

## How do I set up HST to include an RITC tax code for my Ontario business?

Large businesses, generally those making taxable supplies of more than \$10 million annually, and certain financial institutions are temporarily restricted in their ability to claim the provincial portion of certain input tax credits (ITCs). The supplies that will be affected by this restriction are:

- telecommunication services other than internet access or toll-free numbers;
- energy except where purchased by farms or used to produce goods for sale;
- road vehicles weighing less than 3,000 kg, parts and certain services for those vehicles; and
- food, beverages, and entertainment.

*(Please contact revenue Canada for more specific information)*

For this situation there is a manual set up required before QuickBooks will allocate your HST on those purchases correctly. There are 4 main steps for setting up the RITC tax code in your QuickBooks file. Please contact Revenue Canada to confirm this applies to your business.

### STEP 1 - Create a Tax Vendor

Create a vendor to track the portion of HST that is the RITC portion on your HST return. [How to create this tax vendor:](#)

#### Set up a tax vendor to help you track the RITC

1. Go to the **Vendor Centre** and click **New Vendor**.
2. In the **Vendor Name** field, assign a name such as "Receiver General Non-Taxable".
3. On the right side of the New Vendor window, check **Vendor is a Sales Tax Agency**. A new tab called **Tax Agency Info** appears.
4. Click on the **Tax Agency Info** tab.
5. Leave the **Tax Return** field blank.
6. Enter a **Tax Label** of "NO TAX"
7. Leave the **Track tax on purchases to** un-checked to have this portion automatically included in the cost of the purchase (Note: To have the RITC portion allocated to a specific account check **Track tax on purchases to**, and select or create an account)
8. Click **OK**.
9. (QuickBooks 2010 only) Click **Continue Anyway** on the warning pop up

Then, proceed to Step 2, where you will assign this vendor to the RITC sales tax items and create additional taxable sales tax items.

### STEP 2 - Create new Sales Tax Items

Create 3 new sales tax items that make the 8% RITC amount calculate correctly and reflect correctly on your transactions as per Revenue Canada's standards. *(\*Note You will need to use the GST (ITC) with a rate of 5% later in this process, if you do not have one already in your file set one up now. [How to create this sales tax item:](#))*

#### Create the GST (ITC) sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "GST (ITC)".
5. In the **Tax Rate** field, enter "5%".
6. From the **Tax Agency** drop-down, select **Receiver General**.
7. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
8. Click **OK**.

Create a Sales Tax Item called "HST (ITC) 8%", which is the portion of the HST that is not claimable on the GST/HST Return. [How to create this sales tax item:](#)

#### Create the HST sales tax item

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.

4. In the **Sales Tax Name** field, enter "HST (ITC) 8%".
5. In the **Tax Rate** field, enter "8%".
6. From the **Tax Agency** drop-down, select **Receiver General**.
7. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
8. Click **OK**.

Create 2 Sales Tax Items, one called "RITC 8%" which will remove the RITC portion from the GST/HST payable account and another called "RITC Expense" which will allocate the RITC amount to the expense account created when you created the new vendor in step 1. (*\*note: if you did not choose the "track tax on purchases" option in step 1 the RITC amount will automatically be added to the purchase expense*) These two Sales Tax Items make up the RITC which is the portion of the HST that is not claimable on the GST/HST Return. [How to create these sales tax items:](#)

#### **Create the RITC 8% sales tax item**

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "RITC 8%".
5. In the **Tax Rate** field, enter "-8%" *\*note you are creating a negative 8% item to remove the RITC from your sales tax payable account.*
6. Say **Yes** to the message "...are you sure you want a rate of -8%..."
7. From the **Tax Agency** drop-down, select **Receiver General**.
8. From the **Sales Tax Return Line**, select **Line 106 Input tax credits (ITCs)**.
9. Click **OK**.

#### **Create the "RITC Expense" sales tax item**

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and select **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Item**.
4. In the **Sales Tax Name** field, enter "RITC Expense".
5. In the **Tax Rate** field, enter "8%".
6. From the **Tax Agency** drop-down, select **Receiver General Non-Taxable**.
7. From the **Sales Tax Return Line**, select **Tax Paid on Purchases**.
8. Click **OK**.

Then, proceed to Step 3 and use these items to create a sales tax group.

### **STEP 3 - Create a Sales Tax Group**

Create a sales tax group that includes the sales tax items you just created and the regular 5% GST sales tax item. This makes up the 13% HST Rate. [How to create this sales tax group:](#)

#### **Set up a sales tax group**

1. Click on the **Lists** menu and click **Item List**.
2. Click the **Item** button and click **New**.
3. From the **Type** drop-down arrow, select **Sales Tax Group**.
4. In the **Group Name/Number** field, enter an easily identifiable name, such as "RITC tax".
5. Enter a **Description**, if desired.
6. Add the sales items from the previous Step 2:
  - Click the first line in the **Item** drop-down arrow and select "GST (ITC)".
  - Click the second line in the **Item** drop-down arrow and select "HST (ITC) 8%".

- Click the third line in the **Item** drop-down arrow and select "RITC 8%".
  - Click the fourth line in the **Item** drop-down arrow and select "RITC Expense"
7. Click **OK**.

Proceed to Step 4 and assign this group to your sales tax code.

#### **STEP 4 - Create Sales Tax Code**

Create a new sales tax code that tracks the sales tax group you just created. [How to create this sales tax code:](#)

##### **Set up a sales tax code**

1. Click on the **Lists** menu and click **Sales Tax Code List**.
2. Click the **Sales Tax Code** button and click **New**.
3. In the **Sales Tax Code** field, enter a code that is three characters in length. For example, RH , for Recaptured HST
4. Select **Taxable**.
5. From the **Tax Item for Purchase** drop-down menu, select the sales tax group you created in Step 3 named "RITC tax".
6. Click **OK**.

The code is now ready to be assigned to Purchase items, Vendors or used in a transaction.

Be aware that the RITC amount is not a permanent value and will change over time. Please contact revenue Canada for more precise information and how this will affect your company.

Revenue Canada's RITC requirement information: <http://www.cra-arc.gc.ca/E/pub/gm/b-104/b-104-e.pdf>