

BC Hydro Holdback Process

With BC Hydro's transition to SAP for supply chain on August 4, 2020, we've updated the process to request your holdback/retainage from BC Hydro.

Effective August 4, 2020, BC Hydro will pay the full amount of GST up-front on contracts that are subject to a holdback. We will release the holdback amount when the project is completed. Under the new process, **there is no longer a requirement for the supplier to issue an invoice and collect GST on the holdback amount**. BC Hydro will automatically make the payment.

However, there are numerous contracts that span the August 4, 2020 implementation of this change in process. When the holdback is released on these projects, **an invoice will still be required to collect GST on the holdback amounts deducted prior to August 4, 2020**.

Note: This change is in accordance with the GST rules stated in the [Excise Tax Act](#)¹.

Example

The following example sets out how the GST is billed on holdback amounts that were deducted before and after August 4, 2020. For simplicity, this example assumes there are only two progress payments - one before and one after August 4, 2020 - before the holdback is released.

Progress Payment #1 made prior to August 4, 2020 GST billed on holdback amounts deducted before August 4, 2020	GST billed on the net amount due (progress payment less holdback taken). This invoice follows the rule in subsection 168(7) of the Excise Tax Act . Progress Payment: \$1,000,000 Less 10% holdback: (\$100,000) Net amount for GST calculation: \$900,000 5% GST: <u>\$45,000</u> Amount payable by BC Hydro: <u>\$945,000</u>
Progress Payment #2 made after August 4, 2020 GST billed on holdback amounts deducted after August 4, 2020	GST billed on the full amount due. This invoice follows the rule in subsection 168(1) of the Excise Tax Act . Progress Payment: \$2,000,000 5% GST: \$100,000 Less 10% Holdback: <u>\$(200,000)</u> Amount payable by BC Hydro: <u>\$1,900,000</u>
Holdback release	Progress Payment #1: \$100,000 << ss 168(7) subject to 5% GST Progress Payment #2: <u>\$200,000</u> << ss 168(1) GST already paid Sub-total \$300,000 Add GST <u>\$5,000</u> Amount payable by BC Hydro <u>\$305,000</u>

Steps to collect holdback

1. Supplier completes services based on contractual obligations according to BC Hydro's terms and conditions.
2. Supplier issues second invoice for holdback amount and the remainder of the GST amount **only if supplier's previous invoices were processed before August 4, 2020** where the invoice was billed net of holdback and collected GST on the net amount.

Note: If supplier's previous invoices were processed **after** August 4, 2020, the supplier is **not required** to issue a second invoice for the holdback provided their initial invoices was billed in full.

3. The BC Hydro Representative will complete and approve the Holdback Release Certificate Form and submit to Accounts Payable for payment.
4. Holdback payment to suppliers is released.

If you have any questions, please contact your BC Hydro Representative noted on your Purchase Order.

¹Application of GST to Holdback Payments – Background

Subsection 168(1) of the [Excise Tax Act](#) is the general rule that makes it a requirement to collect GST on the earlier of the day the consideration for a taxable supply is paid or payable. The application of GST to a payment that is subject to a statutory holdback is set-out in subsection 168(7); under this sub-section the GST is not payable until the purchaser is required to release the holdback to the vendor of the goods. In cases where the GST is calculated on the full amount subsection 168(1) applies and subsection 168(7) does not apply.

This outcome is explained Canada Revenue Agency's GST/HST Memoranda Series [19-1. Real Property and the GST/HST](#):

83. However, if the supplier collects an amount as tax or on account of tax before it becomes payable, the supplier must remit that tax with the supplier's return for the reporting period in which the tax was collected.