

# Ontario Harmonized Sales Tax HST and UWO Ancillary Operations

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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

- 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 restrictions for Large Businesses</b>	PSBs and farming businesses not subject to these restrictions.
<b>New housing rebates</b>	Different thresholds create pricing challenges for new housing construction.

# General Rules

## Basic Principles

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- What is the GST?
  - Value added tax levied on most property (i.e., goods, intangibles and real property) and services
  - Taxed at each level of the distribution chain
  - Mechanism available to recover the GST paid on business inputs
  - Ultimately, final consumer pays the GST

# General Rules

## Basic Principles

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- GST basic principles
  - All supplies of property and services made in Canada are taxable unless they are exempt from tax under the *Excise Tax Act* (ETA)
  - Registrants generally charge and collect GST on their taxable sales and claim credits for the GST they pay on purchases relating to commercial activities
  - Special status persons, such as the “MUSH” sector are entitled to rebates

# General Rules

## Basic Principles

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- Person
  - Individual
  - Partnership
  - Corporation
  - Association
  - Organization of any kind

# General Rules

## Basic Principles

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- Supply
  - Taxable (5%, 12% or 13%)
  - Zero-rated (0%)
  - Exempt

# General Rules

## Basic Principles

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- Rates GST/HST
  - GST
    - 5%
    - Applies to Alberta, Saskatchewan, Manitoba, Quebec and Prince Edward Island effective July 1, 2010 (Ontario and British Columbia until June 30, 2010)
      - e.g., office supplies, production equipment
  - HST
    - 13% (12% in British Columbia)
    - Applies to Nova Scotia, Newfoundland, New Brunswick, and effective July 1, 2010, Ontario and British Columbia
  - Zero-rated
    - 0%
      - e.g., exports, international transportation, medical devices,

# General Rules

## Basic Principles

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- Recipient
- In Canada
  - Same meaning as the *Customs Act*
  - Includes
    - The provinces of Canada
      - participating and non-participating provinces
    - The territories and Nunavut
- Consideration
  - Monetary
  - Non-monetary
  - Arm's-length

# General Rules

## Basic Principles

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- Scope of tax
  - The legal **recipient** of a taxable supply made in Canada must pay the GST(HST) on the value of consideration paid or payable for the supply
  - Imported **goods** are subject to GST at the time of import and collected by the Canada Border Services Agency (CBSA)
  - Imported **services and intangibles** are subject to GST/HST on a self-assessment basis
    - Except where the supply acquired for consumption, use or supply **exclusively** in the course of commercial activities

# General Rules

## Basic Principles

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- Consideration
  - Includes any amount that is payable for a supply by operation of law and includes money, a thing, a service, and a right
    - Liability for GST is tied to payment of consideration
  - Special rule for supplies to non-arm's length parties where transactions below fair market value

# General Rules

## Basic Principles

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- When is GST payable?
  - On the earlier of the day the consideration for the supply:
    - Is paid, or
    - Becomes due
  - Consideration is due on the earlier of:
    - Date invoice is issued
    - Date invoice would normally be issued
    - Date required to pay under the agreement
  - Important for determining tax payable under HST transitional rules

# GST Treatment of Inputs

- Recovery of GST
  - GST paid on inputs used in a commercial activity is generally recoverable as an input tax credit (ITC)
    - i.e., making taxable supplies
  - To claim ITC
    - Must have acquired or imported the property or service at a time when the person is a registrant
    - Must be for consumption, use or supply in the course of commercial activities of the person
  - Legal “recipient” of the supply is generally the **ONLY** person entitled to claim an ITC or rebate in respect of a supply
  - Where mix of taxable and exempt use, must apply reasonable allocation

# GST Treatment of Inputs

- Extent of use in commercial activities – PSBs
  - “All or substantially all” test
    - Applies to general operating costs
    - CRA policy is that 90% or more is “all or substantially all”
    - Conversely < 10% use in commercial activities means no ITC
    - If extent of use in commercial activities is 10% to 90%, apply fair and reasonable allocation
  - For capital real and personal property used for both commercial and exempt use, primary use test applies
    - i.e., > 50% commercial use means full ITC

# GST Treatment of Inputs

- Documentary requirements
  - ITCs / rebates may not be claimed unless the registrant has obtained sufficient documentary evidence to enable the amount of the ITC or rebate to be determined
  - Invoices and contracts are key in determining the timing and availability of ITCs and rebates

# GST Treatment of Inputs

- Documentary requirements
  - Information required on an invoice (or combination of contract / invoices / statements) includes:
    - Vendor name and GST registration number
    - Date of invoice
    - GST amount charged
    - Purchaser name
    - Terms of payment
    - Description of the supply sufficient to identify tax liability

# Special GST Rules

- 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
  - s.156 Election
    - Available to a closely related group (at least 90% ownership)
    - Can only be used for supplies used, consumed or supplied exclusively in commercial (taxable) activities
    - Cannot be used for sales of real property
    - Election not required to be filed with CRA but must be completed and kept on file in the event of audit
- Consider sales tax implications of new business ventures and due-to-from accounts with affiliated organizations

# Harmonized Sales Tax

## General overview

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- Effective July 1, 2010, Harmonized Sales Tax (HST) replaces provincial sales taxes in Ontario and BC
  - Ontario = 13% (5% federal component and 8% provincial component)
  - BC = 12% (5% federal component and 7% provincial component)
- Federally administered
  - One return/one administration/one audit
- Some differences
  - Point-of-sale rebates on some “staple” consumer items
    - E.g., books, children’s clothing and footwear
  - Input tax credit (ITC) restrictions for large businesses in Ontario and BC
    - I.e., greater than \$10 million in annual revenue

# Harmonized Sales Tax

## General overview

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- 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

# Harmonized Sales Tax

## 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)

# Harmonized Sales Tax

## General overview

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- Point of sale rebates
  - No requirement for retailer to indicate the point-of-sale rebate on invoices
  - No requirement to show POS rebates on GST/HST return
  - Retailer only required to collect 5% federal component of the HST

# Harmonized Sales Tax

## General overview

- **Point of sale rebates – meals \$4 or less**

- Qualifying prepared food and beverages that are ready for immediate consumption include:
  - food or beverages heated for consumption;
  - salads;
  - sandwiches and similar products;
  - platters of cheese, cold cuts, fruit or vegetables and other arrangements of prepared food;
  - cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies, croissants with sweetened filling or coating, or similar products where they are not prepackaged for sale to consumers and are sold as single servings in quantities of less than six;
  - ice cream, ice milk, sherbet, frozen yoghurt or frozen pudding, non-dairy substitutes for any of the foregoing, or any product that contains any of the foregoing, when hand-scooped or machine dispensed and sold in single servings;
  - other food items that are excluded from zero-rated GST/HST treatment as basic groceries solely by virtue of the types of sales made at the establishment where they are sold, such as the sale of a bagel or a plain croissant in a restaurant;
  - non-carbonated beverages, when dispensed at the place they are sold; or
  - when sold with a qualifying food item listed above: other beverages except if the cans, bottles or other primary containers in which they are sold contain a quantity exceeding a single serving; cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies, croissants with sweetened filling or coating, or similar products where they are prepackaged for sale to consumers in quantities of less than six items each of which is a single serving; ice cream, ice milk, sherbet, frozen yoghurt or frozen pudding, non-dairy substitutes for any of the foregoing, or any product that contains any of the foregoing, when packaged and sold in single servings; or other snack foods, such as chips, salted nuts, popcorn, candies, fruit bars, granola bars, etc.
- Wine, spirits, beer, malt liquor or other alcoholic beverages will not qualify for the purpose of the point-of-sale rebate of the Ontario component of the HST

# Harmonized Sales Tax

## Universities and similar entities

- Proposed 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%

# Harmonized Sales Tax

## Universities - Advantages

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- 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

# 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)

# Harmonized Sales Tax Imports

- GST currently applies at a rate of 5% on goods imported into Canada
  - Rate payable at time of importation will remain the same
  - Businesses will be required to self-assess the provincial component of the HST on goods imported into Ontario where goods not used exclusively in commercial activities
- Self-assessment required on imports of services and intangibles
  - Self-assessment at 12% or 13% ONLY where the purchase not used exclusively in commercial (taxable) activities
  - If import is partially used in commercial activity – self-assess only on the exempt allocation

# Harmonized Sales Tax

## Place of supply rules – under review

- 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

# Harmonized Sales Tax

## Consequential Sales Tax Changes

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- 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

# Harmonized Sales Tax

## Consequential Sales Tax Changes

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- Ontario and BC governments 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

## GST/HST Treatment of Supplies

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- Supplies by universities
  - Taxable supplies
    - Exclusions from general exemption:
      - Section 2, Part VI, Schedule V
  - Exempt supplies
    - Schedule V:
      - Part I – Real Property
      - Part II – Health Care Services
      - Part III – Educational Services
      - Part VI – Supplies by PSB

# Ontario HST Exempt Supplies

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- “Public institution” - an entity that is both a
  - Registered charity under section 248(1) of the Income Tax Act, and
  - Hospital, school, university, college or a local board of a municipality

# Ontario HST Exempt Supplies

- General exemption
  - Specific to personal property or services
    - Personal property includes
      - Tangible personal property
      - Intangible personal property
        - Intellectual property
    - Services
      - Broadly defined to mean “anything” other than property, money and the services supplied in an employer – employee relationship
  - Real property not covered by the general exemption
    - Refer instead to V-VI-25

# 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

- Goods acquired for resale
  - V-VI-2(e)
    - Tangible property that was acquired, manufactured or produced by the institution for the purpose of making a supply of the property and was neither donated to the institution nor used by another person before its acquisition by the institution, or any services supplied by the institution in respect of such property, other than property or such as service supplied by the institution under a contract for catering;
  - V-VI-2(g)
    - Property or a service made by the institution under a contract for catering for an event or occasion sponsored or arranged by another person who contracts with the institution for catering;

# Ontario HST Exempt Supplies

- Recreational exemptions
  - Applies to
    - Memberships
    - Services
    - Programs
  - Exempt when provided primarily to
    - Underprivileged individuals or individuals with a disability
    - Children 14 years of age or under unless the program involves overnight supervision throughout a substantial portion of the program
  - Overnight recreational camps exempt when under a program primarily for underprivileged individuals or individuals with a disability

# Ontario HST Exempt Supplies

- Admissions to events
  - Exemption for
    - Performances
    - Athletic events
    - Competitive events
  - All or substantially all of the performers, athletes or competitors are not remunerated (reasonable gifts/prizes allowed)
  - No advertising involves paid participants
  - GST/HST will apply if the event is a competitive event where cash prizes awarded and ANY competitor is a professional participant

# Ontario HST Exempt Supplies

- Admissions to “place of amusement”
  - Exempt when maximum charge for admission is \$1 or less
  - “Place of amusement” defined as any premises or place where the following are staged or held:
    - Film, slideshow, sound and light or similar presentation
    - Artistic, literary, theatrical, musical or other performance, entertainment or exhibition
    - Fair, circus, menagerie, rodeo or similar event, or
    - Race, game of chance, athletic contest or other contest or game,
  - Includes
    - Museum
    - Historical site
    - Zoo
    - Wildlife or other park, and
    - Any other place, etc intended to provide any type of amusement or recreation

# Ontario HST Exempt Supplies

- Part VI – exempt supplies by a PSB also include:
  - Certain “overriding” exemptions apply within the university environment
    - “Direct Cost Rule” – certain supplies not exceeding cost are exempt
    - “Direct cost” means only what was paid for the good or service, without any mark-up of any kind, or inclusion of labour, or additional cost such as ‘handling’ charges, storage fees, etc.
  - Supplies for nil consideration
    - If no consideration the supply is deemed to be exempt

# Ontario HST Exempt Supplies

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- Part I – real property
  - Sales of used residential property
    - e.g., sale of student residence
  - Residential rent
    - e.g., accommodation paid by student in residence
  - Lease of real property for making supply of residential sub-lease and ground lease for residential unit
  - Meals with residential rent
    - At least 10 meals / week
    - Served in the place of residence

# Ontario HST Exempt Supplies

- Part II – health care services
  - Institutional health care (e.g., hospitals)
  - Ambulance service
  - Medical/Dental service
  - Nursing service
  - Non-medical health care
    - e.g., optometric service, podiatric service, speech therapy
  - Dietetic service
  - Social worker
  - Dental hygienist
  - Service covered by provincial health insurance
  - Food to health care facility
  - Homemaker service

# Ontario HST Exempt Supplies

- Part III – educational services
  - Elementary and secondary education
    - Extra-curricular services
    - Student provided services
    - School bus services
    - Tutoring and private instruction (e.g., music lessons)
    - School cafeteria meals
    - Lease of property (e.g., rental of musical instrument)
  - Second language instruction

# Ontario HST Exempt Supplies

- Part III – educational services
  - Credit courses for diploma or degree
    - Student council fees
    - Athletic fees
    - University/college meal plans
  - Non-credit courses
    - Two or more that are part of a program
    - Subject to the review and approval of a oversight committee
  - Vocational courses and exams
  - Professional or trade accreditation courses and exams

# Ontario HST Exempt Supplies

- Meal Plans
  - V-III-13
    - A supply of a meal to a student enrolled at a university or public college where the meal is provided under a plan that is for a period of not less than one month and under which the student purchases from the supplier for a single consideration only the right to receive at a restaurant or cafeteria at the university or college not less than 10 meals weekly throughout the period.
  - Both on and off campus students qualify
  - Must:
    - use only at a campus cafeteria or restaurant
    - cover a period of not less than one month
    - be paid for by a single consideration that covers at least 10 or more meals each week

# Ontario HST Exempt Supplies

- Sponsorships
  - Generally exempt
    - S.135 Sponsorship of public sector bodies
      - For the purposes of this Part, where a public sector body makes
        - (a) a supply of a service, or
        - (b) a supply by way of licence of the use of a copyright, trade-mark, trade-name or other similar property of the body,
      - to a person who is the sponsor of an activity of the body for use by the person exclusively in publicizing the person's business, the supply by the body of the service or the use of the property shall be deemed not to be a supply, except where it may reasonably be regarded that the consideration for the supply is primarily for a service of advertising by means of radio or television or in a newspaper, magazine or other publication published periodically or for a prescribed service.
  - In the case of the exception to this provision, UWO may be exempt under the general exemption for public institutions

# 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

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- 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

## Special Situations

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- Graphic services
  - Creation of digital images
    - Considered to be a supply of a service
    - Therefore exempt
  - Sale of CD with a digital image
    - Copies of digital images are considered to be TPP
    - Therefore taxable
- Graphic designs
  - High level of expertise and skill to create designs
  - Considered to be a supply of a graphic design service
  - Remains exempt even if put on a CD for customer
  - If sale includes both graphic design and printing, it is a single supply of TPP (printed material) and will be taxable

# Ontario HST

## Special Situations

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- Exclusivity agreements
  - General assures that the University will not use any other brand or product
    - e.g., Coca-cola exclusively sold on premises
    - May be a supply of an intangible right, a service or a price adjustment
  - Recent Tax Court Case deals with exclusivity
    - Costco Wholesale Canada Ltd. v. The Queen
    - Exclusivity between Costco and Amex
    - Court viewed exclusivity as a bargaining tool
    - Costco does nothing to receive payment
    - Costco receives a better rate from Amex if it offers exclusivity
  - Need to consider “what does the vendor (e.g. Coca-cola) acquire for the money that it pays to UWO?”

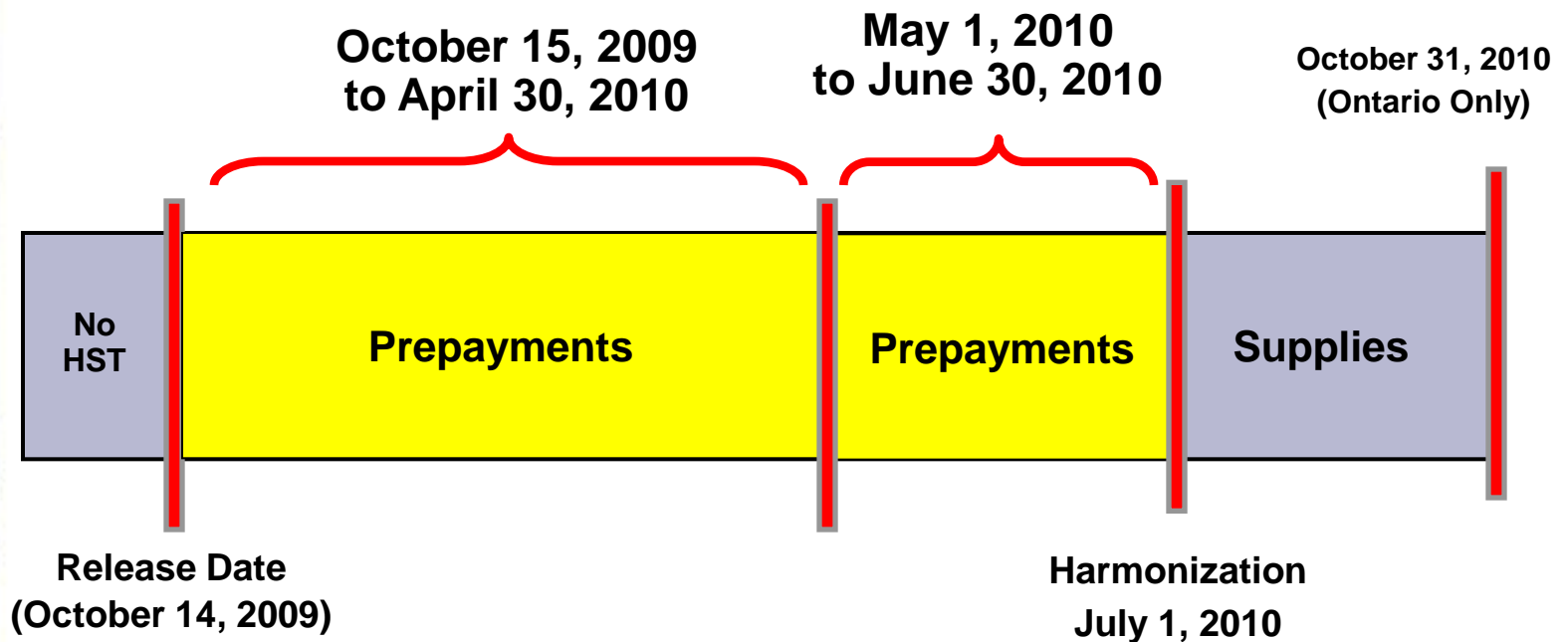
# Ontario HST

## 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

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- 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

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- 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

- 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., PST exempt 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 supplier contracts/agreements allow for flexibility on tax rates?
- Can invoicing/payables system deal with GST, HST and PST?
- Is the system taking into account PST self-assessments?
- Has PST been overpaid and rebates of PST paid in error available - Prepayments?

# Ontario HST – Compliance

## Quick Method Rates

- Special Quick Method Rates (election required)

Entities	Ontario Rate
<b>Municipalities</b>	<b>11.1%</b>
<b>Universities and Colleges</b>	
> 25% Vending Machine Sales	<b>10.2%</b>
< 25% Vending Machine Sales	<b>10.7%</b>
<b>Schools</b>	<b>11%</b>
<b>Hospital, External Supplier, Facility Operator</b>	<b>11%</b>
<b>Specified Facility Operator, Qualifying NPO, Designated Charity</b>	<b>9.9%</b>

# Ontario HST – Compliance Systems Changes

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- Consider the impact on
  - Point-of-sale rebates
  - Tax / price adjustments and credit notes
  - Volume rebates received
  - Coupons, rebates
  - Deposits / partial payments
  - Change in use rules
  - Employee reimbursements and allowances
  - Taxable benefits

# Ontario HST – Compliance Systems Changes

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- Staff involvement
  - IT staff must be trained on requirements
  - Purchasing department
  - AP department (do they override tax coding?)
- Process changes
  - Policies and procedures revised

# 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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