

Internet Related Services

About this Guide

The information in this *Guide* will help you if you are an Internet service provider (ISP) or web page designer. It explains how Retail Sales Tax (RST) applies to Internet related services, related computer programs and hardware.

This *Guide* replaces all information pertaining to the application of RST to Internet services and web page designs as outlined in ***Retail Sales Tax Information Bulletin 1-98***.

Internet Services

Examples of Internet Services

If you provide any of the following Internet related services, you are not required to charge your customer RST:

- membership or subscription fees to access the Internet and/or World Wide Web
- Internet e-mail services
- arranging for live chat or conferencing sessions directly on the Internet
- technical assistance and support (for example, assistance or support either in person, over the phone, electronically, or via e-mail, **but not hands-on**)
- web hosting and/or domain name registration
- advertising fees charged to place ads within a web page
- real-time streaming video and/or audio.

As an Internet service provider you are providing your customer with a non-taxable service. As a non-taxable service provider you must pay RST on all your purchases of taxable goods, such as taxable computer programs, and services such as telecommunication services. Your customers must also pay RST to their telecommunications provider for the services they use to access the Internet.

When, at no additional charge, you provide your customer with equipment (for example, a modem or similar device) and/or a taxable computer program that is necessary to access and use the Internet (for example, an Internet browser), you must pay RST on the cost of this equipment and the computer program. You do not charge your customer RST.

Rental of Equipment

When you charge a **separate fee** for the rental of the equipment, and/or the taxable computer program, you must charge your customer RST on the rental charge and/or licence fee. In this situation, you may purchase the rental equipment and the taxable computer program exempt from RST by providing your supplier with a properly completed Purchase Exemption Certificate (PEC). For more information about PECs please refer to ***RST Guide 204 - Purchase Exemption Certificates***.

Wireless and Portable Internet Devices

If you rent or sell wireless portable devices, RST applies to the rental fee or selling price of these goods. In addition, RST must be charged on telecommunication fees such as cellular network access charges, usage/airtime, roaming, landline fees and messaging as these services are taxable.

When you charge your customer for Internet access, the fee is non-taxable provided you separate this charge from the taxable charges on your customer's bill. When you bill your customer for both non-taxable and taxable goods or services, you must separate the charges on the bill or the entire amount is taxable.

Hardware that you sell or rent can be purchased exempt from RST by providing your supplier with a properly completed PEC. To qualify for this exemption the charge for the sale or rental of this equipment must be shown separately from any other charges on your customer's billing.

Web Page Design

In most situations the creation of a web page design is a non-taxable service provided the web page does not contain a taxable computer program. When scripting language is used to produce an applet within a design, we do not consider the applet to be a taxable computer program because it is not in an executable format and requires a web browser to interpret it.

If your web page design contains a taxable computer program then the entire price of the design is taxable. You cannot separate the charge for the taxable program from the other design related charges on your customer's invoice to avoid charging RST on the entire amount.

If your web page design contains a custom computer program, you are not required to charge RST on the sale. We consider a "custom computer program" to be a computer program that is "designed and developed to solely meet the specific requirements of, and that is intended for the exclusive use of, a particular person." For information about computer programs, please refer to ***RST Guide 650 - Computer Programs and Related Services***.

When is a Web Page Considered a Non-Taxable Service?

You are not required to charge RST if your design meets the following conditions:

- the design is transferred to your customer electronically, or placed directly on a server which is connected to the Internet, **and**
- it is not provided in a hard copy version, such as a disc, CD or paper copy, **and**
- the web page does not contain a taxable computer program.

You are not required to charge RST on proofs or approval sheets sent to your customer *before* the concept is agreed upon. However, if you provide a hard copy of your *final* design then RST applies to the total charge. It is important that your contract with your customer details your arrangements, such as whether you will deliver the web page electronically or if the web page includes a custom computer program. In the case of an audit, this information will help support your claim that you were not required to collect RST.

As a web page designer and/or custom computer program developer, you are required to pay RST on all your purchases of taxable goods and services, including any licence fees or programs and telecommunication services, that you use in providing your non-taxable service.

Sales made via the Internet

If you sell taxable goods or services via the Internet you must charge RST on the *total value* of the goods that are delivered (physically or electronically) *to* Ontario, or the services that are rendered *in* Ontario, regardless of where the sale takes place. With the exception of computer programs, if the goods you sell are delivered electronically, such as a magazine or a catalogue, and **you do not provide a hard copy** you are not required to charge RST.

Total value includes the selling price in Canadian dollars plus shipping/delivery/mailling charges, customs, duties and federal excise taxes. Federal Goods and Services Tax (GST) and brokerage charges are not included in determining the total value. On your web site you must inform your customers that RST is applicable to your sales of taxable goods and services delivered in Ontario. If your goods or services are delivered to customers outside of Ontario, you are not required to charge RST. You are required to retain proof that the goods or services were delivered to a customer located outside of Ontario.

“Right to Use” a Taxable Computer Program

If you charge a fee to provide your customer with the “right to use” a taxable computer program that is located in, or is downloaded to, a location in Ontario, you must charge RST on the fee. RST applies to computer programs sold or leased regardless of how the program is delivered, including charges for the right to use a taxable computer program, even if there is no formal licencing agreement. Some examples of taxable computer programs include Internet browsers, games, spreadsheet programs, word processing programs, database programs, pre-written “canned” or “off-the-shelf” computer programs and upgrades.

If you charge a fee for the “right to use” a computer program located **outside** Ontario RST does not apply, provided the program is not downloaded to a location in Ontario.

Access to Information When is a Vendor Permit Required?

If your site offers access to information only, such as an on-line encyclopaedia or reference library, then RST does not apply. This is considered to be access to information and is not taxable.

If you are located in or have a presence in Ontario, you must register for a vendor permit and charge and collect RST on the total value of your taxable sales delivered or taxable services provided in Ontario. If you are not legally required to register, you may register voluntarily for a vendor permit. In the case where you are not required to have a vendor permit, it is your **customer’s responsibility** to remit the applicable taxes to the Retail Sales Tax Branch of the Ontario Ministry of Finance.

For Further Information

The information contained in this publication is only a guideline. Due to the complex nature of Internet related services, and computer program sales and services, it is impossible for us to address every situation in this *Guide*. To obtain an official interpretation on your specific situation you may write to us at: Ontario Ministry of Finance, Retail Sales Tax Branch, Tax Advisory Unit, 33 King Street West, Oshawa, Ontario, L1H 8H5.

For further information, please contact the nearest Ontario Ministry of Finance Tax Office listed in the blue pages of your telephone directory, call our TAX FAX service at 1-877-4-TAX-FAX (1-877-482-9329), or visit our Web site at www.rev.gov.on.ca/tare/html/trierst.htm.

*Ce guide est disponible en français sous le nom «Services liés à Internet n° 651F».
Vous pouvez obtenir un exemplaire en appelant le 1-800-668-5821.*