

Ontario Harmonized Sales Tax Business Issues and Opportunities

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January 21, 2010

Indirect Tax

Ontario HST – General overview

- Effective July 1, 2010
- 13% proposed Harmonized Sales Tax (HST)
 - 5% federal component and 8% provincial component
- Generally, same rules and tax base as GST

HST will not be charged on:

Basic groceries

Prescription drugs

Residential rent

Most educational programs

Condo fees

Certain medical devices

Childcare

Municipal public transit

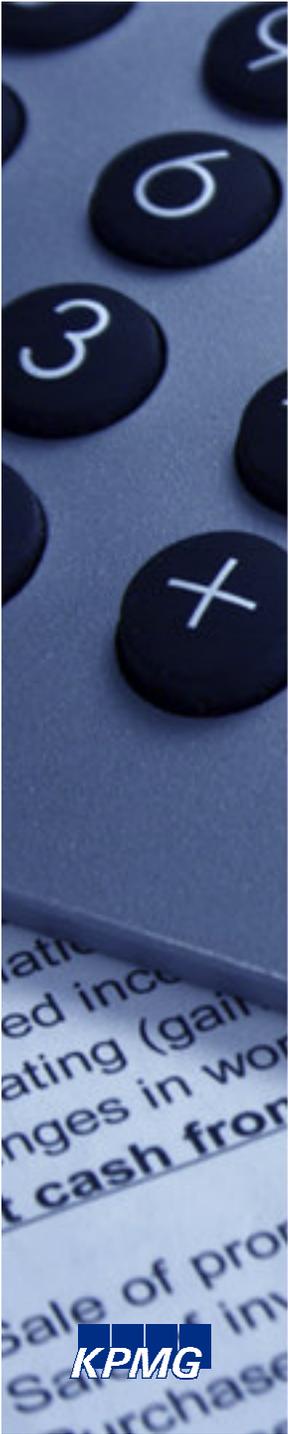
Most financial services

Most healthcare services

Ontario HST – General Overview

- Some differences with GST

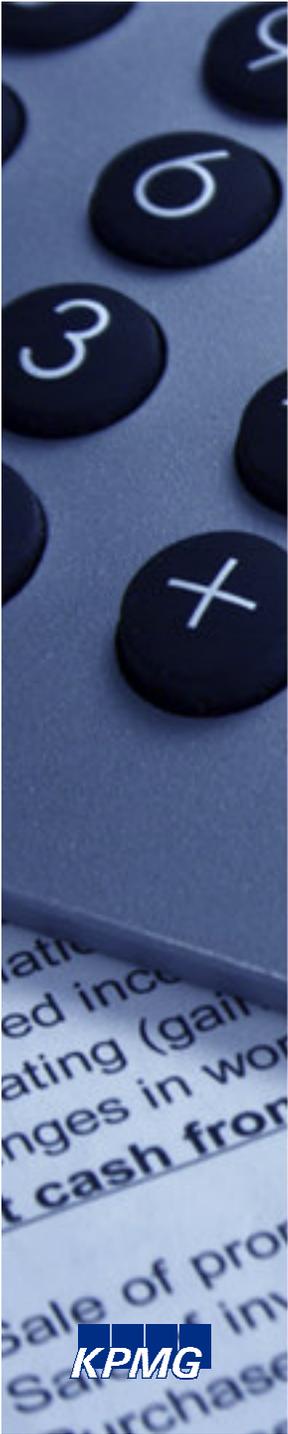
Ontario HST Model	Issues
Point-of-sale rebates	These rebates will extend to purchases by businesses and public sector bodies.
MUSH partial rebates - Different rates	How to track and claim will add administrative complexity!
New ITC restrictions for Large Businesses	PSBs and farming businesses not subject to these restrictions.
New housing rebates	Different thresholds create pricing challenges for new housing construction.



Ontario HST

Consequential Sales Tax Changes

- 10% and 12% tax on alcohol will fall to 8% (provincial component of HST); Ontario will adjust alcohol fees, levies and charges
- Provincial portion of hotel room tax will be 8% (currently 5%)
- Fuel (gasoline/diesel), heat and hydro will increase by 8%
- Insurance is normally exempt of GST and subject to ORST; Ontario will continue to tax insurance at 8% after June 30, 2010
- Private sales of motor vehicles will be subject to 13% HST
 - Transfers between family members, including siblings will remain exempt
 - Also applies to private sales of trailers and boats
- Ontario government will pay HST on its purchases and claim a rebate from CRA

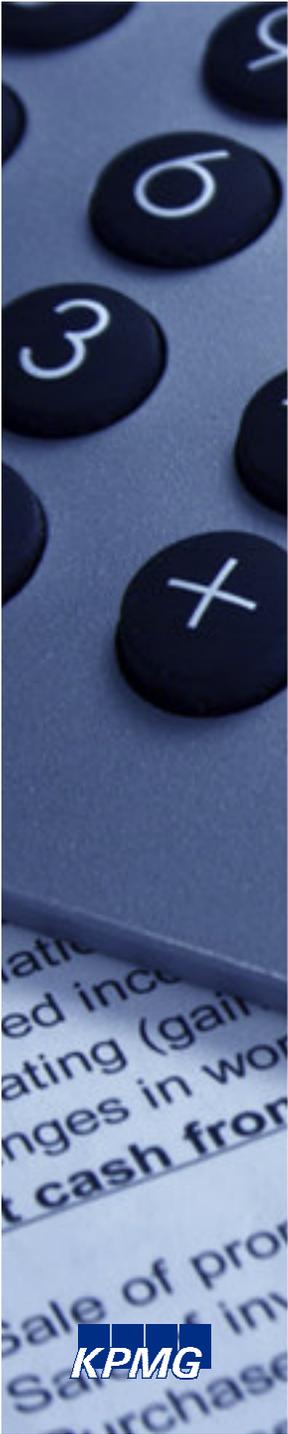


Ontario HST

Impact on businesses

- Overall Impact of Tax Reform
 - Increased capital investment of 20% or \$47 billion
 - Increased annual incomes of up to 8.8% or \$29.4 billion
 - Estimated 591,000 new jobs
- Impact of Harmonization
 - Roughly 1/3 of provincial retail sales taxes apply to business purchases of intermediate and capital goods
 - ITCs will give reduction of sales tax on capital purchases estimated at
 - Machinery = 3.9% to 0.2%
 - Structures = 3.8% to 0%

Source: Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth", The School of Public Policy (November 2009)



Ontario HST

Impact on all businesses / organizations

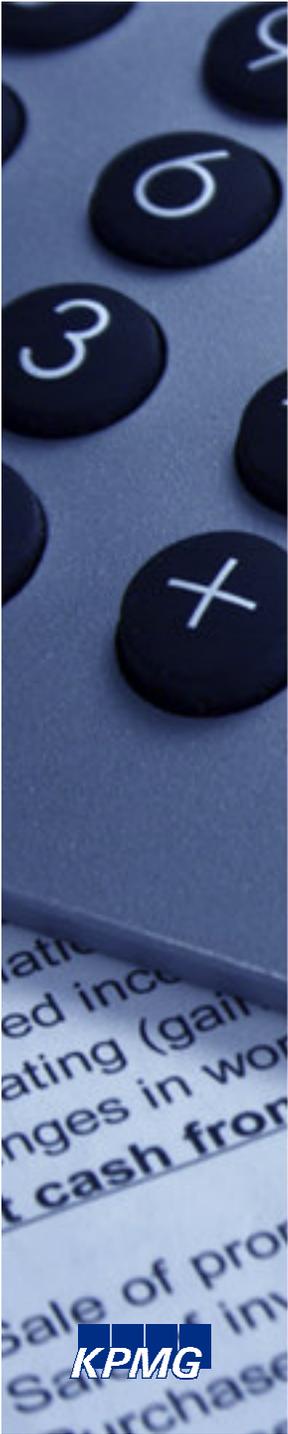
- Generally reduced costs for businesses given no more unrecoverable PST:
 - Construction
 - Transportation
 - Manufacturing
 - Resources (forestry, mining, oil and gas)
- Rebates generally result in neutral impact for
 - NPOs & charities
 - MUSH
- Reduced compliance:
 - No exemption certificates
 - No dealing with PST complexities
 - Scope of exemptions
 - Goods for own use
 - Self-assessment
 - One return and one audit

Ontario HST

MUSH and public sector

- Partial rebates of 8% provincial component

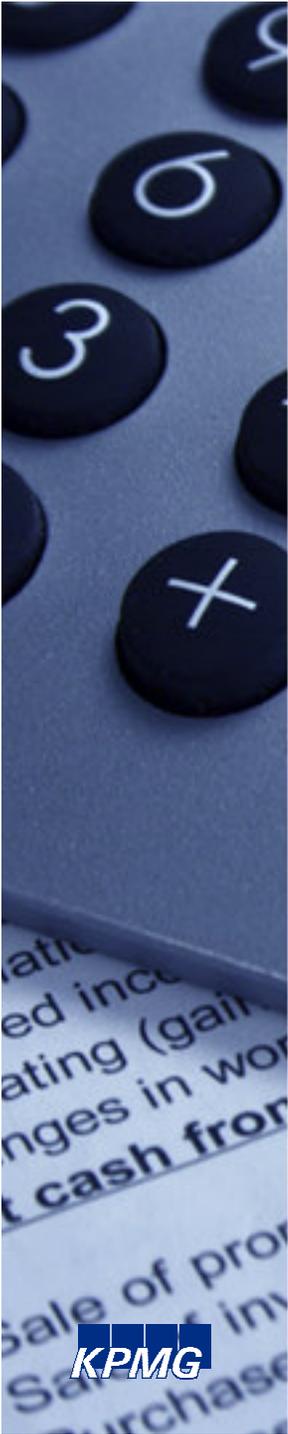
Entities	Rebates for 8% provincial component	Rebates for 5% federal component
Municipalities	78%	100%
Universities and Colleges	78%	67%
Schools	93%	68%
Hospitals	87%	83%
Charities and Qualifying NPOs	82%	50%



Ontario HST

Advantages – MUSH, Charities and NPOs

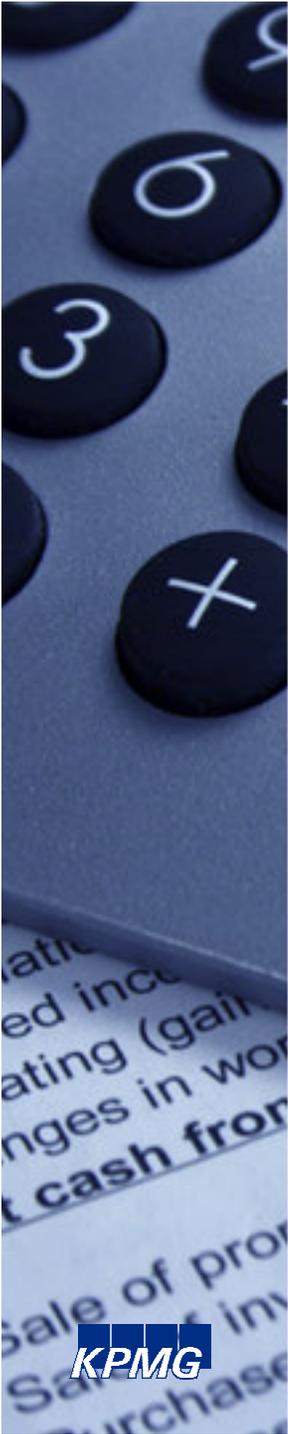
- Benefits (savings):
 - Computer hardware and software
 - Telecommunications (unless subject to potential ITC restrictions)
 - Most purchases of furnishings and equipment
 - e.g. administration, food services
 - Office supplies
 - New construction



Ontario HST

Disadvantages – MUSH, Charities and NPOs

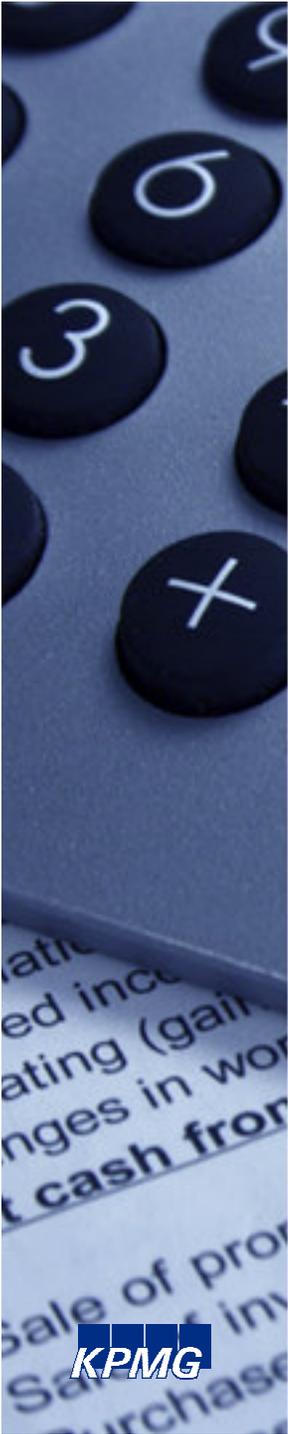
- Lost exemptions:
 - Charities (non-government) planning new construction or renovations
 - Land acquisitions not used in commercial activities
 - Hospital purchases of patient care items, diagnostic equipment
 - Research equipment used by hospitals and universities
 - Firefighting equipment
 - Consulting fees
 - Other healthcare related providers (e.g., for profit long-term care, medical labs, private hospitals, physicians, dentists)



Ontario HST

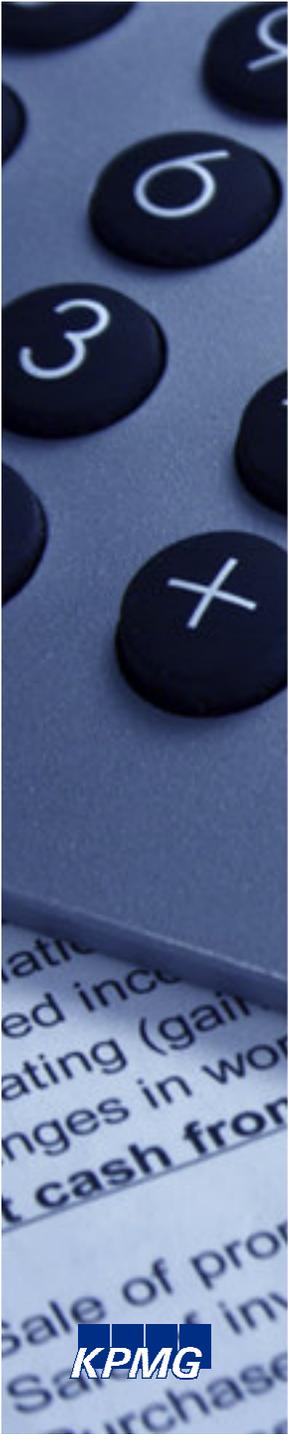
Large Business ITC restrictions

- “Large Businesses” subject to new ITC restrictions for 8% provincial component on:
 - Energy, exception for farms or used to produce TPP for sale
 - Telecommunication services other than internet or toll-free numbers
 - Vehicles (less than 3,000 kg), parts, certain services, fuel to power
 - Food, beverages, entertainment
- “Large Businesses” – Annual taxable sales exceeding \$10M
- Full restrictions for first 5 years, phased out over subsequent 3 years
- Issues:
 - Any factor method allowed (e.g., Quebec 4.1% factor for expense reports)?
 - Track federal and provincial components separately (for ITC restrictions)
 - Public Sector Bodies are not to be affected by these rules



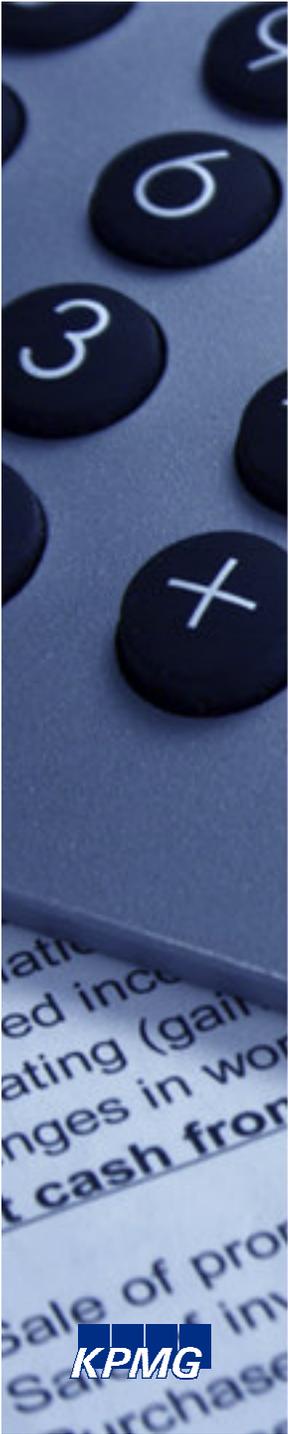
Ontario HST and Manufacturers

- Removal of purchase exemption certification
 - i.e., PEC
- Elimination of PST self-assessment requirements for imports for own use
- Cash flow
- Increased rate and place of supply
- Restricted ITCs – Energy



Ontario HST and Retailers

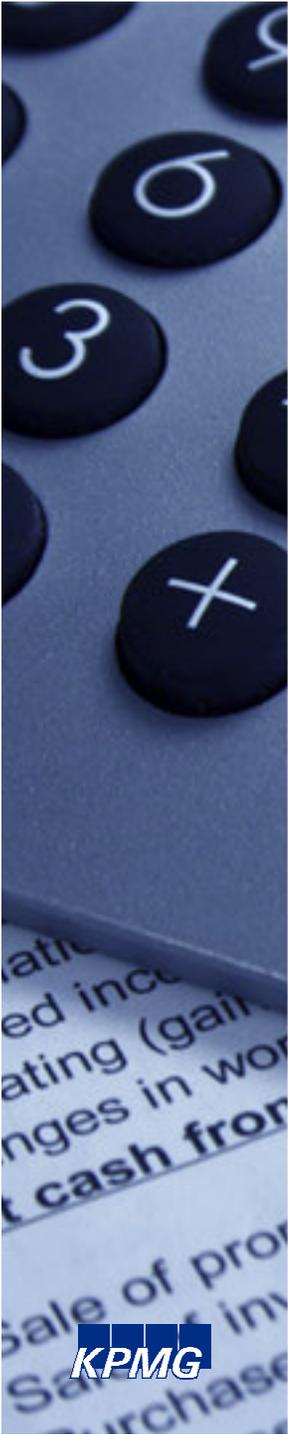
- Rate change on systems
- Product review should be performed pre-implementation to ensure tax is correctly coded
 - Errors could be costly
- POS rebates
- Cash flow
- Returns and bad debts
- Points and coupons
- Dealing with customers
 - Training cashiers to handle customer complaints relating to changes in tax status



Ontario HST and Retailers

Changes in tax status and rebates

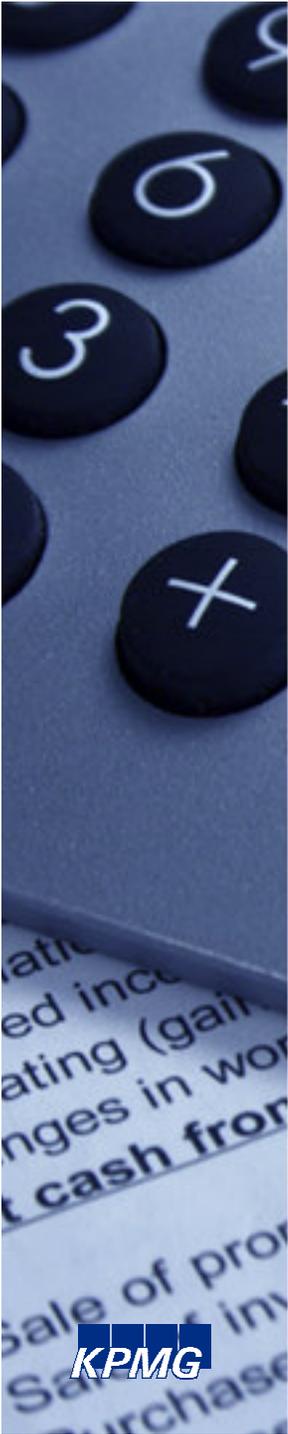
- Retail products currently PST-exempt may be zero-rated (taxed at 0%) or rebated under the HST:
 - Basic groceries
 - Books and newspapers
 - Children's clothing and footwear
 - Children's car seats and car booster seats
 - Diapers and feminine hygiene products
 - Prepared food sold for \$4 or less
 - Prescription drugs
 - Medical devices



Ontario HST and Retailers

Technical and compliance issues

- Cash flow consideration for purchases currently PST exempt that will be subject to 13% HST
 - Inventory
 - Real property leases
 - Purchase of real property
 - Repairs to real property
 - Signs
 - Custom software
- Point-of-sale considerations
 - Returned goods straddling implementation date (with or without receipt)
 - Reimbursable coupons



Ontario HST and Suppliers of Services/Intangibles

- Place of supply and potential conflicts
- Increased rate
- Tax-included contracts
- Tax clauses
- Cost increases for GST-exempt services
- Restricted ITCs - Telecommunications

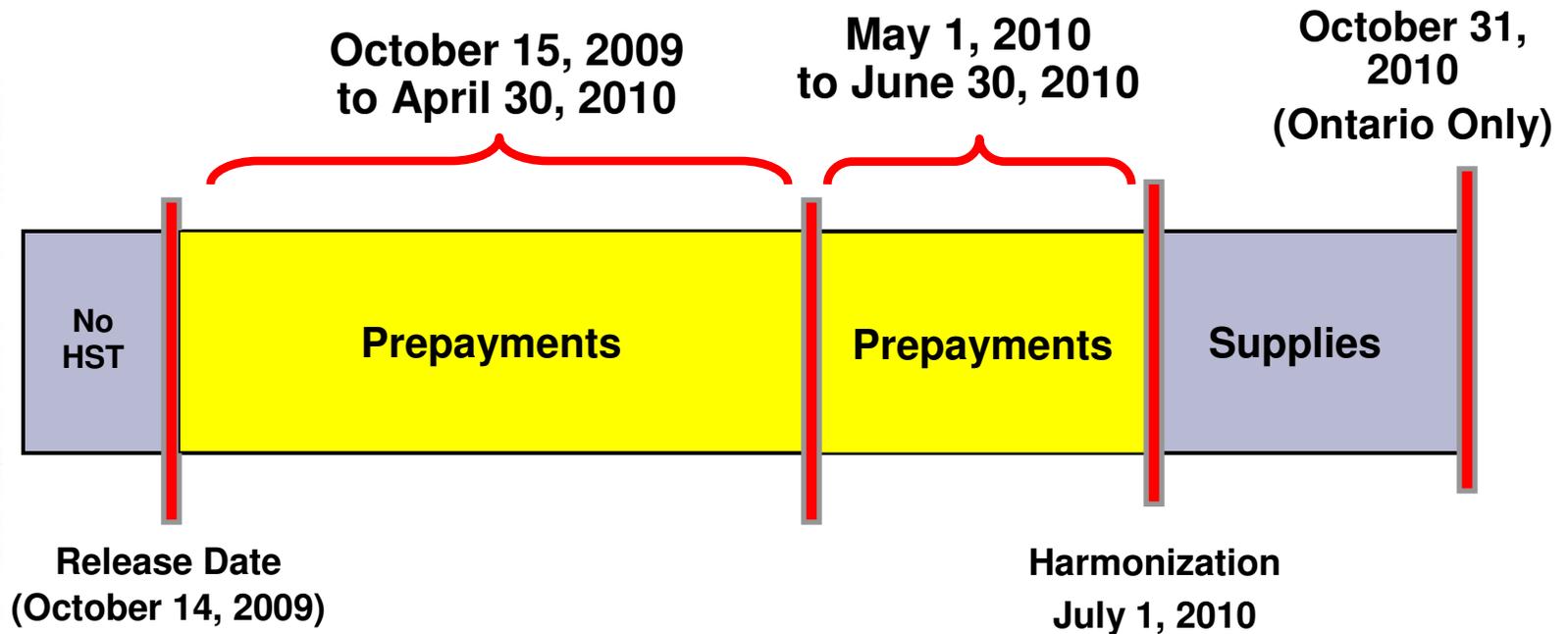
Ontario HST

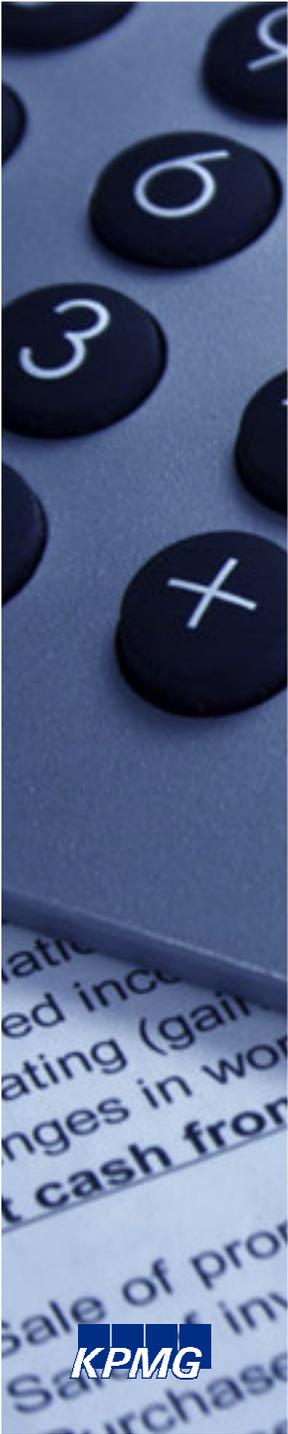
Important Transition Dates

Announcement of signed Memoranda	March 26, 2009 (Ontario budget)
Announcement date	October 14, 2009
Implementation date	July 1, 2010
Prepayments	May 1, 2010
PST Wind Down	November 1, 2010

Ontario HST – Transitional Rules Timeline

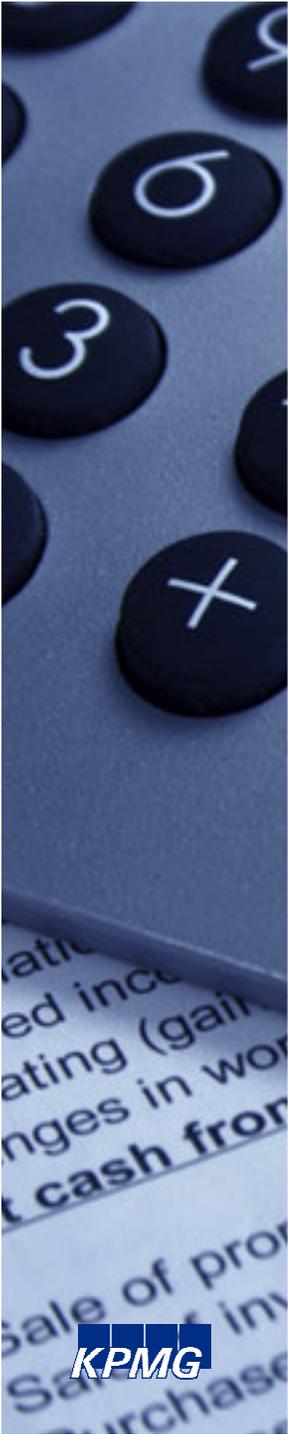
- General timeline of the HST transitional rules and the PST wind-down rules





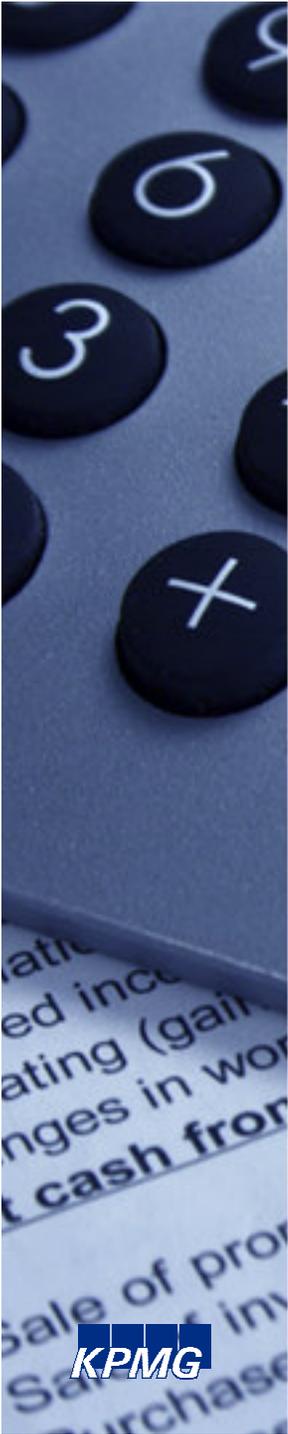
Ontario HST – Transitional Rules

- General rules
 - Apply HST if consideration payable on or after July 1, 2010
 - No HST charged by vendor if invoiced and paid on or before October 14, 2009 even if supply occurs after June 2010
 - Self-assessment may be required
 - HST will be charged on most prepayments made between May 1, 2010 and June 30, 2010 where goods and/or services rendered July 1, 2010 or later
 - Example: Invoice for new network server dated and paid May 18, 2010 but ownership and possession after June 2010 - HST will be charged
- Specific rules for
 - TPP returned after June 30, 2010
 - Intangible personal property
 - Subscriptions
 - Funeral services
 - Transportation



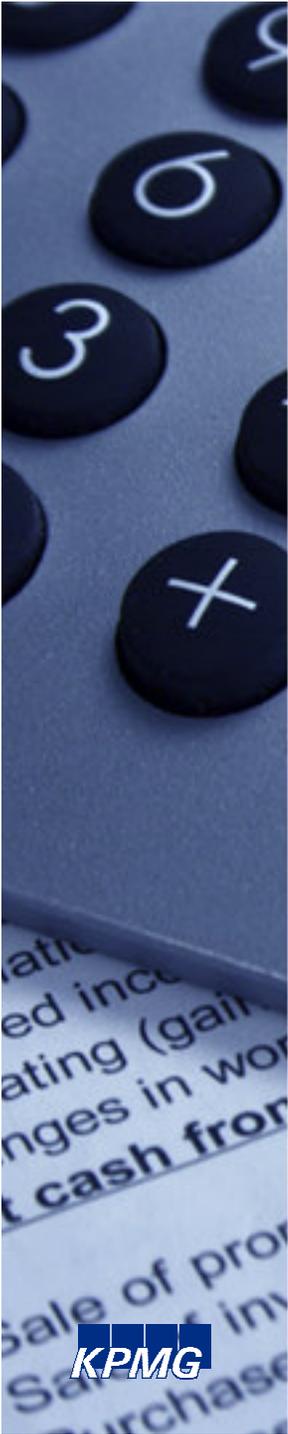
Ontario HST – Transitional Rules

- Tangible personal property (Goods)
 - HST applies where goods are delivered and ownership of the goods is transferred on or after July 1, 2010
 - Vendor collects HST starting May 1, 2010 for the sale of goods that will be delivered on or after July 1, 2010
 - Vendor not required to collect HST on amounts paid or due after October 14, 2009 and before May 1, 2010 even if goods are delivered on or after July 1, 2010
- Self-assessment may be required for
 - Goods / TPP received after July 1, 2010
 - Paid between October 15, 2009 and April 30, 2010 inclusive



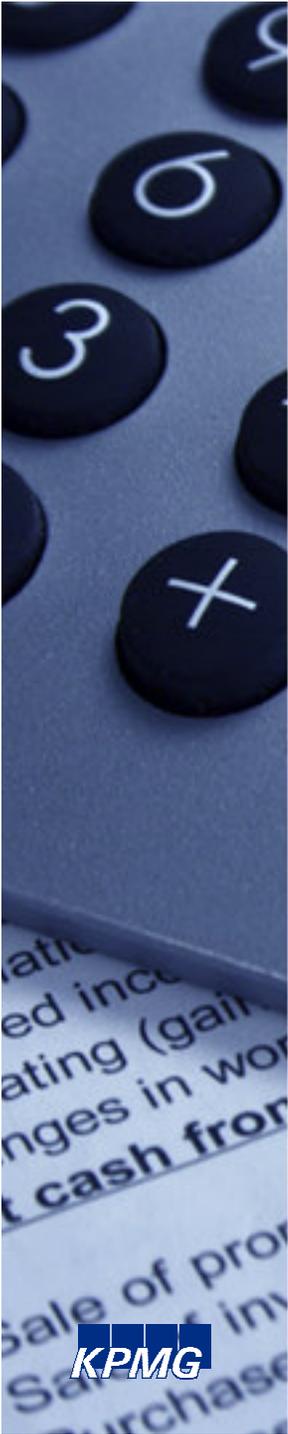
Ontario HST – Transitional Rules

- Intangible personal property
 - Includes sales of
 - Intellectual property
 - Contractual rights
 - HST applies where consideration is due or paid on or after July 1, 2010
 - Example
 - Lump sum payment to acquire software rights



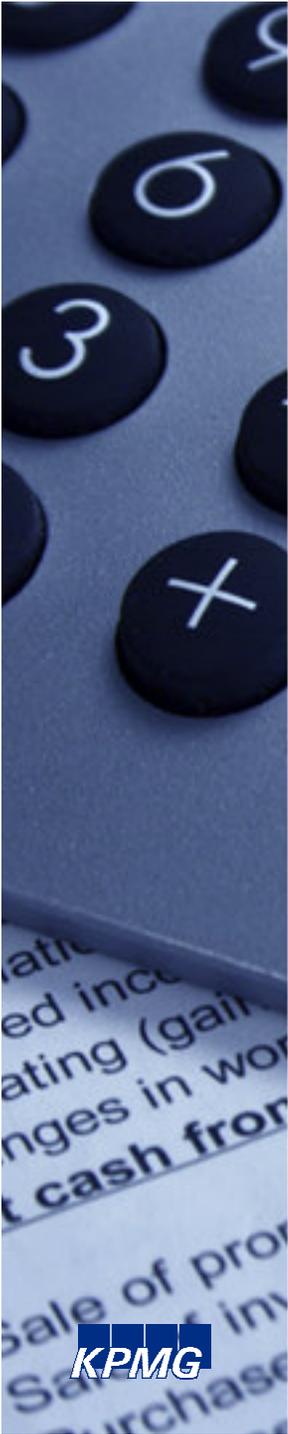
Ontario HST – Transitional Rules

- Services
 - Also includes
 - Memberships
 - Admissions
 - HST applies where service performed on or after July 1, 2010
 - Pro-ration required where service
 - Begins before July 1, 2010 and completed after June 30, 2010
 - No HST charged where service is
 - Invoiced after October 14, 2009 and before May 1, 2010
 - Self-assessment may be required



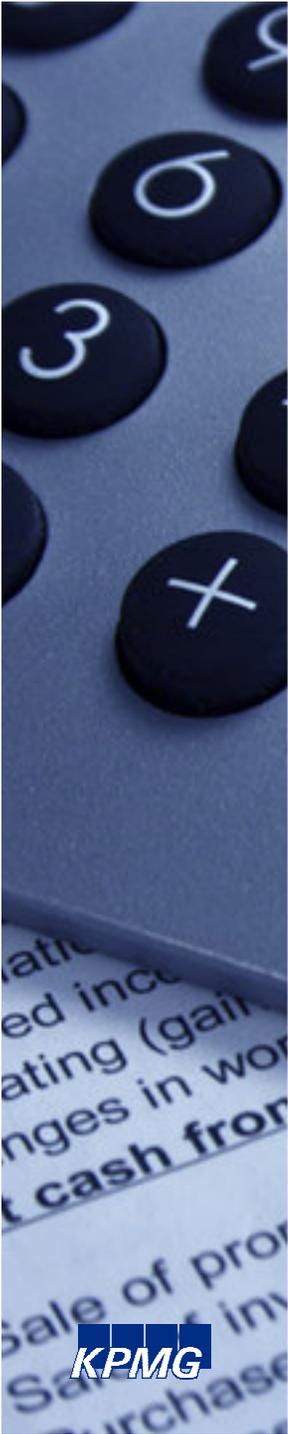
Ontario HST – Transitional Rules

- Self-assessment
 - Self-assess HST if
 - consideration payable after October 14, 2009 and
 - before May 1, 2010 and
 - goods or services delivered on or after July 1, 2010
 - No self-assessment if
 - purchaser is a consumer; or
 - purchaser is a business entitled to a full input tax credit
 - Examples where self-assessment may be required:
 - physicians, insurance brokers or similar exempt business pre-paying for equipment delivered on or after July 1, 2010
 - businesses subject to input tax credit restriction such as prepayment for electricity or passenger vehicle
 - small businesses using simplified accounting for GST/HST



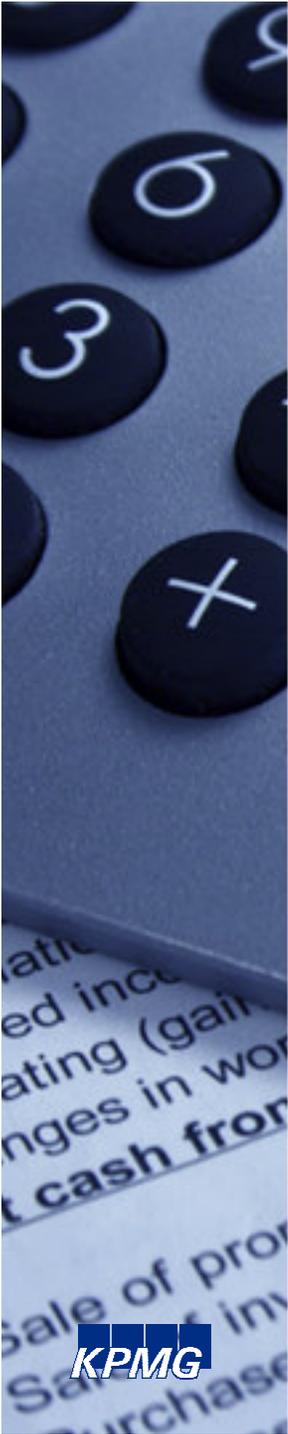
Ontario HST – Transitional Rules

- PST Wind down
 - Apply PST where the sale of taxable goods delivered before or services rendered prior to July 1, 2010
 - PST will also apply where
 - sale invoiced before October 15, 2009, and
 - ORST taxable goods delivered or services rendered after June 30, 2010
 - If the sale is not invoiced before November 1, 2010
 - PST deemed collected on October 31, 2010
 - PST remitted on final ORST return (November 23, 2010)



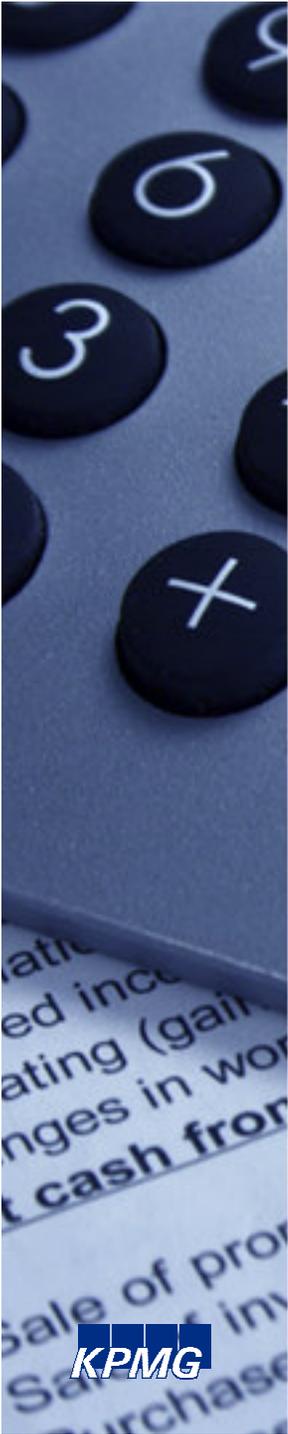
Ontario HST – Transitional Rules

- Returns and exchanges
 - Where goods were subject to PST
 - full or partial refund PST where refund issued before November 1, 2010
 - no PST or HST if goods simply exchanged and no price adjustment occurs
 - if goods exchanged but customer pays an additional amount, HST applies to the extra charge
 - if refund occurs after October 31, 2010
 - no PST refund but customer may apply to the Ministry for refund of PST paid in error
 - Where goods were not subject to PST
 - HST must be collected if replacement property is subject to HST
 - e.g. Energy Star appliance or production equipment



Ontario HST – Transitional Rules Summary

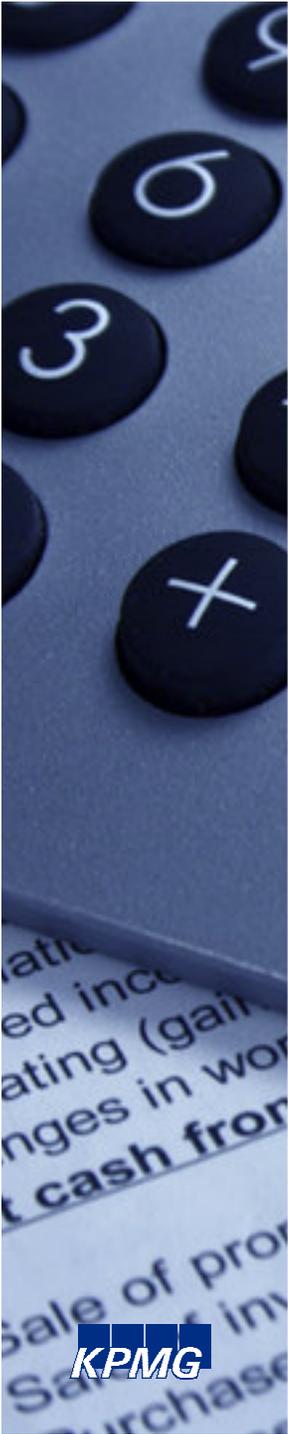
- Is system prepared to start charging/paying proper amount of tax on May 1, 2010 taking into account:
 - Nature of supply
 - Place of supply
 - Transitional rules
 - Point of sale rebates
- Do your contracts/agreements allow for flexibility on tax rates?
- Can invoicing/payables system deal with GST, HST and PST?
- Is the system taking into account self-assessments?
- Has PST been overpaid and rebates of PST paid in error available - prepayments?



Ontario HST

Place of supply

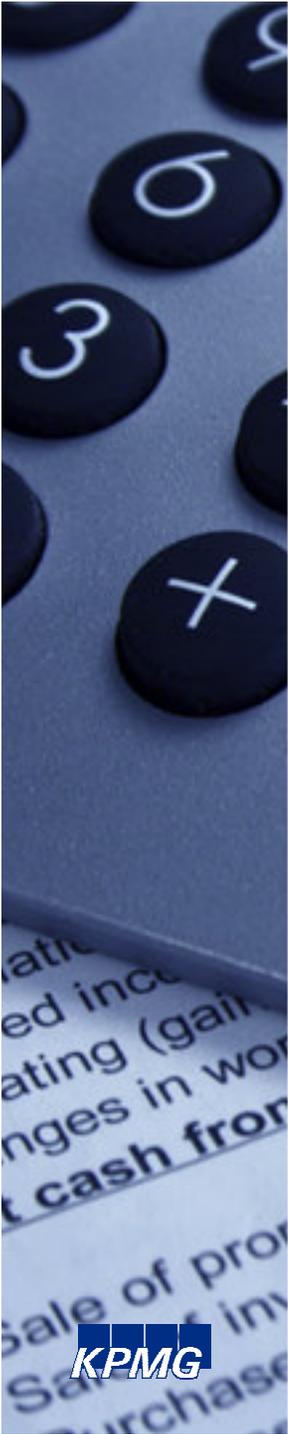
- Tangible personal property
- Intangible personal property
- Real property
- Services
- Transportation services
- Postage
- Telecommunications
- Deemed and prescribed supplies



Ontario HST

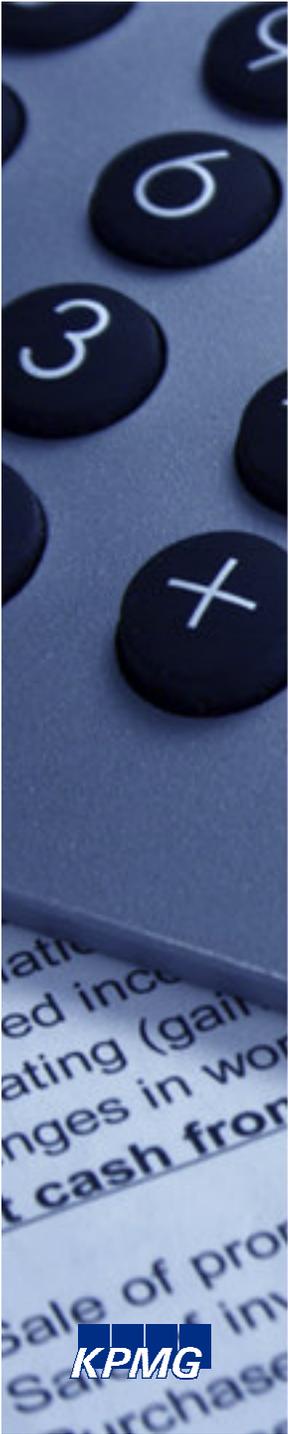
Self-assessment for some entities

- Under current HST rules, self-assessment of the provincial component of the HST for goods/services imported in the province by some entities
 - Goods imported into PP
 - Intangible and services imported to PP
- Affects entities engaged in non-commercial activities and consumers
 - Examples: Non SLFI and other entities in exempt activities
- Rules do not apply to imports by persons engaged exclusively in commercial activities
- Exceptions: Specified motor vehicles (tax payable at time of vehicle registration) and non-taxable property



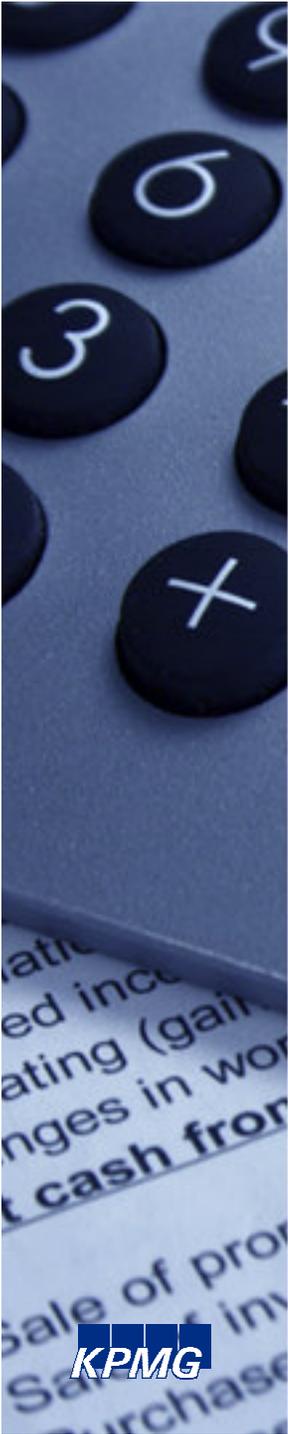
Ontario HST and Real Estate

- Transitional rules related to sales of houses
- New housing rebates
- PST transitional rebate / tax adjustment
- Self-assessment of multi-unit residential rental buildings
- Higher unrecoverable tax on residential rental buildings
- Long-term contracts
- Transitional rules on commercial leases
- Restricted ITCs on energy, etc.



New Housing – Grandfathered Sales

- Grandfathering applies if
 - Agreement signed before June 19, 2009, and
 - Possession and title transfer after June 2010
- ITCs available for 5% GST and 13% HST on inputs
- 5% GST payable on sale
- Transitional Tax Adjustment (paid by builder)
 - Purpose is to increase provincial tax content to 2% of selling price
 - Percentage of completion will determine the TTA



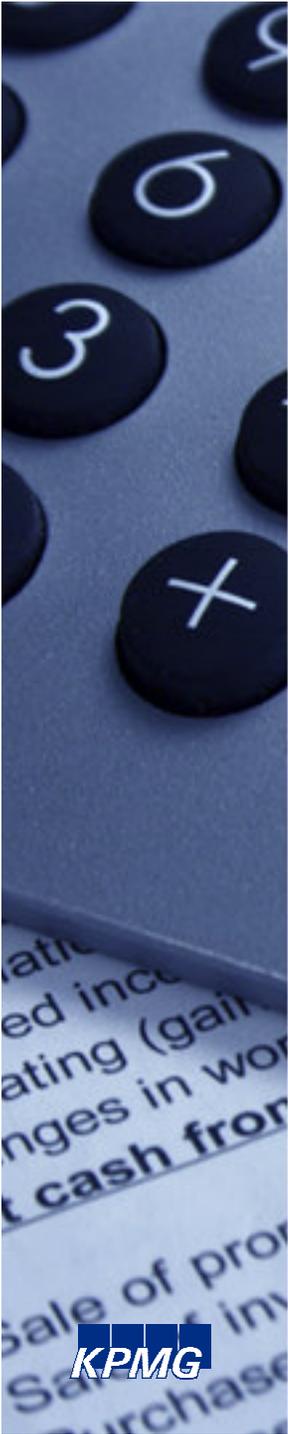
New Housing – Transition

- **Basic Transitional Rule**
 - 5% GST
 - applies if title or possession transferred before July 2010
 - 13% HST
 - applies if title and possession transferred after June 2010 (unless grandfathered)
- **Transitional Housing Rebate**
 - Non-grandfathered housing sales
 - 2 proposed methods (selling price or floor space)

Ontario HST and Real Estate

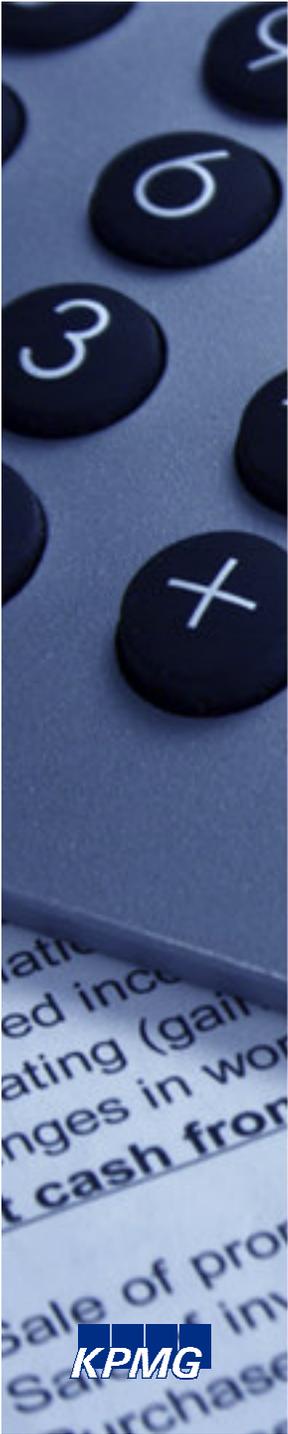
New housing rebate

New Housing Rebates		
	Thresholds	Rates
GST	\$350,000 – \$450,000	36% of 5% to \$350,000
Provincial Component of HST	Up to \$400,000	75% of 8% to \$400,000



Ontario HST and Real Estate Social and Seniors Housing

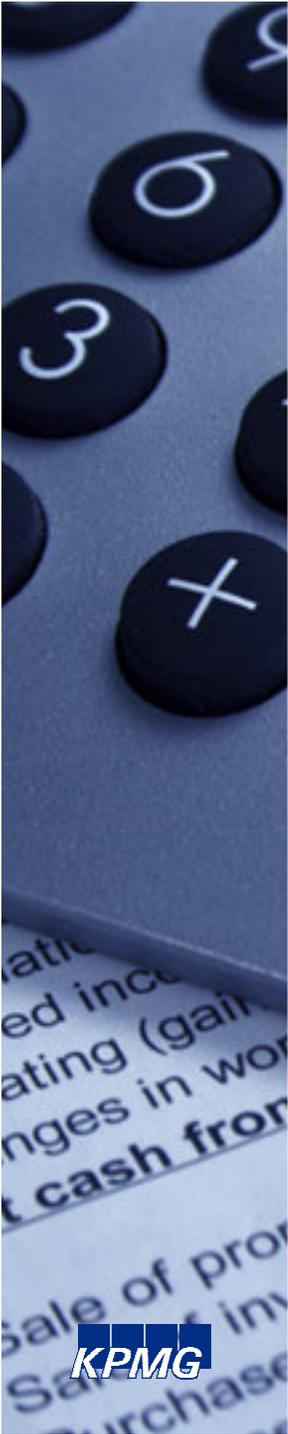
- Transitional construction projects
 - First unit occupied on or after July 1, 2010
 - GST/HST recoverable as ITC on construction costs
 - PST imbedded in contractor costs up to June 30, 2010
 - HST self-assessed at 13%? FMV? or Basic Tax Content?
 - PST Rebates
 - Charities should qualify for 3% PST rebate on progress payments up to June 30, 2010
 - Will Transitional PST rebate for new home construction also be available?



Ontario HST

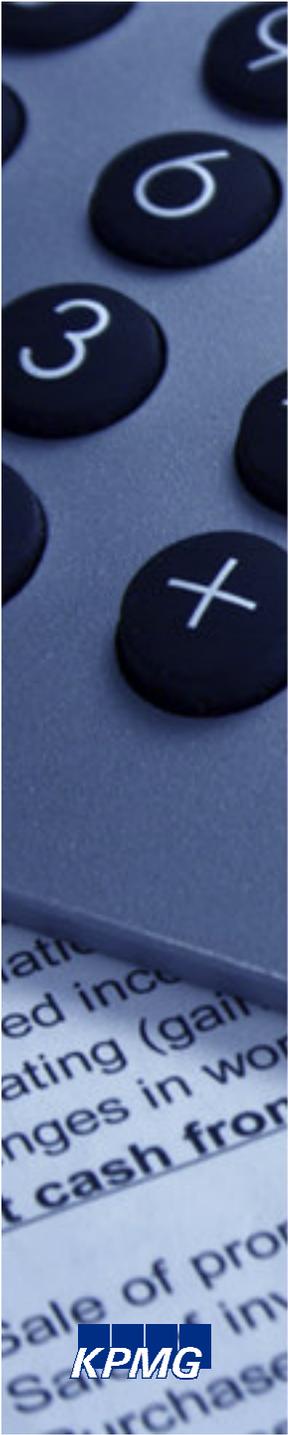
Your timeline – Will you be ready?

- **Staff training**
 - Existing GST knowledge
 - Transitional rules
 - New HST reporting obligations
 - Possible electronic filing requirements
- **Cost impacts**
 - Pricing requirements
 - Cash flow
- **Systems changes**
 - Tax tables / matrices
 - Tracking two taxes
 - Imported vs. domestic sourced purchases



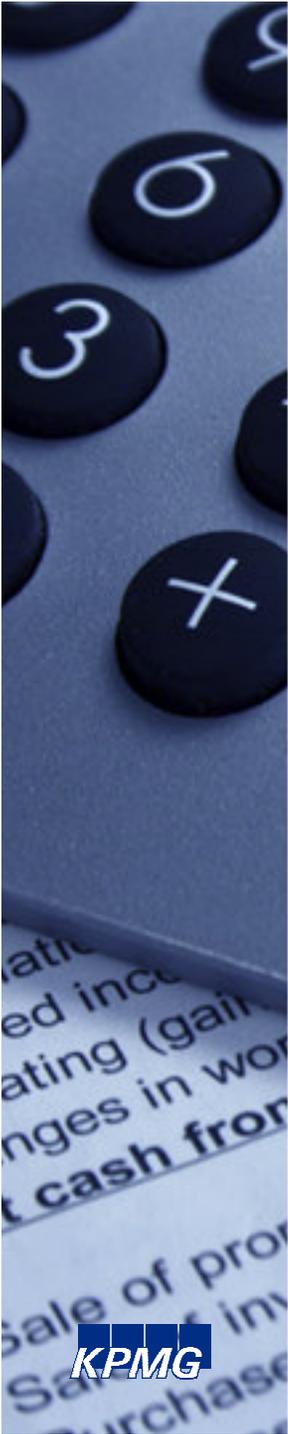
Ontario HST Planning Points

- **Conduct impact analysis to estimate**
 - net cost to organization and
 - changes to pricing or funding requirements
- **Allocation methodologies**
 - Commercial vs. exempt use
- **Review impact on long-term contracts**
 - Consider options for renegotiation
 - Addendums to RFPs in process
- **Defer purchases of PST-taxable computer systems, administrative equipment and furnishings**
- **Accelerate purchases of PST-exempt items**
- **Plan for modifications to tax codes in ERP systems**



KPMG Harmonization Approach

- **Phase 1: Impact Analysis**
 - Evaluate existing processes
 - Review 2010 budget and cash flow requirements
 - Review timing of large purchases and contracts
- **Phase 2: Training**
 - GST refreshers
 - Full scope GST/HST training
 - Customized training modules
- **Phase 3: Implementation Strategy**
 - Identify tax criteria for software upgrades
 - Consult with your Implementation Committee
 - Communications plan
- **Phase 4: Post-Implementation Review**
 - Systems, tax matrix and compliance testing
 - Review actual to estimates on impact analysis
 - Test compliance to reduce audit risks



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