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HST – SALES TAX HARMONIZATION IN ONTARIO

SALES TAX HARMONIZATION

Effective July 1, 2010, The Government of Ontario will harmonize the Ontario Retail Sales Tax (“RST”) with the Federal Goods and Services Tax (“GST”). Generally, the Harmonized Sales Tax (“HST”) will parallel the GST.

The HST rate will be 13% - 5% is the existing GST component and 8% will be the Ontario Value Added Tax (“OVAT”).

IMPORTANT DATES

October 14, 2009 – transition date

May 1, 2010 – pre-collection date, all vendors required to collect HST on post-June supplies

July 1, 2010 – implementation date

July 23, 2010 – all RST returns due

October 31, 2010 – all outstanding RST becomes payable

November 23, 2010 - all supplemental RST returns due

December 31, 2010 – application for transitional ORST inventory rebate

Generally, the transitional rules require businesses that supply goods or services that are to be delivered or performed on or after July 1, 2010 and are paid or become payable on or after May 1, 2010 to charge HST.

However, the general transition to HST actually started October 14, 2009. Certain transactions entered into before May 1, 2010 and on or after October 14, 2009 may result in OVAT being charged.

BROADER TAX BASE

GST/HST has a much broader tax base than the RST system. Notably the following supplies and services which were not RST taxable will now have HST charged:

- Utilities
- Gasoline
- Golf/fitness memberships
- Ice rental
- Internet fees
- Legal/accounting/bookkeeper fees
- Haircuts/manicures
- Postage/shipping
- Repairs to house and to real property
- Campground/park fees
- Bus/train/certain airline tickets
- Vet services

MISCELLANEOUS NOTABLES

Private sale of used vehicle & Insurance (except Auto) premiums – while these transactions are not subject to HST (unless seller registrant) it will continue to be subject to a Ontario tax of 8%.

Funeral services – HST will not apply to funeral services where the contract is entered into prior to July 1, 2010.

Transient Accommodations (hotel rooms) – currently are taxed by Ontario at 5% this will increase to 8% under HST.

Magazine Subscriptions (not newspaper) – HST will not apply to magazine subscriptions if paid before July 1, 2010.

PLACE OF SUPPLY

Registrants are required to collect the applicable GST or HST using the place of supply rules. Generally, registrants collect HST on goods delivered or made available to the recipient in a participating province.



ONTARIO SPECIAL HST RULES

Point-of-sale rebates - No OVAT will apply to the sale of children's clothing and diapers, car seats, feminine hygiene products, newspapers and books and certain prepared foods up to \$4.

Temporary Recapture of Input Tax Credits ("RITC") for Large Businesses - Businesses with annual taxable sales over \$10,000,000 and financial institutions will be subject to temporary restrictions on the Ontario portion of ITC's for the following inputs:

- Energy (except when used by farmers or to produce goods for sale)
- Telecommunications (other than internet or toll-free numbers)
- Road vehicles of under 3,000 kg, and related fuel, parts and service
- Food, beverage and entertainment that are only 50% deductible for income tax purposes

PUBLIC SECTOR REBATE

Certain Public Sector Bodies may claim a partial rebate of GST/HST inputs and deemed inputs. The OVAT portion of the Ontario HST will be eligible for a public sector rebate at different rates than the Federal GST. The public sector rebates for the 5% Federal GST and 8% Provincial OVAT are as follows:

	Federal	Ontario
Charities & Qualifying Non-Profits	50%	82%
Municipalities	100%	78%
Universities & Colleges	67%	78%
Hospitals	83%	87%
School Boards	68%	93%

Since the Ontario rebate portion differs from the Federal rebate, Public Sector bodies will need to track the two elements of the HST separately.

Note that the criteria for "qualifying non-profit" has not changed – non-profit organizations with at least 40% of funding from some level(s) of government.

SMALL SUPPLIERS

The small supplier rules do not change with HST. Public service bodies with taxable sales less than \$50,000 and others with taxable sales less than \$30,000 are not required to register.

PREPARING FOR HST

Considerations should be given to the following issues in preparation for the HST:

- Those individuals or businesses or Organizations (e.g. consumers, medical practitioners, residential landlords, public sector bodies) which are not entitled to recover all of the ITC's should consider purchasing prior to July 1, 2010 items which presently are only subject to GST
- Businesses should consider delaying the purchase of big ticket items that are taxed under the current RST but eligible for full ITCs under HST
- Public Sector Bodies which currently pay RST on purchases may want to defer these purchases until after July 1, 2010 if the Ontario portion of the HST net of the related Ontario rebate is less than the present RST
- The HST will have an impact on the cash flow of most organizations. Businesses that were able to buy goods for resale exempt from the 8% RST, will now have to pay the entire 13% HST and wait to claim back the tax paid when the HST return is filed. Charities and qualifying non-profits eligible for only a partial rebate on the Ontario HST will find cash flow negatively impacted for purchases which were previously not subject to the provincial sales tax
- Point of sale equipment and sales registers will have to be modified to reflect HST and point of sales rebates
- Accounting software will need to be adjusted to account for HST payable and recoverable
- Large Organizations and Financial Institutions that face OVAT restrictions must account for the part of OVAT that is not recoverable
- Apply the new HST to employee expense reports when calculating ITC's
- Revise any standard or recurring journal entries to reflect the new HST



WIND DOWN OF RST

Final RST returns are required to be filed by July 23, 2010.

The current compensation received by vendors under the RST will cease on March 31, 2010.

Supplemental RST returns for any RST collected or payable after June 2010 are required to be filed by the 23rd day of the month.

Generally, refunds and rebates of RST would remain in place until the existing time limits for claiming them have expired for the transactions to which they relate, or June 30, 2014, whichever is earlier. An exception would be provided for refunds for returned goods – specific rules apply to returns or exchanges between July 1, 2010 and before November 2010.

ONE TIME SMALL BUSINESS TRANSITION CREDIT

To help support the costs incurred by businesses to change to the harmonized sales tax, one time credits of up to \$1,000 for eligible businesses are available.

The credit will be available to businesses, other than financial institutions, with annual revenues from taxable sales of less than \$2 million. Credit amounts will be based on total taxable revenues in the first full fiscal quarter of the business starting after June 30, 2010:

- Taxable revenue < \$15,000 – credit \$300
- Taxable revenue \$15,000 to \$50,000 – credit 2% of taxable Revenues
- Taxable revenue >\$50,000 – credit \$1,000

CONSUMERS SALES TAX TRANSITION BENEFIT

This benefit is designed to help eligible Ontario Individuals and families with the transition to the new sales tax system.

The program provides 3 payments – June 2010, December 2010 & June 2011 totaling a maximum of \$300 for single individuals and \$1,000 for single parents and couples. Each maximum payment is reduced by 5% of the adjusted family net income that is more than \$80,000 for single individuals and \$160,000 for single parents and couples.

To learn more or to get the latest information as it is released –

www.cra-arc.gc.ca/harmonization

www.ontario.ca/taxchange

REAL PROPERTY

Transitional RST Inventory Rebate: A RST rebate will be available for RST paid on construction materials in the contractor's inventory on June 30, 2010 for use in a residential real property contract that is subject to HST. Rebate application to be filed with the Ontario Ministry of Revenue by Dec 31, 2010.

Consumer New Housing Rebate: New Housing rebate for OVAT is calculated at 6% of price up to maximum of \$400,000 (max \$24,000). Note Federal GST rebate is only available for new homes valued at less than \$450,000 whereas the OVAT rebate is available regardless of price.

Transitional Rules for New Residential Housing: Transitional rules were released on June 18, 2009 which provides guidance in situations involving new housing transactions that straddle July 1, 2010. Where ownership and possession of the home are transferred on or after July 1, 2010 the purchase will be subject to HST. Generally, grandparenting rules apply to sales of newly constructed or substantially renovated homes under written agreements entered into on or before June 18, 2009, these transactions would not be subject to the Ontario HST where both ownership and possession are transferred on or after July 1, 2010. However, builders of grandparented homes would generally be required to pay an amount, a transitional tax adjustment, to account for tax that would (on average) have otherwise been embedded in the new homes under the current RST. Builders would also be required to meet certain reporting and disclosure requirements.

Please consult Ontario Ministry of Finance Notices and CRA bulletins for complete details

CONSUMERS SALES TAX CREDIT

Ontario has introduced a new, permanent sales tax credit of up to \$260 for each adult and child per year for low income taxpayers. The 2010 income thresholds for the credit will be \$20,000 for single people and \$25,000 for couples and single parents.

The above is a general discussion in a summary form on the proposals for HST Harmonization in Ontario. Every effort has been made to ensure the accuracy of the information contained in this commentary. However, because of the nature of the subject, no person or firm involved in the distribution or preparation of this commentary accepts any liability for its contents or use

