

Harmonization of Ontario Retail Sales Tax

Prepared for: Registered Charities and Non-Profit
Organizations
March, 2010

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Overview - Current Situation

- Province of Ontario
 - RST of 8% on sale of “Tangible Personal Property”
 - No charge on services
 - No charge of RST to “Real Property”
 - No rebate or refund to commercial consumers except manufacturing & processing equipment
- Federal Government
 - GST of 5% on all goods and services except exempt or zero-rated supplies
 - Input tax credit for GST paid to registrants, except in the case of exempt supplies
 - Charities, municipalities, etc. get rebates in lieu of ITCs

Overview

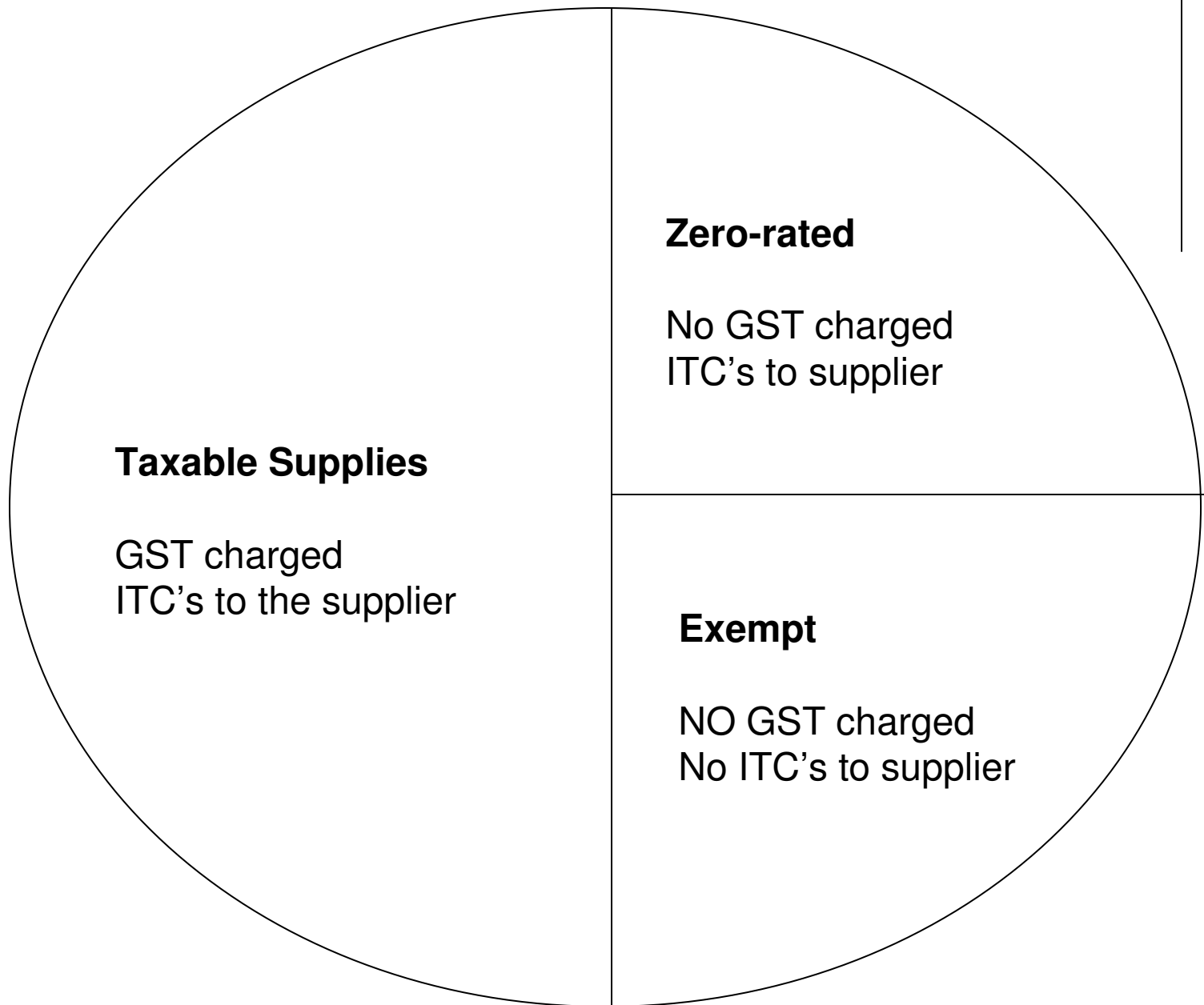


RST (or PST) charged on
-Tangible personal
property

Not charged on
- Most services
- Real Property

GST (and HST) charged
on Taxable Supplies
which are:

Goods and Services
(see next overhead)





Harmonization of Sales Tax

- Two significant measures are undertaken
 - Repeal of Ontario's RST
 - Increase of GST to include Ontario's 8% RST
 - Called HST
 - Combined rate of 13%



Impact of HST to Ontario

- Pluralistic society
- No two sectors or industry groups are alike
- There will be winners and losers
- Examples of “winners”
 - Business selling taxable goods and services, especially those who export
 - Charities may win because RST is now rebated
- Examples of “losers”
 - Consumers purchasing services, e.g.
 - Lawyers’ and accountants’ fees
 - Home renovations
 - Exempt suppliers like doctors and dentists
 - Charities may lose because net increase in sales tax on services (after rebates)



Move to Harmonization

- Harmonization introduced in 2009 Ontario budget
- Effective July 1, 2010, Ontario will become a participating province, and sales of taxable goods and services will be subject to one rate for sales tax – 13% HST
- Registrants will be able to claim input tax credits for the provincial portion, whereas that tax was lost under the current RST system
- Legislation for this change has been enacted, by the federal and provincial governments on December 15, 2009

Transition Support Payments



- The Ontario government is planning to make certain support payments to individuals/couples and small businesses to compensate for the effect of the change
- Small business transition credit is based on taxable revenues in the first full fiscal quarter commencing after June 30, 2010
- In order to receive the small business transition credit, the business:
 - must not be a listed financial institution
 - must carry on business in Ontario on July 1, 2010 and be a registrant for GST/HST on that day
 - must make taxable supplies for GST/HST purposes
 - must have taxable revenue of less than \$2,000,000
 - for its first fiscal year commencing after June 30, 2010, or
 - for its last fiscal year commencing before July 1, 2010 if the Minister considers it appropriate in the circumstances to consider the taxable revenue of that fiscal year instead
- Not of benefit to charities and NPO's

Small Business Transition Credit



Taxable Revenues	Transition Credit
\$0 - \$15,000	\$300
\$15,001 - \$50,000	2 % of taxable revenue for that quarter
\$50,001 - \$500,000	\$1,000

Ontario Sales Tax Transition Benefit



- Three payments will be paid to individuals as part of the harmonization of the sales tax.
- Payments will be based on the net income on the previous year's tax return.

Ontario Sales Tax Transition Benefit



<u>Date Paid</u>	<u>Single Individuals</u>		<u>Couples and Single Parents</u>	
	<u>Max Ben.</u>	<u>Phase-Out Range</u>	<u>Max Ben.</u>	<u>Phase-Out Range</u>
June 2010	\$100	\$80,000–\$82,000	\$330	\$160,000-\$166,600
December 2010	\$100	\$80,000–\$82,000	\$335	\$160,000-\$166,700
June 2011	\$100	\$80,000–\$82,000	\$335	\$160,000-\$166,700
Total	\$300		\$1,000	



Point of Sale Exemptions

- Certain items will be exempt from the provincial 8% portion of the HST:
 - Newspapers
 - Meals costing less than \$4.00
 - Books
 - Children's clothing
 - Children's footwear
 - Children's car seats and car booster seats
 - Diapers
 - Feminine hygiene products



Other Relevant Changes

- Temporarily Restricted ITCs (RITC's)
 - Businesses with annual taxable sales > \$10 million and financial institutions will be unable to claim ITCs on the provincial portion of the HST for the first five years for the following items:
 - 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 kg (and parts and certain services) and fuel to power those vehicles
 - Food, beverages and entertainment
 - After the first five years of HST, full input tax credits for these businesses will be phased in over a three-year period
- Public Service Bodies will not be subject to the RITC's



Other Relevant Changes

- Hotel Rooms
 - Current RST rate on hotel rooms is 5% - this will increase to 8% with the implementation of HST
- Private Transfers of Motor Vehicles
 - Ontario will retain a sales tax on private transfers of used motor vehicles
- Insurance
 - Ontario will retain a tax on insurance at 8% after the transition to HST. The tax will be payable on the same types of insurance currently taxed under RST, but no refund or rebate will be available since it is not HST



Other Relevant Changes

- Alcohol Sales
 - Under HST, the tax on liquor of 10% (at bars and restaurants) and 12% (beverages sold through retail stores) would fall to 8%. However, “...to maintain social responsibility and existing revenue, while introducing the new single sales tax, the government proposes to make adjustments to current alcohol fees, levies and charges. The government also proposes to introduce legislation to replace various alcohol and other fees, levies and charges with taxes to enhance their operational structure and legislative clarity.”



General Transitional Rules

- General transitional rules were released by the Ontario Ministry of Revenue on October 14, 2009
- Transitional rules include important dates:
 - July 1, 2010 – implementation date for HST harmonization
 - May 1, 2010 – HST will generally apply to consideration that becomes due, or is paid without having become due, on or after this date for property or services provided on or after July 1, 2010
 - October 14, 2009 – HST would not apply to consideration that becomes due, or is paid without having become due, on or before this date.
 - October 31, 2010 – date on which any outstanding RST becomes payable



General Transitional Rules

- Generally, goods and services provided on or after July 1, 2010 will be subject to HST; those provided before July 1, 2010 would be subject to GST and/or RST as applicable
- HST will also apply to:
 - Goods delivered or services provided after June 2010, but paid for between May 1, 2010 and June 30, 2010 (for all persons)
 - Goods delivered or services provided after June 2010, but paid for between October 14, 2009 and April 30, 2010 (for registrants – registrants will have to self-assess the provincial portion of HST)



General Transitional Rules

- HST will not apply to:
 - Services provided before July 1, 2010 but paid for on or after July 1, 2010
 - Funeral services performed on or after July 1, 2010 pursuant to an arrangement in writing entered into before July, 2010, where all or part of the consideration for the service was paid or put into trust before the service is performed
 - The portion of a round-trip ticket where the travel is after June 2010, if the trip began before July 2010

General Transitional rules – goods sold - example



	<u>Case I</u>	<u>Case II</u>	<u>Case III</u>	<u>Case IV</u>
Payment/Invoice	April 1, 2010	April 1, 2010	May 15, 2010	May 15, 2010
Ownership transferred	June 15, 2010	July 15, 2010	June 15, 2010	July 15, 2010
GST	Yes	Yes	Yes	No
HST	No	No	No	Yes

General Transitional rules

Services provided



- Grandparented from HST if payment is before May 1, 2010 and service is after June 30, 2010
- If service is split between pre and post July 1, 2010, then GST/HST is prorated based upon number of days in each period
- To be exempt from HST more than 90% of the service must be performed before July 1, 2010

General Transitional rules – Services provided - example



	<u>Case I</u>	<u>Case II</u>	<u>Case III</u>	<u>Case IV</u>
Payment/Invoice	April 1, 2010	May 15, 2010	May 15, 2010	August 15, 2010
Service provided	June 15, 2010	June 15, 2010	July 15, 2010	40% June 60% July
GST	Yes	Yes	No	Yes 40%
HST	No	No	Yes	Yes 60%

General Transitional rules

Leasing



- HST applies to lease interval periodic payments for periods commencing after July 1, 2010
- HST does not apply if lease interval ends on or before July 31, 2010 and payment is before July 1, 2010
 - Eg. Lease interval is June 1, 2010 to August 31, 2010, lease is subject to HST even if paid before July 1, 2010
 - Initial commencement of lease is irrelevant

Special Charity/NPO Transitional rule



- If:
 - Payment is made after October 14, 2009 and before May 1, 2010, and
 - Charity does not get full Input Tax Credit
 - THEN
- Entity must self-assess the provincial portion of the HST for the reporting period that includes July 1, 2010 and remit it

Charity Special transitional rule - example



- Charity orders a service in February, 2010 and pays for it, but receives the service in August, 2010
 - Vendor collects GST and no PST on sale, but
 - Charity self-assesses the provincial portion of the HST (8%) and pays it to CRA in its period covering July 1, 2010.[But no later than November 1, 2010.]

Charities and Non-Profit Organizations



- Overview
- Definitions
- Charging the GST/HST
- Recovery of the GST/HST
- Place of Supply Rules
- Administration and Planning concerns



Definitions

- Public Service Bodies
 - Municipalities
 - Universities
 - Schools
 - Hospitals
 - Above 4 are referred to as the “MUSH” sector
 - Charities
 - Qualifying Non-profit organizations
 - Public institutions
 - Charities that are in the MUSH sector



Taxable supplies

- Either a supply of
 - Goods, or
 - Services
- Can be
 - Taxable [*tax is charged at the GST/HST rate*]
 - Exempt [*no GST/HST is charged*]
 - Zero-rated [*no GST/HST is charged*]



Charging the GST/HST

- In general, if an entity had to charge GST before, then after June 30, 2010, will have to charge HST on the same services or goods sold
- In a sense “nothing new”
- Next overhead discusses common transactions that do not attract GST/HST (usually described as “exempt supplies”)



Non-taxable supplies

- A brief (but not complete) list of non-taxable supplies is:
 - Donations and gifts
 - Incidental supplies and supplies made at cost
 - Supplies for relief of poverty , suffering, distress
 - Recreational services to underprivileged
 - Memberships without significant benefits
 - Amateur performances
 - Fund-raising activities
 - Food/beverages for poor, seniors, underprivileged



Taxable supplies

- A brief (but not complete list) of taxable supplies
 - New goods sold at a profit
 - Admission to amusement if over \$1
 - Membership with free or discounted admission
 - Camps with overnight accommodation
- Mainly intended to ensure equal treatment where it competes with commercial enterprises



Rebates and Input tax credits

- Rebates and Input Tax Credits (ITC's) are not the same thing
 - Rebate is usually a portion of the GST/HST paid
 - ITC is in most cases 100% of the GST/HST paid
 - There are exceptions to this, such as 50% of meals and entertainment
- ITC's are only claimable if the entity is earning fully taxable supplies and only to the extent of that activity.
 - If necessary, proration of the ITC's has to be done



Public service body	Federal Rebate	Ontario Rebate	Net Tax
Municipalities	100%	78%	1.76%
Universities/ Colleges	67%	78%	3.41%
Schools	68%	93%	2.16%
Hospitals	83%	87%	1.89%
Charities/ Qualifying NPO's	50%	82%	3.94%

Rebates – illustration for Charities and Qualifying NPO's



Gross HST	<u>13%</u>
Federal component	5%
Federal Rebate (50%)	(2.5%)
Ontario component	8%
Ontario Rebate (82%)	<u>(6.56%)</u>
Net tax burden to entity	<u>3.94%</u>



Place of Supply

- Participating provinces
 - NFLD, NB, NS 13%
 - Ontario (pending) 13%
 - BC (pending) 12%
- All others 5%

- [Note Quebec has its own value added tax system]

General Place of Supply Rules



- GST/HST rate applies to a province
 - Goods
 - Goods shipped by supplier by common carrier or mail are deemed taxable in province of recipient {ie. FOB destination}
 - If goods are received legally by recipient in Ontario, then Ontario HST applies {ie. FOB shipper}
 - Location of Supplier is irrelevant
 - Services
 - Supply deemed made where >90% of services is performed in a province
 - Location of Supplier is relevant

Administrative and planning concerns



- Rebate calculation will be more complex
 - May have to segregate Federal portion of HST from Provincial portion
- Watch for self-assessment on purchases made after October 14, 2009 and delivered or provided after June 2010
- Leasing will turn to HST even if lease is an old lease
- Equipment purchased now will not attract HST, but PST. HST will be rebated, so purchasing may be better if deferred

Administrative and planning concerns



- If non-registrant
 - Should you now be a registrant if HST is non-ITC or not rebated in the case of a non-qualifying NPO [note-not all entities can voluntarily elect if the service is exempt]
- Budgeting
 - HST is an “up front” cost, loss of cash flow even if obtain rebate
- Forms and invoices will have to change
- If carrying on business, watch for \$50,000 small supplier rule
- Losing the PST 100% rebate on capital construction, ticket sales of performing arts organizations of venues under 3,200 seats
- Charities that receive 50% rebate will pay more if supply did not incur PST, but less if PST previously applied to the sale

New Housing – Tax and Rebate



- HST will apply to the sale of newly constructed or substantially-renovated residential housing where both ownership and possession are transferred after June 2010
- Grandparenting – if a written agreement was entered into on or before June 18, 2009, but ownership and possession will not be transferred until after June 2010, HST will not apply
 - Where the property is a detached house, semi-detached house or attached house, the purchaser must be an individual in order for the grandparenting rule to apply

New Housing – Tax and Rebate



- Ontario New Housing Rebate – where the sale is subject to HST, the purchaser will be eligible to claim a rebate of 75% of the provincial portion of the HST, up to a maximum claim of \$24,000
 - This will apply regardless of the purchase price of the house (i.e., no maximum purchase price for provincial portion of rebate)