

## RATE REDUCTION TRANSITION RULES

The 2019 Budget announced that, effective July 1, 2019, the retail sales tax rate will decrease from 8% to 7%. The following transitional rules will apply to vendors making taxable sales and purchasers required to remit sales tax directly to the Taxation Division on taxable purchases from non-registered vendors:

### Taxable Goods

The 7% sales tax rate applies to goods purchased after June 30, 2019, including goods for which the purchaser has made only a deposit on the purchase.

The 8% sales tax rate applies to taxable goods purchased before July 1, 2019, including:

- Goods purchased on credit or by deferred payment arrangements where payment is made after June 30, 2019.
- Goods that are fully paid for prior to July 1, 2019, but delivery is taken on or after that date.

(For mobile, modular and ready to move homes, the same rules apply substituting 4% for 7%, and 4.5% for 8%).

### Taxable Services (Other Than Telecommunication Services)

- Services completed prior to July 1, 2019 are taxable at 8%, regardless of the billing and payment date.
- Contracts for services entered into prior to March 7, 2019 are taxable at 8% for services provided up to June 30, 2019. This includes accommodation services booked with a deposit.
- Contracts entered into after March 7, 2019 for services that commence after June 30, 2019 are taxable at 7%.

### Prepaid Service Contracts

- Prepaid service arrangements bought and paid for prior to March 7, 2019 are taxable at 8%, regardless of when the service is performed.
- *After March 7, 2019:*
  - Prepaid service arrangements where a vendor agrees to provide a service for a coverage period, i.e. periodic maintenance agreements – when the service period includes any day prior to July 1, 2019, tax applies at 8%; when the service period is completely after June 30, 2019, tax applies at 7%.

- Prepaid service arrangements - such as spa packages - bought and paid for prior to July 1, 2019 where the prepaid package can be redeemed over a period of time that includes any time prior to July 1, 2019 are taxable at 8%. Prepaid packages that can only be redeemed after June 30, 2019 are taxable at 7%.

*Contracts for Specified Services to Tangible Personal Property  
(i.e. Not Based On a Service Coverage Period)*

- Contracts for installation, maintenance or other services to tangible personal property (including mechanical and electrical systems and production equipment) executed prior to March 7, 2019 are taxable at the 8% rate for services provided up to June 30, 2019.
- Contracts executed after March 7, 2019 for services to be provided over a time period that straddles July 1, 2019 must be segregated into the time before and after the transition date, with tax applied at 8% for the pre-July 1, 2019 period and 7% for post-June 30, 2019.
- Contracts to supply and install tangible personal property involve a sale of both goods and services. As above, contracts executed prior to March 7, 2019 are taxable at the 8% rate for installations up to June 30, 2019. Contracts executed after March 7, 2019 must be segregated based on goods installed before and after the transition date, i.e. progress billings for work before July 1, 2019 are taxable at 8%, after June 30, 2019 at 7%. For these contracts, the tax rate applies based on the installation date, even though title to the goods may pass at the completion of the installation project.
- The tax rate on holdback amounts is as follows:
  - For contracts executed after March 7, 2019, the tax rate should be applied based on the rate in effect at the time of the corresponding progress billings. The total holdback amount should be segregated on the invoice into the total amounts before and after the transition date for this purpose, with the appropriate rate applied to each total.
  - The tax rate on holdbacks for contracts executed prior to March 7, 2019 is 8% if completed by June 30, 2019. If not completed by this date, tax will apply on holdbacks as described above for contracts executed after March 7, 2019.
- For contracts executed prior to March 7, 2019, for installations that extend beyond June 30, 2019, the transition rules above apply to the post-June 30, 2019 services on the same basis as the July 1, 2019 rules for other contracts.
- Change orders made after March 7, 2019, tax will apply at 8% to these change orders for all work performed before June 30, 2019, with the same transition rule above for work that straddles July 1, 2019.

*Services Provided By Billable Hour*

Where services (such as legal and accounting) are provided by billable hour, day or other periodic measure and billed after the services are delivered, tax applies at 8% on all pre-July 1, 2019 time and at 7% for time after June 30, 2019. Billings for periods that straddle July 1, 2019 must be segregated with the appropriate rate applied to each portion.

**Utilities**

*Telecommunication Services -Telephone, Cable TV, Internet Services:*

- The tax rate applies on the standard monthly package charge based on the billing date. Bills for service dated prior to July 1, 2019 are taxable at 8%, including billing periods that straddle that date. Bills for the standard monthly service package after June 30, 2019 are taxable at 7%.

- Tax applies on charges for optional or extra-billed services based on the date the service was provided, i.e. charges for long distance calls purchased prior to July 1, 2019 are taxable at 8%, those purchased after June 30, 2019 are taxable at 7%.

#### *Electricity and Natural Gas:*

- There is no change for home heating, as the rate of 1.4% remains in place.
- For all other uses (where tax has applied at 8%) - billing periods that include any day prior to July 1, 2019 are taxable at 8%. Billings for periods completely after June 30, 2019 are taxable at 7%. (For eligible mining, manufacturing and oil companies read 1.4% for 7% and 1.6% for 8%).

#### **Leased Goods**

Lease periods that end prior to July 1, 2019 are subject to the 8% rate; those that straddle that date or commence completely after June 30, 2019 are taxable at 7%. The applicable rate applies to the full lease period, including those that straddle or occur fully after June 30, 2019.

#### **Insurance**

##### *Definite Term Insurance Contracts (Excluding Group Contracts)*

The tax rate applies based on the effective date of the contract – contracts effective before July 1, 2019 are taxable at 8%, those effective after June 30, 2019 are taxable at 7%.

This includes 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 after that date.

##### *Indefinite Term and Group Contracts*

Premiums payable prior to July 1, 2019 are taxable at 8%, regardless of the coverage period. Premiums that become payable after June 30, 2019 are subject to the 7% rate.

#### **Real Property Contracts**

##### *Contracts Executed Prior to March 7, 2019*

The tax rate for goods and services purchased for incorporation into real property for all contracts executed prior to March 7, 2019, is as follows:

- The 8% rate applies for all contract work relating to the original contract completed by June 30, 2019. The 7% rate will apply after that date.
- Goods and services incorporated into real property include direct materials used to construct real property and related mechanical and electrical systems, as well as the services to install the M&E systems.
- Machinery, equipment, tools and other goods and services purchased by contractors for their own use to perform a real property or M&E installation (i.e. not incorporated into a building project) are taxable at the 8% rate if purchased prior to July 1, 2019. The 7% rate will apply after that date. This includes equipment rentals, whether re-billed directly to the customer or not.
- **Note:** Goods and services acquired to fulfil change orders made after March 7, 2019 are taxable based on the general transition rules for goods and services described above.

Contractors will be required to pay the 8% rate at source for goods and services acquired prior to July 1, 2019 based on the above rules.

#### *Contracts Executed After March 7, 2019*

For contracts executed after March 7, 2019, the tax rate applies on taxable goods and services acquired for incorporation into real property at the rate in effect at the time of purchase, as described in the taxable goods and services sections above - the tax rate for contract inputs is not determined by the contract date. The contractor is the consumer of goods and services acquired to fulfil a real property contract, therefore the tax rate applies based on the timing of those purchases, not on the sale of the real property.

Contractors that acquire goods on a tax-out basis and self-assess as they are used in jobs must pay tax at 8% when the goods are taken from inventory prior to July 1, 2019 for use in a real property contract. Goods taken from inventory after July 1, 2019 are taxable at 7%.

#### **Refunds and Credits**

Refunds of the sales tax on returned goods or cancelled sales must be provided at the same rate at which the tax was collected on the original sale.

Further information may be obtained from:

##### **Winnipeg Office**

Manitoba Finance  
Taxation Division  
101 - 401 York Avenue  
Winnipeg, Manitoba R3C 0P8  
Telephone (204) 945-5603  
Manitoba Toll Free 1-800-782-0318  
Fax (204) 948-2087  
E-mail: [MBTax@gov.mb.ca](mailto:MBTax@gov.mb.ca)

##### **Westman Regional Office**

Manitoba Finance  
Taxation Division  
314, 340 - 9th Street  
Brandon, Manitoba R7A 6C2  
Fax (204) 726-6763

#### **ONLINE SERVICES**

Our Web site at [manitoba.ca/finance/taxation](http://manitoba.ca/finance/taxation) provides tax forms and publications about taxes administered by Taxation Division, and a link to Manitoba's laws and regulations. Forms and publications can also be obtained by contacting the Taxation Division.

Our online service at [manitoba.ca/TAXcess](http://manitoba.ca/TAXcess) provides a simple, secure way to apply for, and to file, pay and view your Taxation Division tax accounts.