

Harmonized Sales Tax

Public Service Bodies

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.

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.

Public service bodies, which include organizations such as Municipalities, Universities / Colleges, School Authorities and Hospital Authorities (MUSH group) as well as Non-profit organizations and Charities will see some costs increase because the GST has a broader tax base than the current PST regime. To help offset this cost increase and leave the public service bodies in a neutral position, the Ontario government has announced a rebate for the provincial portion of the HST. This rebate will be offered over and above the current Federal rebate available.

The following chart details the percentage of the Federal portion and Provincial portion of the HST that each type of Public Service Body will be able to claim as an input tax credit.

Public Service Body	Federal Rebate	Ontario Rebate
Charities and Qualified NPO's	50%	82%
Municipalities	100%	78%
Universities and Colleges	67%	78%
School Boards	68%	93%
Hospitals	83%	87%

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 or services that are delivered, performed, or for which ownership is transferred after June 2010.
- For organizations that purchase goods or services that will not be used exclusively in the course of their business, or that will be used in the course of offering exempt services, they may be required 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 30, 2010.

It is important to note that there are other industry specific rules that could apply to public service bodies.

Key Transitional Dates

Certain businesses may need to self-assess the Ontario portion of HST on amounts paid or payable between this date and May 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

Implementation date

October 14, 2009

May 1, 2010

July 1, 2010

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.

Five P's Public Service Bodies Should Consider in Transitioning Towards the HST

Prepare	<ul style="list-style-type: none"> ▪ Assign someone or a committee to learn about HST and the transitional rules ▪ Prepare an estimate of increased or decreased costs to assist in proper budgeting and determination of cash flow needs; consider inputs which are currently only subject to GST such as rent and utilities ▪ Municipalities need to review current sub entities to ensure they will function properly with the new rules
Paper	<ul style="list-style-type: none"> ▪ Review contracts, invoices, receipts, expense reports, etc. that will need to be updated to show HST ▪ Review employee taxable allowances and benefits, ensure proper HST charged and ITCs claimed ▪ Review current contracts to ensure they consider HST and make revisions accordingly
Procedure	<ul style="list-style-type: none"> ▪ Review accounting system, ensure updated to be compliant with HST ▪ Cash registers, computer software and possibly websites will need to be updated to include HST <ul style="list-style-type: none"> ➤ Plan on doing a test run of your system prior to May 1, 2010 ▪ Determine the level of training required for management and staff, including transitional rules and rebates ▪ Consider changing the HST reporting period to assist with cash flow
Pricing	<ul style="list-style-type: none"> ▪ Consider the effect HST will have on pricing ▪ Unlike the current regime where the Government of Ontario is GST exempt on its purchases, they will now be subject to HST
Procurement Policy	<ul style="list-style-type: none"> ▪ Consider leasing vs buying for large purchases before July 1, 2010 or delay large purchases until after July 1, 2010 ▪ Understand the effect of HST on major suppliers ▪ Consider buying PST exempt supplies and assets now, unless it will be used in offering exempt supplies

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.

Clarity Defined.

Ottawa (Moodie)

301 Moodie Drive
Suite 400
Ottawa, Ontario K2H 9C4
T: 613.820.8010 / F: 613.820.0465
E: ottawa@collinsbarrow.com

Ottawa (Queensview)

2725 Queensview Drive
Suite 500
Ottawa, Ontario K2B 0A1
T: 613.226.5661 / F: 613.226.3141
E: queensview@collinsbarrow.com

Manotick

1136 Clapp Lane
Box 291
Manotick, Ontario K4M 1A3
T: 613.692.2553 / F: 613.692.2995
E: manotick@collinsbarrow.com