

Ontario and British Columbia

July 1st, 2010 - Transition from PST/GST to HST

Simple Overview

The recommended procedure for transitioning to HST is to bill everything at the old rates (PST/GST), then change your system to HST and start billing at the new rate. Organizing your business in this fashion is the best methodology. These are the steps to follow:

Step 1 Segment your billing(including Progress Billing) , pre-HST & post HST

- PST/GST, Up to and including June 30, 2010
- HST , July 1st 2010 and after

Step 2 After billing everything for PST/GST, go to Administration and select 'Change BC/Ont to HST'

Step 3 Your system is now set for HST (you can easily change it back for those 'one off' transactions that are bound to happen, we recommend saving up the one off transactions so they all can processed at a time when everyone is off the system)

Additional Steps for your business; If you require them:

Step 4 Service Contract Billing Schedules, see the detailed instructions on Page 4

Step 5 Release and bill Holdbacks in Job Costing, see the detailed instructions on Page 7.

Step 6 Recapture of ITC's, see the detailed instruction on Page 8.

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Ontario and British Columbia

July 1st, 2010 Transition, PST & GST to HST

Detailed Instructions

References: Please use these links to understand the transition and how your company will be impacted.

Canada Revenue Agency

www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf

Ontario

www.rev.gov.on.ca/en/notices/hst/

British Columbia

www.sbr.gov.bc.ca/documents_library/shared_documents/HST/HST_General_Transitional_Rules_Notice.pdf

This document describes the configuration changes necessary in your Jonas system to comply with the change in regulations. It is not, nor was it intended, to be a manual on how to handle the transition or a definitive answer to accounting regulations. The links above are to government sites that describe the regulations in detail. We recommend that you refer to these sites and your accounting professional. These regulations are not simple and will not impact all businesses in the same manner.

The change from PST/GST to HST needs to be planned prior to the July 1st implementation date.

Segment your billings – this is crucial

- **Pre-July 1st (PST/GST)**
- **Post June 30th (HST)**

You will need to invoice all the pre-July 1st billings before switching your system over to the new rules. After you switch your system to the new tax rules for BC and Ontario are you ready to invoice your Post June 30th billings.

Automatic Switching

Go to “Administration > “Change BC/ONT to HST” & “Change BC/Ont to PST/GST”

This feature will also allow you to change to HST and to change back if you have changed it in error, or need to reset your system to process a ‘Pre-July 1st ‘ invoice.

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Recommended Procedures for each module - this table describes what should be done. YOU control the transition of your system from PST/GST to HST. It is not based on an arbitrary date, it changes when you tell the system to change. We expect most companies will not have all their June invoicing (PST/GST) done until early July. When it is complete they will change their system over. There are special rules for Service Contract Billings (using a Billing Schedule) and Release of J/C Holdbacks.

Module	Before May 1 st	May 1 st – June 30 th	July 1 st & beyond
Job Invoicing (Releasing Holdback, see detailed instructions on Page 7)	PST/GST	Only invoice work that is for June 30 th or earlier. Invoices must not be for work where HST is applicable (work July 1 st or beyond)	Only invoice work where HST applies (work completed July 1 st or beyond) Note: The regulations state that if the contract was 90% or more complete at June 30 th then you are to bill PST/GST for the remainder. This is an instance where the system needs to be changed back to PST/GST to process this invoice.
Service Work Orders	PST/GST	Only invoice work that is for June 30 th or earlier. Invoices must not be for work where HST is applicable (work July 1 st or beyond) This includes progress billing of work orders, some invoice maybe for GST and some invoices HST depending on when the work was done.	Only invoice work where HST applies (work completed July 1 st or beyond) Be careful when 'unbilling' a work order. The unbill may be performed you're your system is set to HST when it is actually GST that needs to be applied. These transactions need to be included in the one off transactions
Counter Sales - ensure all batches are updated prior to switching to HST	PST/GST	Only invoice work that is for June 30 th or earlier. Invoices must not be for work where HST is applicable (work July 1 st or beyond)	Only invoice work where HST applies (work completed July 1 st or beyond)
Accounts Receivable Automatic Billings	PST/GST	Only invoice work that is for June 30 th or	Only invoice work where HST applies (work

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- the amount of PST/GST is pre-set, the system doesn't calculate it. Ensure you have adjusted the amounts prior to the 1 st billing after June 30 th .		earlier. Invoices must not be for work where HST is applicable (work July 1 st or beyond)	completed July 1 st or beyond)
Accounts Payable Recurring Payments - the amount of GST is pre-set, the system doesn't calculate it. Ensure you have adjusted the amounts prior to the 1 st posting after June 30 th .	PST/GST	PST/GST	HST
Subcontract Payment Certificates - not revenue but you want to issue a payment certificate with the correct rate	GST	Issue certificates for work that is for June 30 th or earlier. Certificates must not be for work where HST is applicable (work July 1 st or beyond)	Issue certificates for work that is for after June 30 th . HST is applicable.
Purchase Orders - not revenue but you want to issue a P.O. with the correct taxes. However the actual delivery of the goods will dictate the taxes to be charged and your supplier should issue an appropriate invoice. In cases where the P.O. is issued with PST and the supplier invoice is HST the committed amount will be too high. This will get adjusted automatically when the PO is declared complete. For a more detailed discussion see page 11.	PST/GST	PST/GST	HST
Canadian Payroll - run Union reports where GST is calculated for the pay period ending dates before July 1 st , prior to switching to HST.	GST	GST	HST

Service Contract Billings

This document describes the proposed changes to Jonas to help our customers comply with the new HST regulations in **British Columbia and Ontario**. It describes how Jonas will potentially treat invoices generated from a Billing schedule in a Service Contract. Time of Service Billings are done through service billing the same as other Work Order invoices.

Generally the HST effective date is July 1st. Most transactions (Job Billings, WO billings, Time of Service Contract Billings, etc.) will be either PST/GST 100% or HST 100%. Service contract billings maybe the

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exception; as some contract billings could be for periods that span the effective date. There is a time line below that describes the regulations.

Invoice Dates

Up to and Including April 30, 2010

Billings are to include PST/GST only. If HST is applicable then it is the recipients responsibility to self-assess.

May 1st to June 30th, 2010

Billings may be a hybrid of the two tax systems. If an invoice in this timeframe covers services to be delivered after July 1st then that invoice must include GST & HST in proportion to the services being offered. For example, if a June 1st invoice covers June July and August then 1/3rd is subject to PST/GST and 2/3rds is subject to HST. The only caveat here is that the regulations state that if the services have been 90% or more complete as of June 30th then do not charge HST on the remaining portion, charge PST/GST on the entire amount. This is an example where you may have to change your system, temporarily, back to PST/GST to process an invoice for the last 10% of the contract billing.

July 1st and forward

Billings may be a hybrid of the two tax systems. They are *probably* for services delivered on or after July 1st so they would be subject to HST only.

Service Contract – Billing Schedule

Below is a description of how the system will invoice, without you making any changes at all, you don't even need to change tax settings. If this is how you would like the system to invoice then there are no changes to Billing Schedules required, this is what the system will automatically do:

- Service Contract Invoice date up to and including June 30th 2010 – 100% of sales amount subject to PST/GST (PST if applicable)
- July 1st and forward – 100% of sales amount subject to HST (no PST)

Potential System Overrides to accommodate a hybrid of the taxes

The issue with Service Contract Billings is that Jonas does not have a definitive way to know the period you are billing for. Is a June 1st billing for; June, June July August, the next 12 months, the last 12

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months? – customers structure their billing schedules to match their own business practices. This document recommends a simple methodology for our customers to manage this transition period. Follow these steps IF you need to create a hybrid invoice, on that has both GST & HST.

Step 1 – Find the contract billings you may need to alter

Run the “List of Contracts to be Billed Report”. It is in Service Contract > Service Contract Billings. Run it for a date range From May 1st To August 1st (if you invoice in arrears then the ‘To Date’ will have to be extended, select the last possible date where you are invoicing for services performed prior to July 1st)

The report below is showing what the system will invoice without you making any changes, it will invoice; GST Applicable Sales & HST Applicable Sales. These are the default settings. If PST is applicable then it will be calculated on the same amount as GST is calculated.

List of Service Contracts that will be billed
SC - Skyview Construction Company
for May01/10 - Aug01/10

Customer / Name	Contract	Billing		Amount	Tax Applicable Sales	
		Date			GST	HST
ADSC Adnan Scarborough	0000000022	Jul01/10		333.00	.00	333.00
ADSC Adnan Scarborough	0231321132	May01/10		100.00	100.00	.00
		Jun01/10		100.00	100.00	.00
		Jul01/10		100.00	.00	100.00
		Aug01/10		100.00	.00	100.00
BARC Barcon Structures Company	0000000006	Jul01/10		250.00	.00	250.00
				=====		
6 Invoices to bill				983.00		

This report is demonstrating the default settings. If the taxes need to be altered on any of these billings then perform Steps 2 & 3. If the taxes do not need to be altered there is no work required.

Step 2 – Altering the tax amount on individual Service Contract Billings

We will be adding a button to the top of the billing schedule screen that will display all the open billings (there is up to 60 per contract) that show the billing amount and how the taxes that will be charged for each one. You will be able to alter the amount of Tax Applicable Sale, GST, HST.

For example, lets say that for the billing amount for Barcon Structures, Contract # 6, \$250.00 is for June and July. Under the transition rules GST would apply to June, HST would apply to July. You would go into the billing schedule for that contract, click on the taxes button, and change the GST applicable amount to \$125.00 (from .00) and the HST applicable amount to \$125.00 (from \$250.00).

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'Taxes' Button will display open billings, show the default for taxes and allow edits.

If the Billing is for a period that is subject to both GST and HST you must tell the system the amount of the bill that is subject to each.

By default for Service Contract Billing Schedule billings, without the user doing anything, the system will charge GST up to June 30 & HST July 1st and beyond. You **only need to adjust the taxes for those billings that span the transition date (July 1st)** and therefore need to bill both GST & HST on the same invoice.

Step 3 – Rerun the “List of Contracts to be Billed Report”

This step is to check that all the edits are correct and none were missed prior to billing. In our example the report would now look like this.

List of Service Contracts that will be billed
SC - Skyview Construction Company
for May01/10 - Aug01/10

Customer / Name	Contract	Billing Date	Amount	Tax Applicable		Sales	
				GST	HST	GST	HST
ADSC Adnan Scarborough	0000000022	Jul01/10	333.00	.00		333.00	
ADSC Adnan Scarborough	0231321132	May01/10	100.00	100.00		.00	
		Jun01/10	100.00	100.00		.00	
		Jul01/10	100.00	.00		100.00	
		Aug01/10	100.00	.00		100.00	
BARC Barcon Structures Company	0000000006	Jul01/10	250.00	125.00		125.00	
			=====				
6 Invoices to bill			983.00				

Important Note: There is no PST (Provincial Sales Tax) shown. However if you have contracts where PST is extra then the PST amount would be calculated on the same sales amount as GST.

Jobs Costing – releasing and invoicing Holdbacks

The transition rules specify that the tax to be charged (GST or HST) when a holdback is released should be based on when the holdback was taken. The holdback is considered to be part of the invoice from which it was withheld. For example:

June 1 st 2010	Invoice \$10,000	Holdback @ 15%	Net Invoice	\$8,500 +GST (\$425)
August 1 st 2010	Release Holdback		Net Invoice	\$1,500 + GST (\$75)

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Even though the holdback release is after July 1st it is subject to GST (not HST).

Accounts Receivable Methods of releasing Holdback (for direction on how to release holdbacks in Jonas please see the FAQ's,

Do not mix GST & HST on holdback invoices. They must be on separate invoices.

A/R – Manual Invoices and Credit Notes – releasing holdback

Before you release the holdback you need to determine if this release is subject to GST or HST. If GST was charged on the original invoice then GST will apply to the release of the holdback. If HST was charged on the original invoice then HST will apply to the release of holdback. This is a manual screen. You will need to calculate and enter the correct amount.

The system will ask you if this is GST or HST. It needs to know for your “Accounts Receivable - GST/HST Billing Report”, these two amounts will be segregated on the report.

A/R – Enter Job Invoices – releasing holdback

(H) lines – after entering the line the system will ask you whether GST or HST is applicable. Only one type of tax is applicable per invoice. The entire invoice must be either GST or HST.

***** Automatic Release *****

Most customers use this method and pick a date range of holdbacks to release. You must have only one type of tax per invoice so it is important to select a date range that has all GST applicable releases or all HST applicable releases.

Progress Billing

Invoices must have either GST or HST, not a mix of both. There are two issues here.

- Percent Complete Billing Application – needs to calculate the correct tax percentage (GST or HST) so you will have to use the “Change to BC/ONT to HST”, “Change BC/ONT to GST/PST” to control your system tax rate.
- Invoices have to be either GST or HST, not a mixture of both. Consequently if you are releasing holdback, withheld from a GST applicable invoice, then GST is applicable to the release. This release cannot be mixed with HST applicable billing lines. If the holdback release is at a different tax rate then it needs to be it's own separate billing application.

Editing Invoices

Edit Job invoice screen allows you to change the GST/HST amount. The program will ask you if you are billing GST or HST. It needs this information for the “GST Billing Report”.

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RITC's - Recapture of Input Tax Credits

Ontario HST regulations require the repayment or "recapture" of specified ITC's for "large" businesses. You need to be aware of the definition of both a "large business" and "Specified ITC's" to understand how it impacts your business. From a software perspective you need to identify those invoices (Accounts Payable, these are ITC's) where recapture is required. This amount needs to be identified separately on your remittance.

These regulations are not simple and will not impact all businesses in the same manner. We urge you to work with your accountant to understand how your business will be impacted and the changes required for reporting.

There are two approaches that you can use to track amounts subject to RITC's: General ledger or Purchase Categories in AP. The analysis of the GL is by far the simpler approach..

G/L – simply look at your General ledger accounts used for 'Specified ITC's' and use it for analysis. Jonas will be adding a new report that will analyze the postings to this account. The purpose being to charge back to the individual jobs, W/O's or Equipment units their portion of the recapture expense. This report will be added shortly.

purchase Category – procedure shown below

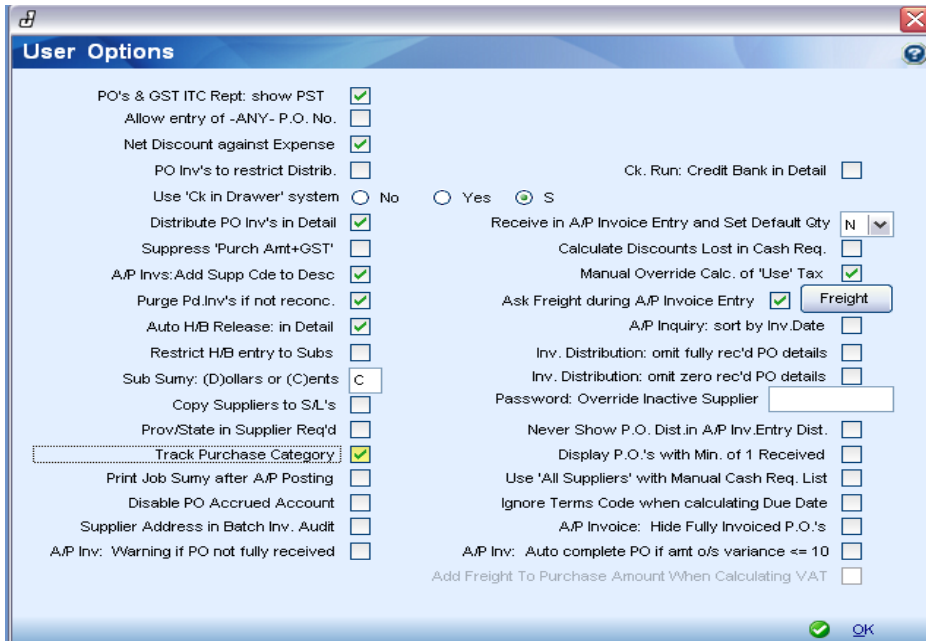
This method is only viable if you know at the time of AP invoice entry what portion of the invoice is going to be subject to recapture.

You will need a specific purchase category(s) in AP that can be used to segment your purchases between regular ITC's and those subject to recapture. The ITC report in AP can be printed by Purchase Category so finding the value of those ITC's is easy. If a single invoice contains both categories (ITC's subject to recapture and ITC's not subject to recapture) it will have to be split into two parts. The regulations are such that there may only be part of the ITC that is subject to recapture. In these instances the invoice would need to be entered twice with the amount subject to recapture tied to the purchase category(s) you have identified for that purpose.

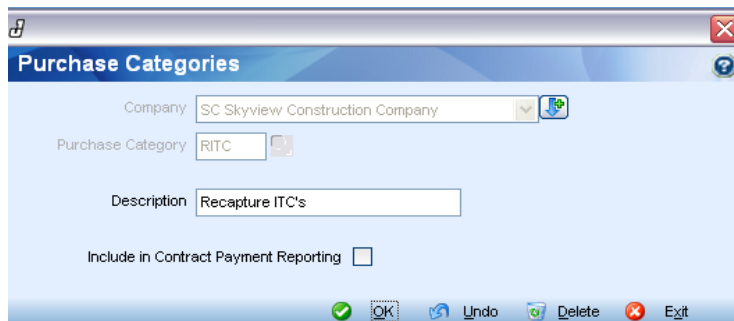
To ensure you have detailed tracking available to you. Please ensure your Jonas AP system is configured in the following manner.

Step 1 – Turning on the flag to track Purchase Category. The path is; AP > Files > AP Subledger Setup > Options > User > "Track Purchase Category". This allows you to enter/edit the Purchase category field in AP invoice entry.

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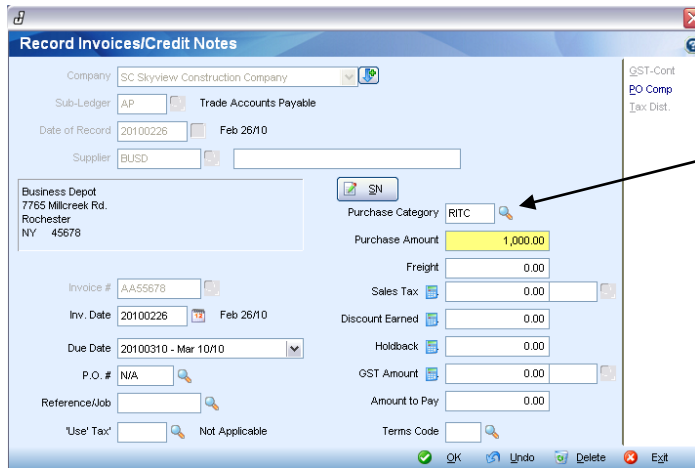
Step 2 - Setup a Purchase Category that represents invoices subject to Recapture



In this example only 1 category is required. You could have more if you need to further segment your purchases.

Step 3 – Invoice Entry – Tie the correct purchase category to each invoice. If a single invoice would be subject to both RITC and ITC it would need to be entered twice, with the value subject to RITC tied to the purchase category(s) you set up for that purpose.

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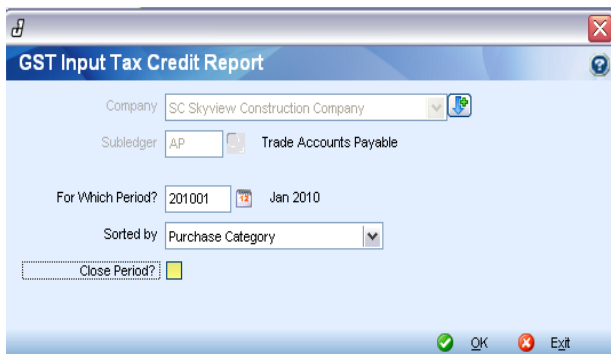


Selecting a purchase category is an easy way to segment your AP invoices between those that require recapture and those that don't.

In this example the Purchase Category has been set to RITC. The default for this field is in the supplier file.

Step 4 – Run the GST/HST Input tax Credit Report

Run this report by “Purchase Category to find those invoices subject to RITC. Do not mark ‘Close the Period’ until you have all the information you require. It marks the records as included in a GST report so they will not appear on the report again.



Other Considerations

Purchase Orders

If you are issuing a P.O. prior to changing the taxes in your Jonas system AND you know the supplier invoice will be dated July 1st or after (HST only, no PST) we recommend that you tell the system the PST is “N”. That way the PST amount will not be added to the commitment.

The date of the supplier invoice will determine whether they have charged you PST/GST or HST.

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Committed Costs

Provincial sales tax forms part of the cost commitment. Harmonized sales tax is an input tax credit and is not a cost to the job. Consequently P.O.'s that were created when PST applied may have a committed cost that is greater than actual. Practically speaking the invoice date from your supplier determines which taxes apply.

The committed cost may be overstated until the P.O. is declared complete (a commitment adjustment is performed on P.O. completion).

If you are issuing a P.O. prior to changing the taxes in your Jonas system AND you know the supplier invoice will be dated July 1st or after (HST only, no PST) we recommend that you tell the system the PST is "N". That way the PST amount will not be added to the commitment.

Don't forget to declare your P.O.'s as 'Complete' when all the invoices have been received. The commitment adjustment that the system makes will take care of any balances outstanding from P.O.'s that were declared 'PST Extra' but the invoices were received with no PST, HST only. For Service Billing customers we recommend the flag in P.O. System Profile, "Adjust \$\$ on completed W/O P.O.'s" be on. That way the commitment adjustment will be done for all P.O.'s, Job and W/O.

AR - GST Billing Report

The GST Billing Report will show the GST separate from the HST. This is necessary as the regulations dictate that HST is not to be reported until after July 1st. Consequently we will create a summary section at the end of the report that splits the two amounts.

Section 1 GST invoiced

Section 2 HST invoiced

Important Note: HST invoiced prior to July 1st is not to be remitted until the reporting period after July 1st. Please keep the 'GST Billing reports' for periods prior to July 1st, that may have HST sales on them. You will need these figures to do your first HST report. Once an invoice appears on the GST report it is flagged as having been reported and doesn't show up any longer. Keep the hard copy or send the electronic copy to document management.

FAQ's

- 1. What do I do if I have changed my taxes from PST/GST to HST and then discover I have to issue an invoice dated June 30th or before?**

Go to Administration > 'Change BC/Ont to PST/GST' – change the taxes from HST to PST/GST. Process your invoice and then revert back to HST. Do not do any other processing while the

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taxes are set to PST/GST. For this reason we recommend that all these 'one offs' be grouped together and done when everyone knows not to process any HST transactions.

2. How do I issue a credit note for invoices with PST/GST after I have changed my taxes to HST? I have to re-invoice at the old tax rates as well.

Follow the same procedure as #1

3. Jobs, W/O, Service Contracts and Customers all have default PST billing rules (Extra, Exempt, etc.). Do I need to change this setting for all my BC & Ontario customers?

No, since the utility 'Change BC/Ont to HST' makes the Provincial Sales tax rate 0% there is no need to change this setting. The system will invoice at 0%.

4. Do I need to go into my Company Profile, Taxes screen and make changes?

No, the GST rate is still 5% for non-harmonized provinces and the local sales tax rate is not used, the system always looks at the Provincial rates.

5. Do I need a separate GL account for HST?

No, the GST ITC report will summarize both the sales and the remittance amount for your report. The total of GST & HST will be in one GL account, but summarized separately on the report.