

Harmonized Sales Tax

Retail and Taxable Service Providers

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.

Retailers are among those that will partially benefit from harmonization. Currently, retailers are charged the 5% GST and 8% PST (the 8% being non recoverable) for some costs incurred, such as capital expenditures, telecommunications, office supplies. Retailers will now be able to claim the full 13% HST they have paid as an ITC. This means a savings for retailers. The Purchase Exemption Certificate that is currently used when purchasing goods for resale will no longer be available. On the sales side, what the retailer or service provider will charge will depend on the type of goods and services sold. Since the HST mirrors the GST rules, the HST will apply to a broader range of services than was covered under the PST regime.

While the HST will follow the GST rules, the province of Ontario has identified some point-of-sale 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

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, 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.

Retailers should also be familiar with the transitional rules relating to return and exchange of goods between July 1, 2010 and October 31, 2010 where goods were purchased prior to the implementation date. The transitional rules deal with when the retailer will need to refund PST to the consumer or if HST will have to be charged.

It is important to note that there are other industry specific transitional rules that could apply to retailers such as freight transportation services, progress payments, and leases.

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

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 Retailers Should Consider in Transitioning Towards the HST

Prepare	<ul style="list-style-type: none"> ▪ Assign someone or a committee to learn about HST, the place of supply rules, the transitional rules and the new mandatory electronic filing requirements ▪ Prepare an estimate of 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 ▪ Determine if you are a large business, subject to the restrictions <ul style="list-style-type: none"> ➢ If so, accounting systems need to be able to track restricted ITCs (i.e. Fuel on fleet vehicles vs. heavy equipment vehicles)
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 allowance and benefits, ensure proper HST charged and ITCs claimed ▪ Review current contracts to ensure they consider HST and make revisions accordingly ▪ Modify any pre-printed price lists ▪ Final PST return due July 23, 2010 ▪ Purchase Exemption Certificate is eliminated, tax must be collected and/or paid
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 <ul style="list-style-type: none"> ➢ Knowledge of the point-of-sale exemptions ➢ Self-assessment rules (i.e. imports into the province) ➢ Return and exchange transitional rules ▪ Consider changing the HST reporting period to assist with cash flow, where eligible
Pricing	<ul style="list-style-type: none"> ▪ Consider the effect HST will have on pricing of goods in order to remain competitive ▪ Consider effect on timing of sales in the current year ▪ 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

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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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