

Harmonized Sales Tax Dentists

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.

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Since services offered by dentists are exempt under the GST regime, they will also be exempt for HST purposes. Because dentists offer exempt services and cannot claim ITCs, they will likely see an overall increase in costs. This increase is estimated to be between 1% and 2.5%.

Currently, dentists are charged 5% GST on items such as commercial rent, hydro, gas, accounting and legal fees. Under the HST regime, they will now be subject to the 13% HST on these items. Dentists may need to develop strategies to recover the excess costs incurred.

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 businesses that purchase goods or services that will not be used exclusively 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.

There are many other industry specific transitional rules that could apply to dentists, such as leases, magazine subscriptions, and memberships.

Key Transitional Dates

Certain businesses may need to self-assess the Ontario portion of HST on amounts paid or payable before May 2010 for goods or services provided on or after the implementation date of July 1, 2010

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

October 14, 2009

May 1, 2010

Implementation date

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

For businesses that claim ITCs and that are large businesses, with annual taxable sales in excess of \$10 million (for associated group), there will be a temporary restriction on the provincial portion of the ITC for the first 8 years for certain expenditures. 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 Dentists Should Consider in Transitioning Towards the HST

Prepare	<ul style="list-style-type: none"> ▪ Assign someone or a committee to learn about HST, including the transitional rules ▪ Prepare an estimate of increased costs to assist in proper budgeting and determination of cash flow needs, consider inputs which are currently only subject to GST such as hydro, gas, professional fees, rent, cleaning, etc. ▪ If exempt business or if business purchases goods not used in commercial activity: <ul style="list-style-type: none"> ➢ Will need to self-assess on prepayment of goods and services to be delivered after June 2010 ➢ Ensure that the Basic tax content balance of real property is tracked
Paper	<ul style="list-style-type: none"> ▪ 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 ▪ Determine the level of training required for management and staff, including self-assessment rules
Pricing	<ul style="list-style-type: none"> ▪ Determine whether current fees charged to patients could be increased
Procurement Policy	<ul style="list-style-type: none"> ▪ HST increases the cost of certain products – determine how this will impact your overall costs ▪ Consider purchasing PST exempt goods or services prior to July 2010, watch for self-assessment rules ▪ Understand the effect of HST on major suppliers

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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.

Clarity Defined.

Sudbury

1174 St. Jerome Street
Sudbury, Ontario P3A 2V9
T: 705.560.5592 / F: 705.560.8832
E: sudbury@collinsbarrow.com

Chelmsford

48 Main Street East
Chelmsford, Ontario P0M 1L0
T: 705.855.9024 / F: 705.855.3693
E: chelmsford@collinsbarrow.com

Sturgeon Falls

12006 Hwy 17 East
Unit # 7
Sturgeon Falls, Ontario P2B 3K8
T: 705.753.1830 / F: 705.753.2496
E: sturgeonfalls@collinsbarrow.com

North Bay

630 Cassells St.
North Bay, Ontario P1B 4A2
T: 705.494.9336 / F: 705.494.8783
E: northbay@collinsbarrow.com