

HST in Ontario

ANDREWS & CO CHARTERED ACCOUNTANTS
Independent Member of Porter Hétu International



Porter Hétu International

General

- ❑ Ontario portion known as Ontario Value Added Tax (OVAT)
 - ❑ Will generally follow GST rules with some exceptions (discussed later)
 - ❑ GST filing form to be longer (4 pages)
 - ❑ Full implementation on July 1, 2010
 - ❑ PST phased out by November 1, 2010
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Important Dates

- October 14, 2009
 - if supply paid or payable before this date no HST applies even if service after June 30, 2010
 - Non-consumers (businesses and public service bodies – must self-assess OVAT on payments between October 14, 2009 and May 1, 2010 which relate to goods/services received after June 30, 2010
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Important Dates – cont'd

□ May 1, 2010

- HST will apply to a supply paid or payable after this date on supply received after June 30, 2010
 - Already seen with annual membership dues, fitness memberships etc. that cross over the July 1, 2010 implementation date
 - HST will only apply to portion that relates to period after June 30, 2010
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Important Dates – cont'd

- July 1, 2010
 - Full implementation of HST
 - All taxable supplies made on or after this date subject to HST

 - November 1, 2010
 - OVAT will apply to pre-May 2010 supplies for which payment was neither due nor paid
 - PST wind-down completed
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HST - exemptions

- Basic groceries
 - Prescription drugs
 - Certain medical devices
 - Child care
 - Residential rents
 - Public Transit (municipal) & Go Transit
 - Most health and education services, tutoring and music lessons
 - Legal aid
 - Most financial services
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Items exempt from OVAT portion of HST

- Prepared food < \$4.00
 - Print newspapers
 - Children's clothing and footwear
 - Children's car/booster seats
 - Diapers
 - Feminine hygiene products
 - Books (including audio books)
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Items subject to HST

Change in Taxable Status

- Electricity & heating fuels
 - Gasoline
 - Internet Access Fees
 - Personal Services (e.g., Hairstyling, home r & m)
 - Professional Services (e.g., Legal, Accounting and Real Estate Fees and Commissions)
 - Taxis
 - Tobacco
 - Beer and liquor – PST at 10% now only 8% with HST so expect cheaper alcohol?
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Change in Taxable Status cont'd

- No. Other fees restructured so no change in overall cost to consumer
 - Campsites
 - Domestic air, rail and bus travel originating in Ontario
 - Magazine subscriptions
 - Massage therapy
 - Vitamins
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Other items

- RST still applicable to sale of motor vehicles – goes from 8% to 13%
 - RST still applicable to home insurance premiums – no change
 - Hotel rooms increase from 5% to 8% for OVAT – extra 3% to go to destination marketing efforts
 - These taxes will remain unrecoverable
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Transition Rules

- HST does not apply if supply is 90% or more complete before July 1, 2010
 - Many contracts will cover periods both before and after changeover.
 - Must apply HST only to periods where supply made after July 1, 2010
 - Will require many of these contracts to be adjusted to factor in the HST
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Transition Rules

□ Example:

You purchase a seasonal yard maintenance contract where 50% of the service falls before July 1 and 50% after. HST applies to the 50% that occurs after June 30, 2010

Transition Rules

- Self-assessment rules for supplies purchased after Oct 14, 2009 but before May 1, 2010 for supply performed after June 30, 2010
 - For OVAT portion of HST
 - Applies to businesses and public sector bodies
 - For supplies consumed other than exclusively for commercial activities (e.g. GST/HST exempt sales)
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Transition Rules

- Self-assessment rules cont'd
 - For supplies acquired where the ITC is restricted
 - e.g. meals at 50%
 - If use the quick method to calculate GST
 - Financial institutions who use a special attribution method to determine tax
 - Must account for the tax in the GST/HST return that includes July 1, 2010 if the due date is before November 2010 or in any other case in prescribed form and before November 2010
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Transition Rules

□ Prepaid Funeral Services

- HST will not apply if arrangement in writing entered into before July 2010 regardless of when service to be provided
 - Must be expected that all or part of the fee for the service would be paid before the service was performed
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Transition Rules

- Passenger/Freight Transportation Service
 - No HST if 'continuous' trip starts before July 1, 2010 but ends after July 1, 2010
 - E.g. – fly to Ottawa from Toronto on June 30, 2010 and return to Toronto on July 2, 2010 (round trip ticket paid for)
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Transition Rules

□ Leases and Licenses

- HST applies to commercial rent and car lease payments etc. except
 - If lease payment starts before July 1, 2010 and ends before July 31, 2010
 - E.g. – car lease payment for June 15-July 14 would not have HST apply
 - Commercial parking passes must charge HST for service provided after June 30, 2010
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Transition Rules

- Intangible Property (patents, licences)
 - HST applies if consideration due or is paid even if not due after June 30, 2010
 - E.g. -
 - If pay in June 2010 then no HST regardless of when used
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Transition Rules

□ Admissions

- HST applies to tickets purchased for any event that occurs after June 30, 2010 regardless of when the ticket was purchased (except if before October 14, 2009)
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Transition Rules

- Passenger Transportation Passes
 - HST applies if purchased after October 14, 2009 for service after June 30, 2010
 - HST does not apply if the pass period begins before July 2010 and ends before August 2010
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Transition Rules

- Continuous Supplies (utilities)
 - HST applies on supply after June 30, 2010
 - If meter not read and bill goes from June 16 – July 15 then HST applies to 50% of bill.
 - Equal billing plans – supplier would adjust at time of reconciliation to account for difference in OVAT portion charged to amount paid. Customer to be refunded if over-charged on OVAT portion.
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Transition Rules

□ Combined supplies

- Where two or more items combined but one of them is not subject to HST then deemed to be a separate supply for transition rules
 - E.g. a contractor agrees to supply and install a dishwasher in a restaurant. Dishwasher is delivered in June 2010 but not installed until July 2010. No HST on purchase of dishwasher but HST would apply to installation of the dishwasher.
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Transition Rules

□ Progress Payments

- HST applies if attributable to supply after June 30, 2010
 - For long-term projects – if 90% or more complete before June 2010 but payments not due until July 31, 2010 then HST would apply on any portion of payment that relates to work done after June 30, 2010.
 - Holdbacks considered part of progress payment from which held back so same rules apply to holdback as to progress payment even if paid after June 30, 2010.
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Transition Rules

- Property/services brought into Ontario
 - HST would apply to goods, mobile homes not affixed to land and floating homes brought in after June 30, 2010.
 - HST applies if supplied in a non-participating province to a resident of Ontario
 - OVAT does not apply for supplies brought into Ontario if acquired by GST/HST registrant for use exclusively in course of commercial activities
 - If liable for OVAT then must self-assess the tax
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Transition Rules

□ Imported goods

- OVAT will apply to non-commercial goods after June 30, 2010
 - OVAT will apply to motor vehicles brought into Ontario
 - Does not apply to GST/HST registrant for use exclusively in commercial activity
 - If liable to pay OVAT portion must self-assess the tax
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Transition Rules

□ PST wind-down:

- All PST will be deemed to be payable as of October 31, 2010 even if your reporting period normally extends beyond this time and you do not receive payment until after October 31, 2010.
 - Special filing forms will be distributed to PST registrants due on November 23, 2010
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Transition rules

Returns & Exchanges

- For purchases before July 2010 & subject to RST but returned after July 1, 2010 but before November 2010.
 - If full refund – RST refunded
 - If full exchange – no RST refund no OVAT
 - Exchange/Partial refund – no OVAT on new property and partial RST refund on amount refunded
 - Exchange/more owing – no RST applies but HST applies to additional payment
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New Homes

- Rebate available up to \$24,000 (cost of home up to \$400,000) on qualified housing (There is a 2% embedded PST on housing that remains under the HST)
 - Qualified housing:
 - Substantially renovated, co-ops, owner-built, on leased land, mobile homes and modular homes
 - Buyers of new residential rental properties will receive similar rebate
 - HST does not apply to resale homes
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New Homes

- Rebate will follow GST rules – homeowner can either sign over to builder and receive credit as a reduction in price paid or apply directly to CRA to get HST credit
 - HST applies where both ownership and possession of the home are transferred after June 30, 2010
 - HST does not apply to new home sale where contract entered into before June 18, 2009 even if ownership/possession not transferred until after June 30, 2010 –transitional tax applies however depending on level of completion of home on July 1, 2010
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HST and Farms

- Expect that farmers will save \$30MM on recovery of OVAT portion of HST that was not recoverable previously
 - No tax paid on (no change from prior):
 - Feed
 - Seed
 - Fertilizer & pesticides
 - Farm equipment & machinery
 - Grain bins and dryers
 - Livestock & quotas
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HST and Farms

- New ITCs for farmers under HST:
 - Trucks, light vans and parts
 - Furniture
 - Lawnmowers
 - Computers
 - Freezers and other equipment
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Effect on Business

No HST:

	Total	GST	PST
Sales	\$10,000	\$500	\$800
Expenses	<u>\$ 5,000</u>	<u>\$250</u>	<u>\$400</u>
ITCs		<u>(\$250)</u>	<u>0</u>
Net Tax on purchases		0	\$400

Effect on Business

□ HST applies:

	Total	GST	PST
Sales	\$10,000	\$500	\$800
Expenses	<u>\$ 5,000</u>	<u>\$250</u>	<u>\$400</u>
ITCs		<u>(\$250)</u>	<u>(\$400)</u>
Net tax on purchases		0	0

Charities and Non-Profit

- Rebate on OVAT differs from GST:
- Rebate rates on OVAT & GST

	OVAT	GST
■ Charities	- 82%	50%
■ Municipalities	- 78%	100%
■ Universities/Colleges	- 78%	67%
■ School Boards	- 92%	68%
■ Hospitals	- 87%	83%

Effect on Individuals

- Many goods & services will now cost 8% more (per Province, applies to only 17% of goods and services provided)
 - Accounting, legal, landscaping, real estate, hair salons
 - Utilities
 - Fuel for vehicles
 - Veterinary services & prescriptions
 - Postage
 - New homes over \$400,000
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Effect on Individuals

□ Tax savings to offset HST:

- Personal tax cut of 1% on first \$37,000 of income -provides tax savings of \$370
 - Ontario Sales Tax Credit for lower income taxpayers – now \$260 from \$100
 - Ontario Property Tax Credit increase
 - Non-seniors - \$900 from \$250 currently
 - Seniors - \$1,025 from \$625 currently
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Effect on Individuals

- Giving \$300 to single individuals (less than \$80,000 in income) and \$1,000 to couples (less than \$160,000 in combined income) to help offset extra cost HST will bring about to consumers
 - For individuals, credits are reduced by 5% of income over thresholds – completely eliminated at \$82,000 for singles and \$166,700 for couples
 - Paid June & December 2010 and June 2011
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Effect on Business

- Credit of \$1,000 available to eligible businesses
 - Definition of eligible business:
 - Less than \$2 million in sales annually
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Effect on business cont'd

□ OVAT credit mechanism:

- For quarters beginning after July 1, 2010

<u>Taxable Sales/quarter</u>	<u>Credit</u>
<\$15,000	\$300
>\$15,000; <\$50,000	2% x revenue
>\$50,000; <\$500,000	\$1,000

Effect on business cont'd

- Vendor compensation (5% of taxable sales) under old PST rules ceases after March 2010 filing
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ITC restrictions

- ❑ For 'large' businesses with sales >\$10MM annually and certain financial institutions
 - ❑ Restricted input credits are 100% recaptured from July 1, 2010 – June 30, 2015 (5 years)
 - ❑ They are then claimable at:
 - ❑ 25% for July 1, 2015 – June 30, 2016
 - ❑ 50% for July 1, 2016 – June 30, 2017
 - ❑ 75% for July 1, 2017 – June 30, 2018
 - ❑ no restrictions after July 1, 2018
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ITC restrictions

□ Financial institutions:

- Banks
 - Trusts
 - Credit Unions
 - Insurance companies
 - Segregated funds of insurers
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ITC restrictions

- Does not apply to:
 - Public Service Bodies
 - Farms
 - Even if sales >\$10MM
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ITC restrictions

- Does apply:
 - Even if entity does not have a permanent establishment in Ontario
 - Partnerships
 - Joint Ventures

 - Must include all sales to determine size even if not taxable supply
 - Must include sales of associated entities (as determined by the Excise Tax Act)
 - \$10MM threshold pro-rated for 'short-years'
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ITC restrictions

- ❑ If only hit \$10MM in sales during recapture period then must start restricting ITCs starting with the next recapture period.
 - ❑ If were a 'large' business in prior period but fall below \$10MM in sales then still deemed 'large' until end of the recapture period that fiscal year end falls in.
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ITC restrictions

- For supplies acquired or brought into Ontario by 'large' businesses for consumption or use by that business in Ontario.
 - If for consumption or use outside of Ontario then ITCs not restricted
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ITC restrictions

- Restricted supplies:
 - Road vehicles (under 3000 kg)
 - Parts and services (within 12 months of purchase)
 - Fuel (not diesel however)
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ITC restrictions

- Energy – electricity, gas, fuel, steam
 - Does not apply if used directly in production of goods for sale
 - Can use production proxy to estimate based on NAICS code
 - No restriction if energy used for SR&ED projects –must track use or use proportion of SR&ED wages to total wages in Ontario to estimate percentage use for SR&ED
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ITC restrictions

- Telecommunication services
 - There are special rules if parts of bill not subject to restrictions to calculate restricted ITCs (e.g. equipment rental)
 - Meals and entertainment
 - Business dinners
 - Tickets – shows, concerts, sports
 - Private boxes at sports facilities
 - Admissions to clubs – fitness, social etc.
 - Does not apply to staff parties, taxable benefits
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ITC restrictions

- ❑ \$10MM sales threshold is low so will affect many businesses
 - ❑ Tracking of ITCs will be extremely complicated for many manufacturing industries
 - ❑ Significant changes to reporting/accounting systems required to track these ITCs
 - ❑ Will apply for the next eight years.
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Websites

- ❑ www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf
 - ❑ <http://www.cra-arc.gc.ca/gncy/hrmnztn/on/menu-eng.html>
 - ❑ <http://www.fin.gc.ca/n10/10-037-eng.asp>
 - ❑ <http://www.cra-arc.gc.ca/nwsrm/rlss/2010/m01/nr100104-eng.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/taxable.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/faq.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/business.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/consumers.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/farmers.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/homebuyers.html>
 - ❑ <http://www.rev.gov.on.ca/en/taxchange/publicservicebodies.html>
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- ❑ Thank you.
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