

# Ontario Harmonized Sales Tax

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**Clarity Defined.**



# Note

- This presentation contains general comments based on Provincial and Federal HST information released as at February 24, 2009.
- No two situations are alike and you should seek advise from a professional advisor to ensure proper tax treatment
- The information herein is not to be reproduced or copied without the permission of the author.

# Agenda

- Overview
- Transitional Rules
- Specific Industries
- Businesses
- Winding down the PST
- The 5 P's
- Individuals
- Conclusion & Questions

# Overview

# Current Regimes

## Goods and Services Tax (GST)

- Tax is collected on supplies at each stage of the distribution process
- For those making taxable supplies, the GST paid can be recovered

## Ontario Provincial Sales Tax (PST)

- Tax is charged when the consumption of the goods or services are by the end user
- PST is embedded in the cost of many products
- No rebates for PST paid

- HST for Ontario Introduced in the 2009 Ontario Budget on March 29, 2009
- December 9, 2009 HST legislation passes in the House of Commons with support of the Liberals, Conservatives, & Bloc Quebecois
- December 9, 2009 HST legislation passes in the Provincial Legislature
- In the agreement between the Province and the Federal Governments the HST cannot be repealed or amended for 2 years

# HST – Why?

- Remove PST as a hidden sales tax
- Remove multiple taxation
- Save companies administrative & compliance costs
- Save the Provincial Government administration costs
- Reduce the effective tax rate on established businesses and new business investments
- Make Ontario more competitive Internationally
- Remove embedded taxes on exports out of Ontario
- The Province will also receive \$4.3bn as part of the agreement

# HST - Mechanics

- HST will work the same way GST currently does
  - Ontario has designed specific transition rules
  - Ontario point-of-sale exemptions
  - Public Service Body rebates
- The Federal Government will administer the program
  - GST registrants are automatically registered for HST
  - One set of sales tax rules
  - One form to fill out
  - One group of sales tax auditors

## ■ Advantaged

- Manufacturers
- IT / Telecomm
- Real Property Contractors
- Farmers
- Retail outlets

## ■ Disadvantaged

- Financial Institutions
- Doctors, Dentists
- Non-GST registrants

## ■ Neutral

- Charities
- NPO's
- Municipalities
- Universities & Colleges
- School Boards
- Hospitals

# When Will HST Apply?

- Sale of Goods
  - Goods delivered and ownership transferred after June 30, 2010
- Services
  - Taxable services provided in Ontario performed after June 30, 2010
- Transitional rules will be discussed further in the presentation

# Key Dates

Certain organizations may need to self-assess the Ontario portion of the HST on amounts paid or payable between this date and May 1, 2010 for goods or services provided on or after the implementation date

HST will apply to amounts paid or payable on or after this date for goods or services that will be provided on or after the implementation date



# Transitional Rules

# Goods (Pre)

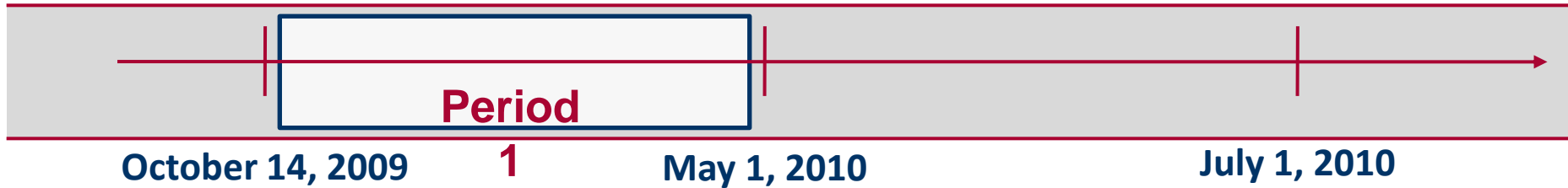
- Sale of goods where delivery and ownership transfers after June 2010 and consideration is due or paid in:



- **Pre:**
  - No HST applies
  - No vendor or purchaser requirements

# Goods (Period 1)

- Sale of goods where delivery and ownership transfers after June 2010 and consideration is due or paid in:



# Goods (Period 1)

- Consideration due or paid after October 14, 2009 and before May 2010
  - Applies to persons:
    - Who are not consumers and
      - Who will use the goods otherwise than exclusively in the course of commercial activities
      - offer exempt services
      - cannot claim full ITC's
  - Will be required to self-assess the Ontario portion of the HST
  - No vendor responsibility

# Goods (Period 1)

- **Example**

A not-for-profit which offers daycare services purchases toys for the daycare on March 10, 2010 for \$600. They make installments of \$100 per month from March to August. Once all installments are paid, the toys are delivered to the daycare on August 30, 2010.

- **Answer**

The daycare will be required to self-assess the Ontario portion of the HST on \$600 since the toys will be used in the course of providing exempt services and are delivered and ownership is transferred after June 2010.

# Goods (Period 2)

- Sale of goods where delivery and ownership transfers after June 2010 and consideration is due or paid in:



# Goods (Period 2)

- Consideration due or paid on or after May 1, 2010 and before July 1, 2010
  - HST would apply to the extent that the consideration is for goods that are delivered and for which ownership is transferred to the recipient after June 2010
  - Vendor must collect if applicable

# Goods (Period 2)

- **Example**

A business sells furniture on May 1, 2010. The customer will make 8 payments, one payment per month from May 2010 to Dec 2010. Ownership will transfer after final payment in Dec 2010 and furniture is then delivered.

- **Answer**

HST applies to the full price of the furniture since it is delivered & ownership is transferred after June 2010.

# Goods (Post)

- Sale of goods where delivery and ownership transfers after June 2010 and consideration is due or paid in:



- **Post:**
  - HST would apply
  - Vendor is required to collect

# Services (Pre)

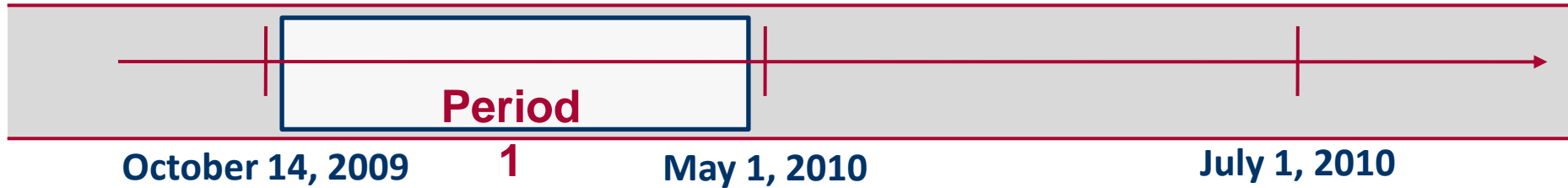
- Supply of services which will be rendered after June 30, 2010 and consideration is due or paid in:



- **Pre:**
  - No HST applies
  - No vendor or purchaser requirements

# Services (Period 1)

- Supply of service which will be rendered after June 2010 and consideration is due or paid in:



# Services (Period 1)

- Consideration due or paid after October 14, 2009 and before May 2010
  - Applies to persons:
    - Who are not consumers and
      - offer exempt services
      - cannot claim full ITC's
  - Will be required to self-assess the Ontario portion of the HST
  - No vendor responsibility

# Services (Period 1)

- **Example:**

A doctor signs a maintenance contract on January 1, 2010 for services to be provided during the calendar year. The full amount of the contract is paid January 31, 2010.

- **Answer:**

Because the doctor offers exempt services, he will need to self-assess the Ontario portion of the HST on  $\frac{1}{2}$  of the contract (fees relating to the July 1 to December 31, 2010). The amount self-assessed will need to be remitted to the CRA on form *GST 489*.

# Services (Period 2)

- Consideration due or paid on or after May 1, 2010 and before July 2010
  - HST applies to the extent that the consideration is for the part of the service that is performed on or after July 1, 2010
  - Vendor must collect if applicable



# Services (Period 2)

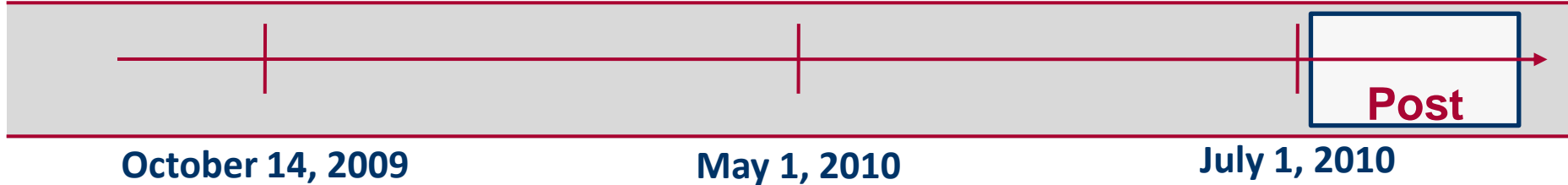
- **Example:**

A business provides plumbing service from May 2010 to July 2010. 75% of the service is performed in May and June 2010. The invoice is issued May 31, 2010.

- **Answer:**

The HST will apply to the 25% of service performed on or after July 2010. HST does not apply to the 75% that was performed in May and June.

# Services (Post)



## ■ Post:

- HST applies to the part of service performed on or after July 1, 2010
- Vendor responsible for collecting

# Services (Post)

- **Example:**

A business provides plumbing service from May to July 2010. 75% of the service is performed in May and June 2010. The invoice is issued **July 31, 2010**.

- **Answer:**

The HST will apply to the 25% of service performed on or after July 2010. HST does not apply to the 75% that was performed in May and June.

# Other Transitional Rules

- Leases and Licenses
- Magazines and other Publications
- Prepaid Funeral and Cemetery Services
- Passenger Transportation services
- Freight Transportation services
- Commercial parking passes
- Memberships & Lifetime Memberships
- Admissions
- Real property
- Budget Payment Arrangements
- Progress Payments & Holdbacks
- Imports
- Returns & Exchanges after June 30, 2010

# Specific Industries

# Exempt Service Providers

- Includes Doctors, Dentists and Financial institutions
- Some increase in costs
  - Estimated to be 1% to 2.5% for Doctors and Dentists
- Inputs that are currently only subject to GST (5%) will now have an additional 8% (Examples: rent, utilities, professional fees, gas for vehicle)
- Need to self-assess on prepaid purchases

# Retail

- Some benefit under HST; decrease in costs

## GST + PST

- 5% GST and 8% PST paid on most non-resale items
  - Only 5% GST can be claimed as an ITC on the GST return
  - 8% PST is non-recoverable

## HST

- Claim the full 13% as an ITC
  - Will save on inputs currently subject to both taxes
  - Examples
    - Capital expenditures
    - Office supplies
  - Will have increased cash flow requirement, since no longer have purchase exemption certificate

# Retail – Point of Sales Rebates

- May need to administer point of sale rebates
  - Point of sales rebates currently announced:
    - Children's clothing and footwear
    - Children's car seats and car booster seats
    - Diapers
    - Feminine hygiene products
    - Books (including audio books) and Newspapers
    - Food purchases under \$4 in value
- Will need to track rebates offered for reporting purposes

# Retail – Point of Sales Rebates

- The retailer will not collect the Provincial portion of the HST
- Can show on receipt by one of the following:
  - Total HST at 7%, or
  - Full HST at 13% with a credit for the Provincial portion,
- Point of Sale rebates are available at all levels of the supply chain, not just to consumers

# Retail - Other

- Aboriginals – at this point, legislation does not provide for any exemption
- Sales to Ontario Government – unlike current regime where GST is not paid, the Ontario government will now pay HST
- Purchase Exemption Certificate will be done away with and no longer valid

# Manufacturing

- Some benefit under HST; decrease in costs

## GST + PST

- 5% GST and 8% PST paid on most items not used in the manufacturing process
  - Only 5% GST can be claimed as an Input Tax Credit
  - 8% paid is non-recoverable

## HST

- Claim the full 13% as an ITC
  - Will save on inputs currently subject to both taxes
  - Examples
    - Supplies
    - Restaurant meals
    - Phone service
  - No more Purchase Exemption Certificates

# Heavy Construction

- Benefit under HST; decrease in costs

## GST + PST

- 5% GST and 8% PST paid on most items
  - Only 5% GST can be claimed as an ITC on the GST return
  - 8% PST is non-recoverable

## HST

- Claim the full 13% as an ITC
  - Will save on inputs currently subject to both taxes
  - Examples:
    - Equipment
    - Supplies
    - Restaurant meals

# Heavy Construction

- May need to adjust pricing to remain competitive
- Sales to Ontario Government – unlike current regime where GST is not paid, the Ontario government will now pay HST

# Residential Housing – Construction

- Some benefit under HST; decrease in costs

## GST + PST

- 5% GST and 8% PST paid on most items
  - Only the 5% GST can be claimed as an ITC on the GST return
  - 8% PST is non-recoverable

## HST

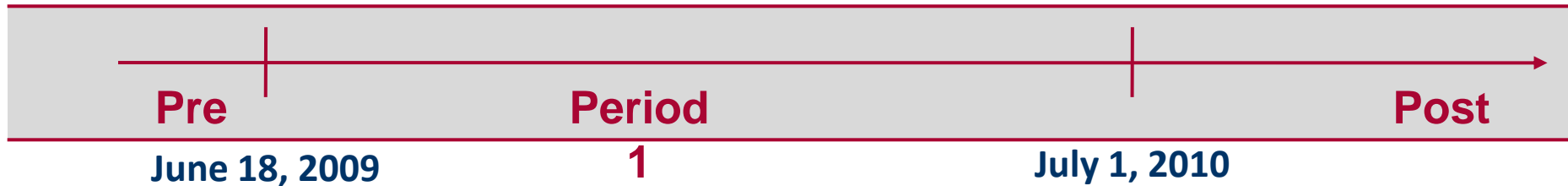
- Claim the full 13% as an ITC
  - Will save on inputs currently subject to both taxes
  - Examples:
    - Capital Equipment
    - Supplies
    - Telecommunications

# Residential Housing – Construction

- Specific disclosure requirements in sales contracts
- Transitional rules & New Housing Rebate
- Residential contractors (not commercial) may be eligible for an ORST inventory rebate

# Residential Housing – Construction

- Where ownership and possession of the new construction is transferred after June 2010 and contract is signed:



**Note:** These rules do not apply for new construction where ownership and possession is transferred prior to July 2010, follows old regime.

# Residential Housing – Construction

## Transitional Rules

<b>Pre</b>	HST does not apply and grandparenting rules, may be subject to transitional tax adjustment
<b>Period 1</b>	HST applies and may be eligible for PST transitional rebate & Ontario new housing rebate
<b>Post</b>	HST applies and may be eligible for Ontario new housing rebate

# Residential Housing – Construction

- PST transitional housing rebate will apply where:
  - Construction straddles July 1, 2010 and is at least 10% complete at that date; and
  - HST would be payable on the purchase
  - Rebate is based on the percentage of completion at June 30, 2010
- Ontario new housing rebate
  - 75% of the provincial part of the HST
  - Up to a maximum of \$24,000
  - Available regardless of the purchase price for the house
  - Mirror the GST rules for eligibility
  - Applies to residential rental properties
  - Federal new housing rebate – no change

# Residential Housing – Construction

- Certain home builders will be required to complete their GST/HST returns online
- This applies to residential home builders who:
  - Make sales of Grandparented homes
  - Record a transitional tax adjustment
  - Report a Provincial transitional new housing rebate

# Public Services Bodies

- Appears to be a neutral effect
- May need to self-assess on some supplies purchased

# Public Services Bodies

- Increased cost on inputs currently only subject to 5% GST will have additional 8% and only a portion will be claimed as Input Tax Credit (ITC)
  - Utilities
  - Rent
  - Professional Fees
  - Cleaning
- Decreased cost on inputs currently subject to both 5% GST and 8% PST since now able to claim a portion of the 8% as ITC
  - Capital Equipment
  - Supplies
  - Telephone Service

# Public Services Bodies

Public Service Body	Federal Rebate	Ontario Rebate <sup>1</sup>	Weighted Average
Municipalities	100%	78%	86.46%
Universities & Colleges	67%	78%	73.77%
School Boards	68%	93%	83.38%
Hospitals	83%	87%	85.46%
Charities & Qualified NPO	50%	82%	69.69%

<sup>1</sup> Represents the percentage of the provincial portion of the HST

# Businesses

# Credits

## ■ Small Business Transitional Credit

- One time tax credit
- To assist with additional costs incurred to implement change
- Based on level of taxable sales in first full quarter commencing after June 30, 2010
- Applied when preparing income tax return for the year encompassing July 1, 2010

Taxable Revenues 1st quarter after June 30, 2010	Transitional Credit
$\leq \$15,000$	\$300
$> \$15,000$ and $\leq \$50,000$	2% of taxable revenues
$> \$50,000$ and $\leq \$500,000$	\$1,000
$< \$500,000$	nil

# Temporary Restrictions – Large Business

- Applies to large businesses
  - Large business is defined as having annual taxable sales in the preceding year in excess of \$10 million (considers associated groups)
  - Public Service Bodies are not considered a “large business”
    - No guidance has been given on the issue of Public Service Bodies who make non-exempt sales
  - A person whose chief source of income is farming are not considered a “large business”
    - No guidance has been given to what “chief source of income” entails
    - No guidance has been given where farmers make non-farming income

# Temporary Restrictions – Large Business

- Temporary restriction applies to:
  - Energy, **except where purchased by farms or used to produce goods for sale**
  - Telecommunication services other than internet access or toll-free numbers
  - Road vehicles weighing less than 3,000 kilograms and fuel to power those vehicles
  - Food, beverages and entertainment
- Temporary restrictions do not apply to goods purchased for resale

# Temporary Restrictions – Large Business

- Applies only to provincial portion of HST
- Cannot claim any provincial ITC's from July 1, 2010 – June 30, 2015
- Claim 25% of ITC's July 1, 2015 – June 30, 2016
- Claim 50% of ITC's July 1, 2016 – June 30, 2017
- Claim 75% of ITC's July 1, 2017 – June 30, 2018
- Claim 100% of ITC's after June 30, 2018

# Temporary Restrictions – Large Business

- The large business designation is reviewed on an annual basis
- The \$10 million dollar threshold is compared to taxable sales of the business and all associated businesses based on the business's fiscal year end
- The restricted ITC's will need to be included on GST/HST returns and specifically shown as restricted
- Large businesses will be required to complete GST/HST returns online

# Temporary Restrictions – Large Business

- **Example:**

For the fiscal year ended December 31, 2009 the business had taxable supplies of \$11 million.

- **Answer:**

For the period of July 1, 2010 – June 30, 2011 the business cannot claim provincial ITC's on the temporarily restricted items

# Temporary Restrictions – Large Business

- **Example:**

The same company in the previous example has sales of \$9 million for the fiscal year ended December 31, 2010.

- **Answer:**

For the period of July 1, 2011 – June 30, 2012 the business can claim full provincial ITC's on the temporarily restricted items.

# GST/HST E-Filing

- GST/HST E-Filing will come into effect for GST/HST reporting periods ending after July 1, 2010
- Required for businesses with restricted ITC's and certain home builders
- GST/HST NetFile is a free online service
  - Instant confirmation of CRA receiving return
  - Reduces potential errors
  - Quicker processing for refunds
- If you are required to E-File but paper file, you may be subject to penalties

# GST/HST E-Filing

- **Businesses with restricted ITC's**
  - Will show full ITC's paid in the year
  - Will show restricted ITC's on a separate line
  
- **Homebuilders required to E-File**
  - Will show the number of grandparented homes sold in the period and the total sales price
  - The total transitional tax adjustment being paid in the reporting period
  - The total of all PST transitional rebates claimed for the reporting period

# GST/HST E-Filing

- After July 1, 2010 any person can choose to file their GST return electronically
- Benefits:
  - Instant confirmation of CRA receiving return
  - Reduces potential errors
  - Quicker processing for refunds

# Prices

- In most industries HST will reduce business costs
- According to a TD Bank Special Report on the Price Impacts from Harmonization:
  - They predict that the majority of business cost savings will be passed onto consumers in the form of lower pre-tax prices
  - They estimate that 80% of business savings will be passed on in the first year, and 95% by the third year
    - As a result, the pre-tax price of goods and services will fall by 0.8% - 0.9%
    - Even after the additional tax on previously untaxed items is factored in, there will be only a modest increase of 0.7% in the CPI in Ontario

# Prices

## PST



PST is charged on various costs throughout the supply chain resulting in embedded tax

## HST



## HST refund



HST is rebated at each stage of the supply chain eliminating embedded tax

# Economic Trends

- **Businesses Selling to Businesses**
  - **If Sales have PST Charged**
    - Decline in sales leading up to July 1, 2010
    - Increase in sales after July 1, 2010
  - **If Sales do not have PST Charged**
    - Likely little change

# Economic Trends

- **Businesses Selling to Consumers**
  - **If Sales have PST Charged**
    - No change as the final price will remain constant
  - **If Sales do not have PST Charged**
    - Increase in sales leading up to July 1, 2010
    - Decline in sales after July 1, 2010

# Misc. GST/HST items

- The small business limit of \$30,000 will stay in place
- If you could not register for GST you cannot register for HST, the rules remain the same
- Sales subject to GST before the transition will be subject to HST

# Winding Down the PST

# Winding Down the PST

- General rules: On July 1, 2010 the existing Ontario PST would cease to apply to:
  - A sale of goods where the goods are delivered and ownership is transferred on or after July 1, 2010
  - A sale of service to the extent the services are provided on or after July 1, 2010
- Specific rules for returns and exchanges of goods purchased prior to the implementation date and returned or exchanged after June 30, 2010

# Winding Down the PST

- Final PST returns due on or before July 23, 2010
- All supplemental PST returns would be required no later than November 23, 2010

# PST Audits

- The Province can conduct PST audits up to July 1, 2014
- The transition will likely lead to more audits in 2010 & 2011
  - Auditors will be very picky as the Province will want to maximize income & ensure compliance leading up to transition
  - More requests for taxpayers to provide information than actual field audits

# Provincial Tax Items Remaining

- Even though the PST will no longer exist, a Provincial tax will remain on:
  - Private vehicle transfers will continue to be taxed at 8%
  - Certain insurance policies where PST is currently charged but GST is not, will continue to be taxed at 8%
  - Private Health Service Plan premiums will continue to be taxed at 2%

# The 5 P's to Consider in Transitioning Towards the HST

# Prepare

- Assign someone or a committee to learn about HST, the transitional rules and place of supply rules
- Prepare an estimate of increased / decreased costs, update budgets and cash flow
- Determine if you are a large business subject to the restrictions, if you are:
  - Prepare analysis of energy use to support unrestricted ITC of provincial portion of HST
  - Separate fuel used between restricted vehicles and other fleet
  - Develop a method to track ITC's that cannot be claimed

# Paper

- Review contracts, invoices, receipts, expense reports, etc. – update for HST
- Review current contracts – consider HST & make revisions if necessary
- Modify pre-printed price lists
- No more purchase exemption certificates
- Government of Ontario will now pay HST

# Procedure

- Update software, cash registers, websites
  - Test system prior to May 1, 2010
- Determine training needs for management and staff
- Consider changing GST reporting period to assist with cash flow, if eligible (e.g. file monthly instead of quarterly)
- Perform review of accounting system
- Review mandatory electronic filing requirements

# Pricing

- Consider effect on pricing to remain competitive
- Consider timing of sales
- Service providers may experience a rush before June 30, 2010

# Procurement Policy

- Consider leasing vs. buying before July 2010 for large purchases or delay purchasing until after July 1, 2010
- For Exempt service provider and Public Service Bodies, consider purchasing PST exempt goods or services prior to July 2010, watch for self-assessment rules discussed earlier
- Consider effect of HST on suppliers

# Individuals

# General Consumer

- Inputs currently only subject to GST (5%) will have additional 8%
  - Examples: utilities, gas, internet, personal services (hair cuts, dry cleaning), memberships, shoes under \$30
- To offset additional costs the Ontario government has:
  - Cut the personal income tax rate on the first \$36,848 of taxable income by 1%
  - Introduced a sales tax credit for low income taxpayers of \$260 (similar to annual GST rebate)
  - Provided some point of sale rebates
  - Introduced a transition payment

# Transition Payments to Individuals

	Single Individuals		Single Parents or Couples	
<i>Payment Month</i>	<i>Maximum Benefit</i>	<i>Phase-out Range</i>	<i>Maximum Benefit</i>	<i>Phase-out Range</i>
June 2010	\$100	\$80K - \$82K	\$330	\$160K - \$166.6K
December 2010	\$100	\$80K - \$82K	\$335	\$160K - \$166.7K
June 2011	\$100	\$80K - \$82K	\$335	\$160K - \$166.7K
<b>Total</b>	<b>\$300</b>		<b>\$1,000</b>	

- Benefit reduced by 5% of income over the threshold
- To receive the benefit the 2009 & 2010 personal tax returns must be filed

# Conclusion and Questions