmonized Sales Tax
Implementation considerations

► Establish an implementation committee
► Determine who should participate
► Develop timeline
► Develop communication plan
  ► Customers
  ► Suppliers
► Identify HST issues specific to operations of each company
► System changes to charge and track HST
► Change management and training

Figure out the impact for each individual company:
► look at billing
► look at expenses (cashflow)
► look at any necessary accounting system changes
► make sure everyone impacted within the company is aware of the effects to their activities
► take the opportunity to plan for large capital assets.
Harmonized Sales Tax
Implementation timeline

Today

Establish implementation committee
Develop training plan
Map transition dates
Develop communication plan
Consider impact on pricing
Review current spending
Post-implementation review plan
Consider reporting changes
Develop plan for information system changes
Review rules and determine issues

1 July 2010

There is a lot to assess and execute between now and July 2010
Harmonized Sales Tax
How Ernst & Young can help

► Commodity tax technical advice
  ▶ Cost containment strategies
  ▶ Other services

► Assess business and system impact

► Training

► Post implementation review
Harmonized Sales Tax
Questions?

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