



Financial Services – Office of the Controller
Bulletin 1: Implications of the Harmonized Sales Tax (HST) to University
Budgets
March 2010

As many of you know, the Federal Sales Tax (“GST”) of 5% and the Ontario Provincial Sales Tax (“PST”) of 8% will be replaced with a new Harmonized Sales Tax of 13%, beginning July 1, 2010. The Harmonized Sales Tax will include both the existing GST of 5% and an 8% provincial component.

This Bulletin is designed to provide guidance on the impact of the HST on budgets beginning July 1, 2010, and to provide advice on some unique planning opportunities with respect to the timing of purchases.

The primary difference between the current 8% PST and the new 8% HST is the base on which the taxes are applied. The PST generally taxes only goods, while the new HST taxes both goods and services. A secondary difference is that the University will, as a minimum, recover a rebate equal to 78% of the provincial portion of HST, whereas with PST there is no rebate available (although the University was able to purchase Research Equipment on a PST exempt basis).

The University will continue to recover a *minimum* of 67% of the existing GST across all units.

The HST will impact the cost of goods and services in different ways, depending on the category of good or service. There are three categories of goods and services that should be considered:

Category 1: Equipment, Furniture and Supplies

Category 2: Consulting (eg: legal, accounting, professional services) and Service Contracts
(eg: office rental agreements, energy-gas, fuels, electricity)

Category 3: Equipment used exclusively for Research

The following summary provides an analysis of how the HST will affect purchases in each category.

Category 1: Equipment, Furniture and Supplies

Currently equipment, furniture and supplies that are purchased **and delivered** to the University before July 1, 2010 are subject to the 8% Provincial Sales Tax. Similar purchases and deliveries after June 30, 2010 will be subject to the 13% HST, but they will now be eligible for a 78% rebate on the 8% provincial portion of the HST. As a consequence, equipment, furniture and supplies purchased and delivered to the University after June 30, 2010 will result in a net savings to the University, as illustrated, below:

Equipment, Furniture & Supplies	PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100	\$100
GST	\$5	\$5
PST/HST	\$8	\$8
GST Rebate at 67%	(\$3.35)	(\$3.35)
HST Rebate at 78%	na	(\$6.24)
Net Cost	\$109.65	\$103.41
Savings		\$6.24

University administrators and researchers should be aware that a delay in the purchase of equipment (not used exclusively for research), furniture and supplies with delivery after June 30, 2010 will result in a savings, as illustrated above, of approximately 6.24% of the pre-tax cost of the purchase.

Category 2: Consulting (eg: legal, accounting, professional services) and Service Contracts (eg: office rental agreements, energy-gas, fuels, electricity)

Currently contracts for consulting and service contracts are generally not subject to PST. Under HST, consulting and service contracts will be subject to the 13% HST, with a corresponding rebate of 78% of the 8% provincial portion of the HST.

Consulting and services contracts will generally include services such as legal, engineering, and accounting services as well as office rental agreements, and energy (gas, fuels, electricity) contracts. Again, a simple example will illustrate the differential cost.

Consulting and Service	PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100	\$100
GST	\$5	\$5
PST/HST	Exempt	\$8
GST Rebate at 67%	(\$3.35)	(\$3.35)
HST Rebate at 78%	na	(\$6.24)
Net Cost	\$101.65	\$103.41
Net Increase in Cost		\$1.76

University administrators and researchers should be aware that consulting services performed after June 30, 2010 will be subject to the HST, resulting in a net increase in cost to the University of 1.76% (after application of the HST rebate). Consideration should be given to accelerating performance under such contracts, so that services performed after June 30, 2010 are minimized.

Category 3: Equipment used exclusively for Research

Currently equipment used exclusively in research is not subject to the 8% Provincial Sales Tax but, beginning July 1, 2010 it **will** be subject to the 13% HST. As a consequence, research equipment purchased and delivered to the University after June 30, 2010 will be subject to the 13% HST, net of the rebate of 78% of the 8% provincial portion of HST and the 67% rebate on GST. The following illustration compares the cost of research equipment under two different scenarios:

Research Equipment	PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100	\$100
GST	\$5	\$5
PST/HST	Exempt	\$8
GST Rebate at 67%	(\$3.35)	(\$3.35)
HST Rebate at 78%	na	(\$6.24)
Net Cost	\$101.65	\$103.41
Net Increase in Cost		\$1.76

The above example illustrates that equipment purchased and delivered after June 30, 2010 is subject to HST, net of the HST rebate, and will cost approximately 1.76% more.

Principal Investigators should be aware of the following:

1. Equipment purchased and delivered to the University prior to July 1, 2010 will save 1.76% in HST. If possible, where funding has already been received by the granting agency, principal investigators should consider accelerating the purchase/delivery of equipment.
2. Research related grants should anticipate the increased tax costs for HST and their impact on budgets for any equipment delivered after June 30, 2010. This increased tax cost is directly attributable to the elimination of the PST exemption for research equipment.

Impact to the Fiscal 2010-2011 Budget

The following table will assist units in budgeting for 2010 and will provide guidance with respect to the timing of purchases over the next few months:

Good or Service	Delivery of Good/Service Prior to July 1, 2010 Effective PST Rate of Tax	Delivery of Good/Service After June 30, 2010 Effective HST Rate of Tax	Cost/Savings of these Purchases After June 30, 2010
Purchases to Accelerate:			
Equipment used for Research	0%	1.76%	Increased Cost of 1.76%
Consulting/Professional Services			
Training Seminars			
Purchases to Delay:			
Equipment (not used for Research)	8%	1.76%	Savings of 6.24%
Furniture and Supplies			
Computers and Accessories			
Software (not custom)			
No Change			
Books	0%	0%	Neutral
Other items for which there may be no opportunity to either accelerate or delay purchases			
Energy (gas, fuels, electricity)	0%	1.76%	Increased Cost of 1.76%
Office Rents			
Supply and Install Renovation Contracts may increase or decrease (See Note 2)	May increase or decrease		(see note 2)

Note 1:

This table should only be used in evaluating goods and services for administrative, academic or research purposes, and not for goods or services used in commercial operations (Commercial operations of the University will receive a 100% rebate of the HST, similar to the 100% rebate of the GST that these units currently receive.)

Note 2:

It is uncertain what impact the HST will have on the pricing for construction type/supply and install contracts after June 30, 2010. Overall pricing will depend on the relative composition of the labour and material components comprising the work. Units should negotiate pricing with the contractor, to determine what makes sense in the circumstances.

Sales of Goods and Services by the University

This Bulletin primarily reviewed the HST implications on the goods and services purchased by the University. A Bulletin is being prepared which reviews the HST implications on the sale of goods and services by the University to external parties.

As a general rule, the University will be required to collect the additional 8% on all goods and services subject to the existing GST. In other words, all goods and services subject to the 5% GST will be taxed at an additional 8% (GST + the provincial portion of HST) beginning as early as May 1, 2010, in some cases.

(The primary exceptions are sales of books and prepared meals less than \$4. These items will continue to be taxed as 5%-GST only).

Further information and questions:

For further information, please visit our website at <http://www.uwo.ca/finance/HST/>

To have your specific HST questions answered, please email: hst@uwo.ca