

The Ontario government announced in its March 26, 2009 budget, that it will adopt a single sales tax system effective July 1, 2010. This new system will combine the 5% Federal Goods and Services Tax (GST) and the 8% Ontario Retail Sales Tax (PST) to create a 13% Harmonized Sales Tax (HST). The HST will be administered by the Canada Revenue Agency and will substantially follow the GST regime, with a few key differences.

## One of the purposes of the HST is to take away the hidden tax as well as lower administrative costs.

The HST uses a value-added tax structure that will allow most businesses to claim input tax credits (ITC) on the 13% HST paid. This is unlike the PST which applies to many purchases made by a business and is not refunded, leaving the PST embedded in the price of the finished goods and services as a sunk cost to the business. One of the purposes of the HST is to take away the hidden tax as well as lower administrative costs incurred by businesses.

The HST will mirror the GST rules with a few differences outlined further in the document.

## When Will HST Apply?

For goods, HST will apply when goods are delivered and ownership transferred after June 30, 2010. As for taxable services, HST will apply for services performed after June 30, 2010. For transactions that straddle the July 1, 2010 implementation date, there are also transitional rules that need to be considered.

## Transitional Rules

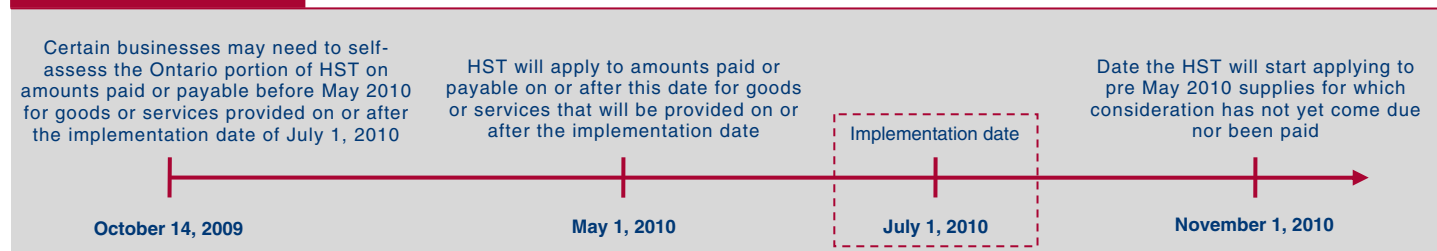
The basic transitional rules are as follows for most goods and services:

- If consideration is due or paid on or after May 1, 2010 and before July 2010 then HST would apply to the extent that the consideration is for goods that are delivered and for which ownership is transferred or for services that are rendered to the recipient after June 2010.
- For businesses that purchase goods or services that will not be exclusively used in the course of their business, or for businesses that offer exempt services, there will be a requirement to self-assess the Ontario portion of the HST, if consideration is due or paid after October 14, 2009 and before May 2010 and the goods or services are not provided until after June 2010.

It is important to note that there are many other industry specific transitional rules which could apply to your business. Most particularly, businesses that offer residential housing construction will face a wide range of industry specific transitional rules, including specific contract disclosures, grandfathered contracts, transitional credits and an ORST inventory rebate for residential contractors.

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## Key Transitional Dates



## Transitional Credit for Small Businesses

To help businesses with this change, a one-time transitional credit for small businesses was introduced to assist with the additional costs that will be incurred to implement the changes. This credit is based on the level of taxable sales in the first full quarter commencing after June 30, 2010. The credits will range between \$300 for businesses with sales under \$15,000 in the quarter to a maximum of \$1,000 for businesses with sales over \$50,000 but less than \$500,000 in the quarter. If sales exceed the \$500,000 threshold in the quarter, there will be no credit available.

## Temporary Restrictions for Large Businesses

Large businesses, with annual taxable sales in excess of \$10 million (for associated group), will face a temporary restriction on the provincial portion of the ITC for the first 8 years for certain expenditures such as:

- 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

The ITC's available will be nil for the first five years and will then be phased in at 25% per year starting in year 6. Full ITC's will be available to large businesses beginning in Year 9 after implementation.

## Ontario New Housing Rebate

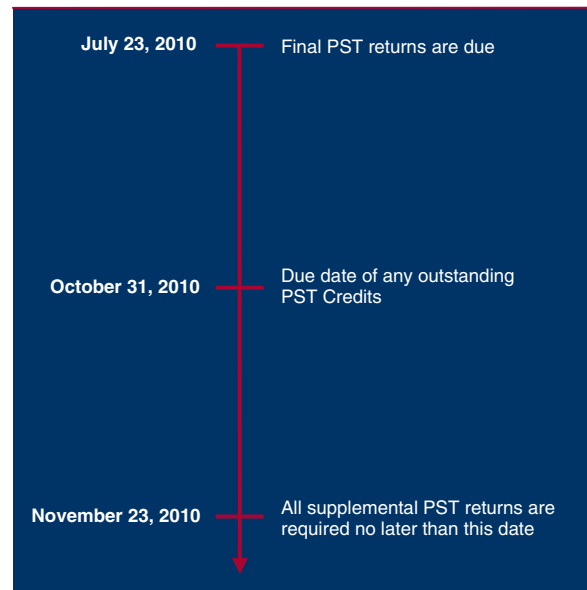
The Ontario Government has introduced an Ontario New Housing rebate for new residential constructions that will be primary residences. The rebate will be 75% of the Ontario portion of the HST up to a maximum of \$24,000. Unlike the GST New Housing Rebate, there will not be any clawback of the Ontario New Housing Rebate, therefore houses priced at greater than \$400,000 will still get the rebate up to the \$24,000 maximum.

## Point of Sale Rebates

The province of Ontario has identified some point-of-sales rebates which will apply to the provincial portion of the HST. These rebates will apply to:

- Children's clothing and footwear
- Children's car seats and car booster seats
- Diapers
- Feminine hygiene products
- Books (including audio books), newspapers, bulletins
- Prepared food purchased under \$4 in value

## Important Dates Regarding PST Returns



## Five P's Businesses Should Consider in Transitioning Towards the HST

Prepare	<ul style="list-style-type: none"> <li>▪ Assign someone or a committee to learn about HST, the place of supply rules, the transitional rules and the new mandatory electronic filing requirements</li> <li>▪ Prepare an estimate of increased or decreased costs to assist in proper budgeting and determination of cash flow; consider inputs which currently have PST such as goods, telecommunication and many IT services including software</li> <li>▪ Determine if you are a large business, subject to the restrictions               <ul style="list-style-type: none"> <li>➢ If so, accounting systems need to be able to track restricted ITCs                   <ul style="list-style-type: none"> <li>☐ Fuel on fleet vehicles vs. heavy equipment vehicles</li> <li>☐ Analysis of energy used in offices vs. manufacturing process</li> </ul> </li> </ul> </li> <li>▪ If exempt business or if business purchases goods not used in commercial activity:               <ul style="list-style-type: none"> <li>➢ Will need to self-assess on prepayment of goods and services to be delivered after June 2010</li> <li>➢ Ensure that the Basic tax content balance of real property is tracked</li> </ul> </li> <li>▪ Residential Housing Builders               <ul style="list-style-type: none"> <li>➢ Identify grandparented homes</li> <li>➢ Establish percentage of completion on June 30, 2010 for purposes of:                   <ul style="list-style-type: none"> <li>☐ PST transitional adjustment and PST transitional rebate</li> </ul> </li> </ul> </li> <li>▪ Residential contractors               <ul style="list-style-type: none"> <li>➢ Determine PST paid in construction material inventory for purposes of the ORST inventory rebate, application must be filed by December 31, 2010</li> </ul> </li> </ul>
Paper	<ul style="list-style-type: none"> <li>▪ Review contracts, invoices, receipts, expense reports, etc. that will need to be updated to show HST</li> <li>▪ Review employee taxable allowances and benefits, ensure proper HST charged and ITCs claimed</li> <li>▪ Review current contracts to ensure they consider HST and make revisions accordingly</li> <li>▪ Modify any pre-printed price lists</li> <li>▪ Final PST return due <b>July 23, 2010</b></li> <li>▪ Purchase Exemption Certificate is eliminated, tax must be collected and/or paid</li> </ul>
Procedure	<ul style="list-style-type: none"> <li>▪ Review accounting system, ensure updated to be compliant with HST</li> <li>▪ Cash registers, computer software and possibly websites will need to be updated to include HST               <ul style="list-style-type: none"> <li>➢ Plan on doing a test run of your system prior to May 1, 2010</li> </ul> </li> <li>▪ Determine the level of training required for management and staff, including               <ul style="list-style-type: none"> <li>➢ Knowledge of the point-of-sale rebates</li> <li>➢ Self-assessment rules (i.e. imports into the province)</li> <li>➢ Return and exchange transitional rules</li> </ul> </li> <li>▪ Consider changing the HST reporting period to assist with cash flow, where eligible</li> </ul>
Pricing	<ul style="list-style-type: none"> <li>▪ Consider the effect HST will have on pricing of goods in order to remain competitive</li> <li>▪ Consider effect on timing of sales in the current year</li> <li>▪ Unlike the current regime where the Government of Ontario is GST exempt on its purchases, they will now be subject to HST</li> </ul>
Procurement Policy	<ul style="list-style-type: none"> <li>▪ Consider leasing vs. buying for large purchases before July 1, 2010 or delay large purchases until after July 1, 2010</li> <li>▪ Understand the effect of HST on major suppliers</li> <li>▪ Consider buying PST exempt supplies and assets now</li> </ul>

## About Collins Barrow

**Collins Barrow is committed to the highest level of integrity, quality and professionalism and provides clients with solutions in the area of Audit, Tax and Transaction Services.**

Collins Barrow is Canada's largest association of Chartered Accounting firms and the eighth largest group of chartered accountants in Canada. Known as Canada's mid-market alternative for audit, tax and advisory solutions, we have developed a reputation for being a real choice for quality and value added financial advice due to the depth and breadth of in-house skills, customized offerings, commitment to excellence in customer service and our global reach. Our unmatched service and deep financial offerings make Collins Barrow the right choice for maximizing shareholder value.

We serve companies at all stages of their development from large publicly traded companies to emerging and owner managed businesses. Our clients come from a cross section of industries including: Private Equity, Manufacturing, Industrial, Wholesale, Retail and Distribution, Professional Services, Financial Services, Real Estate and Land Development, Hospitality and Entertainment, Technology and Communications, Energy and Mining, Biotech and Not for Profit. Our understanding and firsthand experience in the trends that are impacting these industries continues to prove that our professionals are well positioned to offer valued and effective solutions.

Our global reach extends beyond the more than 40 offices in Canada into 110 countries worldwide through Baker Tilly International, the eighth largest accountancy and business advisory network in the world. Together, we offer clients an established platform and access to the highest quality resources for audit, tax and transaction support in the global market place.

Independent, responsive and trusted. We are the true national alternative. Collins Barrow, Clarity Defined.

For more detailed information on the implications of the Harmonization of the PST with the GST for your business, contact a partner at your local Collins Barrow office or visit us at [www.collinsbarrow.com](http://www.collinsbarrow.com).

**Clarity Defined.**

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