



## Manitoba — Prepare for RST Reduction Transitional Rules

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Certain businesses that do business in Manitoba will be affected by the province's Retail Sales Tax (RST) rate reduction to 7% (from 8%) effective July 1, 2019. Now that Manitoba has released transitional rules for this upcoming rate change, businesses should prepare to make any needed changes to their systems and processes, among other important considerations. The transitional rules, which are summarized below, specify how the RST will apply to certain goods and services purchased before or after July 1, 2019, or for purchases that straddle that date.

### Background

The 2019 Manitoba budget proposed to decrease the RST rate to 7% (from 8%) effective July 1, 2019. For details, see *TaxNewsFlashCanada* 2019-05, "[Highlights of the 2019 Manitoba Budget](#)".

### Taxable goods

In general, Manitoba's RST transitional rules specify that the reduced 7% rate applies to taxable goods purchased on or after July 1, 2019, including goods for which a deposit has been made.

The current 8% RST rate applies to all taxable goods purchased before July 1, 2019, including where delivery is taken after that date, or where the goods are purchased on credit or by deferred payment arrangements, and payment is made on or after the date.

Manitoba's transitional rules also provide that leased goods are subject to 8% RST for periods that end prior to July 1, 2019. In addition, billings for periods that straddle that date or commence completely after June 30, 2019 are taxable at 7% RST.

**KPMG observations**

Businesses should take note of any goods-in-transit that they purchased from outside of Manitoba for own-use or consumption in Manitoba, or similar goods that may have been sent outside of Manitoba for service. Businesses should also identify and review the entry date of goods into Manitoba to ensure they pay tax at the correct rate.

**Taxable services (other than utilities)**

Under the transitional rules, services completed prior to July 1, 2019 are taxable at 8% RST, regardless of the billing and payment date. In addition, where contracts for services were entered into prior to March 7, 2019 and the services are provided up to June 30, 2019, 8% RST applies to those services. However, services under contracts entered into after March 7, 2019 for services that commence after June 30, 2019 are taxable at 7% RST.

**Utilities**

*Telecommunication services*

For telecommunications services, the RST rate applies to the standard monthly charge based on the billing date. Where the billing date is prior to July 1, 2019, the charge is subject to 8% RST and any invoices issued on or after that date are subject to 7% RST.

*Electricity and natural gas*

The current 1.4% RST rate remains in place for electricity or natural gas purchases used for home heating purposes. For any other uses, billing periods that include a date prior to July 1, 2019 are taxable at 8% RST, while billings for periods completely on or after that date are taxable at 7% RST.

Qualifying manufacturers, mining and oil companies that qualify for rate reductions on purchases of electricity will see incremental RST rate decreases to 1.4% (from 1.6%), subject to the same transitional rules concerning billing periods that include a date on or after July 1, 2019.

**Prepaid service contracts**

The transitional rules specify that prepaid service contracts purchased and paid for prior to March 7, 2019 are taxable at 8% RST, regardless of when the service is performed. In addition, prepaid service arrangements that cover a specific service period, such as maintenance or warranty agreements, are taxable at 8% RST if the service period includes

any day prior to July 1, 2019. Where the service period is completely after June 30, 2019, RST applies at 7%.

#### **KPMG observations**

Businesses affected by this change should review their prepaid service arrangements to determine the effective date of the agreement and date of payment, and the service period, if applicable. For service arrangements that end or are up for renewal prior to July 1, 2019, businesses should consider the potential impact of the sales tax decrease on negotiating the contract's effective date.

### **Professional services**

Certain professional services, such as legal and accounting services, that are provided by periodic measure (e.g., hours or days), are subject to 8% RST for any time prior to July 1, 2019, and 7% on all billings for time on or after that date. The transitional rules provide that billings for periods that straddle July 1, 2019 must be segregated into the applicable pre- and post-rate reduction portions.

### **Real property contracts**

#### *Contracts executed prior to March 7, 2019*

Under the transitional rules, all contract work relating to the original contract completed by June 30, 2019 is subject to 8% RST. This includes goods and services incorporated into real property, and related mechanical and electrical systems, as well as the related services to install the systems.

Note that goods and services for change-orders made after March 7, 2019 are subject to the general RST transitional rules.

#### *Contracts executed after March 7, 2019*

For purchases of taxable goods and services acquired for incorporation into real property before July 1, 2019, 8% RST applies, and 7% RST applies on purchases made on or after this date, regardless of the contract date.

### **Insurance**

#### *Definite term insurance contracts (excluding group contracts)*

The transitional rules specify that contracts for definite term insurance contracts (excluding group contracts) that are effective before July 1, 2019 are taxable at 8% RST, whereas those effective on or after that date are taxable at 7% RST. This treatment also applies to multi-year contracts paid by instalments where the tax is collected annually. Contracts with

an effective date prior to July 1, 2019 are taxable at the 7% rate on annual instalments collected on or after that date.

### *Indefinite term and group contracts*

The tax rate for indefinite term and group contract premiums depends on the date the premiums are payable. For premiums payable prior to July 1, 2019, the premiums are subject to 8% RST regardless of coverage period, while premiums payable on or after that date are subject to 7% RST.

### **Refunds and credits**

Under the transitional rules, refunds of RST on returned goods or cancelled sales is provided at the same rate at which the RST was collected on the original sale.

### **We can help**

Your KPMG adviser can keep you up-to-date on developments and help you assess possible opportunities that may be available to your business during this transitional period. For details, contact your KPMG adviser.

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