

Harmonized Sales Tax Consumers

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 remove 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.

With the introduction of the HST, consumers will be faced with a broader tax base than what they were subject to with the PST. For example, currently most professional fees, personal care fees, and real property contracts are all subject to GST of 5% and are not subject to PST. These will now be taxed at the HST rate of 13%. A comparison chart is reproduced at the end of this document to assist in identifying products and services that are currently not taxable under PST, but will be under the HST.

To help consumers offset the additional cost of the HST, the Ontario government has announced several measures to assist Ontario residents. These include:

- A 1% cut to the personal income tax rate on the first \$36,848 of taxable income
- Introduction of an Ontario Sales Tax credit for low income taxpayers of up to \$260 per individual
- Point of Sales Rebates
- Sales Tax Transition payments

Ontario Sales Tax Credit

This new credit replaces the current sales tax credit and will be paid quarterly, starting in July 2010 to individuals with net income less than \$20,000 and families with net income of less than \$25,000. This new credit will be up to a maximum of \$260 per adult and child. For example, a single parent with one child making less than \$25,000 would receive \$520. This credit will be reduced by 4% of net income over the thresholds. It will be eliminated for single people with net income over \$26,500 and families with net income over \$31,500.

Point of sales rebates will be available on:

- 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

Transition Payments

One time transition payments totaling \$300 for single people and \$1,000 for families will be available to Ontario tax filers who are 18 and over. These payments will be made to single people with net income under \$80,000 and families with net income under \$160,000. This benefit will be reduced by 5% of income over the thresholds. The transition payments will be made as follows:

Payment Month	Single Individual		Families	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	\$100	\$80,000 to \$82,000	\$330	\$160,000 to \$166,000
December 2010	\$100	\$80,000 to \$82,000	\$335	\$160,000 to \$166,000
June 2011	\$100	\$80,000 to \$82,000	\$335	\$160,000 to \$166,000

Comparison Chart

Type of Good / Service	PST	HST	Effect
Admissions	Non-taxable	Taxable	Increased cost
Admissions under \$4	Exempt	Taxable	Increased cost
Advertising Services	Non-taxable	Taxable	Increased cost
Cleaning Services	Non-taxable	Taxable	Increased cost
Commercial Rent	Exempt	Taxable	Increased cost
Commissions	Non-taxable	Taxable	Increased cost
Custom Software	Exempt	Taxable	Increased cost
Dry Cleaning	Non-taxable	Taxable	Increased cost
Gas for Automobiles	Non-taxable	Taxable	Increased cost
Goods for Resale & Raw Materials	Exempt	Taxable	Increased cost
Basic Groceries	Exempt	Exempt	No change
Internet Access	Non-taxable	Taxable	Increased cost
Magazines (Conditions Apply)	Exempt	Taxable	Increased cost
Manufacturing Equipment	Exempt	Taxable	Increased cost
Membership Fees (Fitness, Golf, Etc.)	Non-taxable	Taxable	Increased cost
Mortgage Interest	Exempt	Exempt	No change
New Homes	Exempt	Taxable	Increased cost
Newspapers	Non-taxable	Taxable with POS* rebate	No change
Personal Services (Haircuts)	Non-taxable	Taxable	Increased cost
Prepared Food - restaurants	Taxable	Taxable	No change
Prepared Food - restaurants - under \$4	Exempt	Taxable with POS* rebate	No change
Professional Fees - legal, accounting, consulting	Non-taxable	Taxable	Increased cost
Real Property Contracts	Non-taxable	Taxable	Increased cost
Residential Rent	Exempt	Exempt	No change
Safety Clothing	Exempt	Taxable	Increased cost
Seminars / Conferences	Non-taxable	Taxable	Increased cost
Shoes under \$30	Exempt	Taxable	Increased cost
Soft Drinks and Snacks	Taxable	Taxable	No change
Taxi, Limousine	Non-taxable	Taxable	Increased cost
Telephone	Taxable	Taxable	No change
Utilities - gas, hydro, fuel, cable	Non-taxable	Taxable	Increased cost

*POS: Point of sale

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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.

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