

# Ontario Harmonized Sales Tax HST and UWO Administrative Officers

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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

- Generally, same rules and tax base as GST
  - Businesses may generally recover GST/HST paid on inputs (Large businesses face new input tax credit restrictions)
  - Increased obligation to apply “place of supply” rules by jurisdiction
  - Special transition rules apply to transactions straddling the implementation date

# Ontario HST – General overview

- Canadian GST/HST/PST Landscape
  - Newfoundland, Nova Scotia, New Brunswick
    - 13% HST
    - First to harmonize with *Excise Tax Act* (1997)
  - Prince Edward Island
    - 10% PST (on GST included amount)
    - Not harmonized
  - Quebec
    - 7.5% QST (on GST included amount)
    - Harmonized their provincial sales tax by adopting the same structure as the *Excise Tax Act* (1992) but still a provincial tax
  - Ontario
    - 13% HST (July 1, 2010)
    - Hybrid harmonized model that incorporates some of Quebec's characteristics while integrating with the Federal Act

# Ontario HST – General overview

- Canadian GST/HST Landscape
  - Manitoba
    - 7% PST
    - Not harmonized
  - Saskatchewan
    - 5% PST
    - Not harmonized
  - Alberta
    - No PST
    - Arguably first province to harmonize!
  - British Columbia
    - 12% HST (July 1, 2010)
    - Adopted model similar to Ontario

# Ontario HST – General overview

- Some differences with GST

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

# Ontario HST – General overview

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- Point of sale rebates
  - Qualifying prepared food and beverages sold for \$4.00 or less
  - Print newspapers
  - Children's clothing and footwear
  - Children's car seats and car booster seats
  - Diapers
  - Feminine hygiene products
  - Books (including audio books)

# 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
- Vendors no longer receive compensation for collecting the tax

# Ontario HST

## Consequential Sales Tax Changes

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- Ontario government will pay HST on its purchases and claim rebates from CRA
- Supplies made to federal and provincial governments
  - Provincial governments do not currently pay GST but Ontario and BC (in addition to Maritime provinces) will now pay HST
  - Federal government does not pay PST
  - Need to review contracts with any provincial government in a harmonized province

# Ontario HST

## Universities and similar entities

- Partial rebates of 8% provincial component

Entities	Proposed 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

## Net Tax Cost to UWO

Today	GST	PST*	Total
Rate	5%	8%	13%
Rebate	67%	0%	
Effective Rate	<b>1.65%</b>	<b>8%*</b>	<b>9.65%*</b>
July 1, 2010	Federal Component	Provincial Component	Total
Rate	5%	8%	13%
Rebate	67%	78%	
Effective Rate	<b>1.65%</b>	<b>1.76%</b>	<b>3.41%</b>

\*Assuming the goods/services are not otherwise PST exempt

# Ontario HST

## Impacts on budget (example)

- Cost currently subject to PST

	Pre-HST	Transition	Post HST
Purchase Price	\$ 10,000.00	\$ 10,000.00	\$ 9,800.00
GST/HST	500.00	1,300.00	1,274.00
PST	800.00	-	-
Federal Rebate at 67%	(335.00)	(335.00)	(328.30)
Provincial Rebate at 78%	-	(624.00)	(611.52)
<b>Net Cost</b>	<b>\$ 10,965.00</b>	<b>\$ 10,341.00</b>	<b>\$ 10,134.18</b>

Post HST illustrates the impact if 2% savings passed along by the vendor

# Ontario HST

## Impacts on budget (example)

- Cost currently exempt of PST

	Pre-HST	Transition	Post HST
Purchase Price	\$ 10,000.00	\$ 10,000.00	\$ 9,800.00
GST/HST	500.00	1,300.00	1,274.00
PST	-	-	-
Federal Rebate at 67%	(335.00)	(335.00)	(328.30)
Provincial Rebate at 78%	-	(624.00)	(611.52)
<b>Net Cost</b>	<b>\$ 10,165.00</b>	<b>\$ 10,341.00</b>	<b>\$ 10,134.18</b>

Post HST illustrates the impact if 2% savings passed along by the vendor

# Harmonized Sales Tax

## Universities - Advantages

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

# Harmonized Sales Tax

## Universities - Disadvantages

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- Lost exemptions:
  - Research equipment
  - Land acquisitions not used in commercial activities
  - Firefighting equipment
  - Consulting fees
  - Utility costs (natural gas, electricity)

# Ontario HST

## Impact – UWO

- Estimates are that HST will be cost neutral
- 13% HST will essentially apply to all purchases that are currently subject to GST
  - Self-assessment for 8% provincial component (less rebate) will likely be required if vendor only charges 5% federal component
- Existing PST exemptions for UWO will cease to exist under the new system
- UWO may recover HST through 3 possible mechanisms:
  - University rebates (67% and 78%)
  - Charitable rebates (50% and 82%)
  - Full input tax credits (100%)
  - Point-of-sale rebates (67%/50% and 100%)

# Ontario HST Exempt Supplies

- Part VI – exempt supplies by a Public Service Body (PSB)
  - In the case of supplies by public institutions, ALL supplies of personal property and services (but not real property) are exempt, **except**:
    - Zero rated goods (food, prescription drugs)
    - Property used in commercial activities
      - i.e., used to make taxable supplies
    - Goods acquired for resale
    - Short term rentals of personal property with real property
    - Catering services
    - Instructing individuals or administering exams by a vocational school, a school authority, public college or university
    - Admissions to recreational or athletic facilities
    - Services of performing artists
    - Recreational and athletic program charges
    - Admission to place of amusement

# Ontario HST Exempt Supplies

- Exempt supplies made by UWO include:
  - Tuition for degree or diploma programs
  - Student meal plans
  - Sales of used or donated goods
    - e.g., used book sales
  - Printing and photocopying services
  - Veterinary services
  - Computer repair services
  - Admissions to amateur performances and events
  - Recreational camps and services for children, disabled or underprivileged

# Ontario HST

## Taxable Supplies

- Taxable supplies made by UWO include:
  - Prepared food sales (cafeteria), catering services (or the “re-supply” of same)
  - Bookstore, computer store
  - Printed materials
  - Facility and equipment rentals
    - e.g., storage space (unless a long term lease), lockers, baskets
  - Recreational programs and admissions

# Ontario HST

## Taxable Supplies

- Taxable supplies made by UWO include:
  - Certain continuing education programs
  - Executive education programs
  - Access to space (licence to use real property)
    - i.e., ABM fees
  - Real property leases (e.g. UCC building)
  - Parking
    - Unless the parking space is provided under the terms of a residential lease agreement
  - Personal property or services that qualify for zero-rating under Schedule IV
    - e.g., exports (services and certain sales of intellectual property or intangible personal property to non-residents)

# Ontario HST

## Taxable or Exempt?

- Inter-company / inter-departmental transactions
  - Internal allocations are generally not a supply
  - Errors typically occur with inter-company transactions
    - e.g., journal entries in due-to-from accounts, year end allocations
  - Need to consider potential GST/HST implications with:
    - New business or research ventures with third parties
    - Shared services / cost sharing arrangements
    - Due-to-from accounts with affiliated organizations

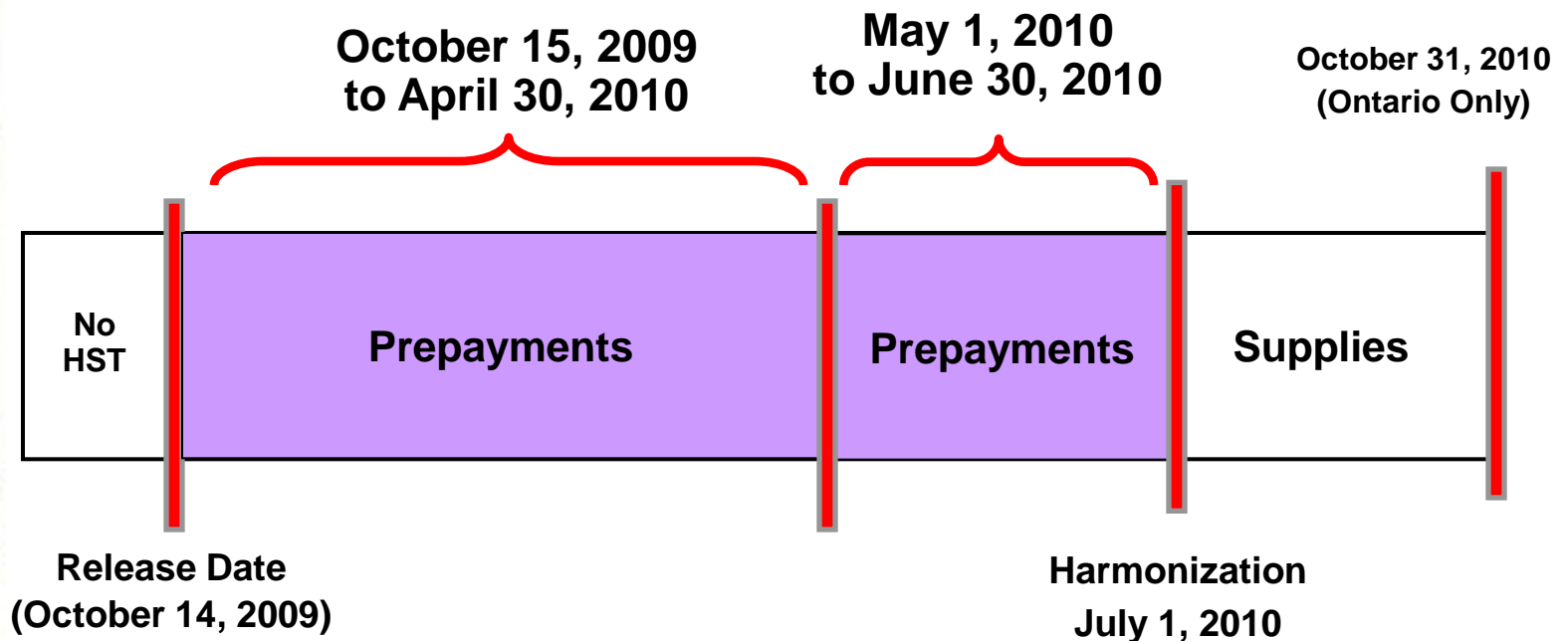
# Ontario HST

## Important Transition Dates

<b>Announcement of signed Memoranda</b>	March 26, 2009 (Ontario budget)
<b>Announcement date</b>	October 14, 2009
<b>Prepayments</b>	May 1, 2010
<b>Implementation date</b>	July 1, 2010
<b>PST wind-down</b>	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

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- 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

- Lease, licence or similar arrangement
  - Includes rent, royalties or similar payments for
    - Goods
    - Intangible personal property
    - Non-residential real property (e.g., short-term accommodation, parking)
    - Commercial real property
  - No HST if lease interval
    - Begins before July 1, 2010 and ends before July 31, 2010
  - HST applies to consideration
    - Due or paid on or after May 1, 2010 and before July 1, 2010 where
    - That part of the lease interval that occurs on or after July 1, 2010
  - Self-assessment may be required for
    - That part of the lease interval that occurs on or after July 1, 2010
    - But paid between October 15, 2009 and April 30, 2010 inclusive

# 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

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- Freight transportation
  - HST does not apply to the consideration paid for the part of a freight transportation service that is performed on or after July 1, 2010
  - Must be part of a continuous freight movement that begins before July 2010

# Ontario HST – Transitional Rules

- Continuous supplies
  - Includes property or services supplied by means of
    - Wire, pipeline or similar conduit
    - Satellite or other telecommunications facility
  - Examples
    - Natural gas
    - Electricity
    - Cable television
    - Satellite television
    - Cellular telephone services
  - Vendor must collect HST on that part of the supply that can be reasonably determined to be delivered performed or made available on or after July 1, 2010
  - If reasonable determination cannot be made, consideration should be pro-rated by the number of days in the billing period

# Ontario HST – Transitional Rules

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- Subscriptions
  - Newspapers, magazines and similar periodicals
  - No HST if paid on or before July 1, 2010
  - No self-assessment required even if subscription period includes periods after June 2010

# Ontario HST – Transitional Rules

- Lifetime memberships
  - Includes
    - Clubs
    - Organizations
    - Associations
  - Amounts paid between October 14, 2009 and June 30, 2010 inclusive
    - If > 25% of total membership due - HST on 75% of dues
    - Vendor must collect and remit

# Ontario HST – Transitional Rules

- Self-assessment
  - Self-assess HST if
    - Consideration payable between October 15, 2009 and April 30, 2010 inclusive
    - 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 ITC

# 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., PST exempt production equipment

# Ontario HST – Transitional Rules Summary

- Systems will need 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
- Supplier contracts/agreements to be reviewed to allow for flexibility on tax rates
- Invoicing/payables system will need to deal with GST, HST and PST
- System will need to take into account PST self-assessments
- UWO will track where PST is overpaid and apply for rebates of PST paid in error

# Ontario HST

## Place of supply rules – under review

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- Supply made in a “harmonized province”
  - 13% HST vs. 12% vs. 5% GST
  - Will depend on the place of supply rules
  - Schedule IX currently identifies “supplies made in” a particular province
    - Developed at the time of the NB, NS and NF harmonization
    - Adopted by Quebec
- Existing rules under review in light of Ontario and B.C. harmonization

# Ontario HST – Compliance Systems Changes

- Staff involvement
  - IT staff will be trained on requirements
  - Purchasing department reviewing pricing and timing
  - AP department
- Process changes
  - Policies and procedures revised
  - Changes to expense reporting and coding
  - Purchase orders / forms

# Ontario HST – Compliance

## Systems Changes

- Systems changes paramount
  - Accounting systems / GL codes
  - Proper coding of payables – location of supply will affect the rate of GST/HST paid
  - Expense reports templates to be updated - Factor or no factor, location of supply
  - Systems testing needed after implementation

# Harmonization Approach

- Training
  - Full scope GST/HST training
  - Other training requirements?
- Impact analysis
  - Establish HST Implementation Committee - Identify members and responsibilities
  - Evaluate and map existing processes
  - Review 2010 budget and cash flow requirements
  - Review timing of large purchases and contracts
- Implementation strategy
  - Lease vs. buy for large purchases
  - Establish GST/HST account structure
  - Identify tax criteria for software upgrades
  - Policy / manual updates
  - Regularly consult with Implementation Committee
- Post-implementation review
  - Systems, tax matrix and compliance testing
  - Review actual to estimates on impact analysis
  - Test compliance to reduce audit risks



# Presenter's contact details

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