



INDIRECT TAX

## Ontario Harmonization – Getting Ready!

### Issues for University of Western Ontario

January 26, 2010

KPMG LLP

AUDIT ■ TAX ■ ADVISORY

## 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 input tax credit (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.

## 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 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%

## Ontario HST Universities and similar entities

- ◆ GST currently applies at a rate of 5% on goods imported into Canada
  - Rate payable at time of importation will remain the same
  - Universities 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 13% - rebate entitlement

## 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 upfront on its purchases and claim a rebate from CRA

## 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

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- ◆ 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

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- ◆ Place of supply rules
  - GST only applies to supplies of property and services “made in Canada”
  - Special place of supply rules to determine if supply made in Canada is made in an HST province
  - Currently under review by the Department of Finance and CRA

## Ontario HST – GST Basics

- ◆ 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

## Ontario HST – GST Basics

### ◆ 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

## Ontario HST – GST Basics

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- ◆ 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

## Ontario HST – GST Basics

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### ◆ 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

## Ontario HST – GST Basics

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- ◆ Invoice with no tax and no GST number
  - Missing information that is required to claim ITC or rebate:
    - Contact supplier for GST registration number and tax amount
      - If no tax amount, then no ITC or rebate
    - Check GST Registry Number
  - GST/HST Registry
    - Validate the GST/HST number of a business
    - Helps to ensure that claims submitted for ITCs only include GST/HST charged by suppliers registered for GST/HST
- ◆ Website

[www.cra-rc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html](http://www.cra-rc.gc.ca/eservices/tax/business/gsthstregistry/menu-e.html)

## Ontario HST Impact - General

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- ◆ Transitional rules
- ◆ Rate change and place of supply rules
- ◆ New ITC restrictions
- ◆ Cash flow
- ◆ Effect on existing contracts and relationships
- ◆ New rebates – MUSH and POS rebates, etc.
- ◆ Employees' expense and allowance reporting
- ◆ Removal of PST exemptions and rebates

## Ontario HST Impact – MUSH Sector

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- ◆ Loss of PST exemptions
- ◆ New partial rebates for 8% provincial component
- ◆ Self-assessment on interprovincial purchases
- ◆ Funding requirements
- ◆ Possible other rebates

# Ontario HST

## Impact – UWO

- ◆ Stated intent of HST is to 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 university will cease to exist under the new system
- ◆ University 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 Advantages – Universities

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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

## Ontario HST Disadvantages – Universities

- ◆ Lost exemptions (cost increases):
  - Research equipment
  - Firefighting equipment
  - Certain publications (other than books) e.g. newsletters
  - Professional and consulting fees
  - Pension plans (higher costs)
  - Land acquisitions not used in commercial activities
  - Charities (e.g. Foundations) planning new construction or renovations

## 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)

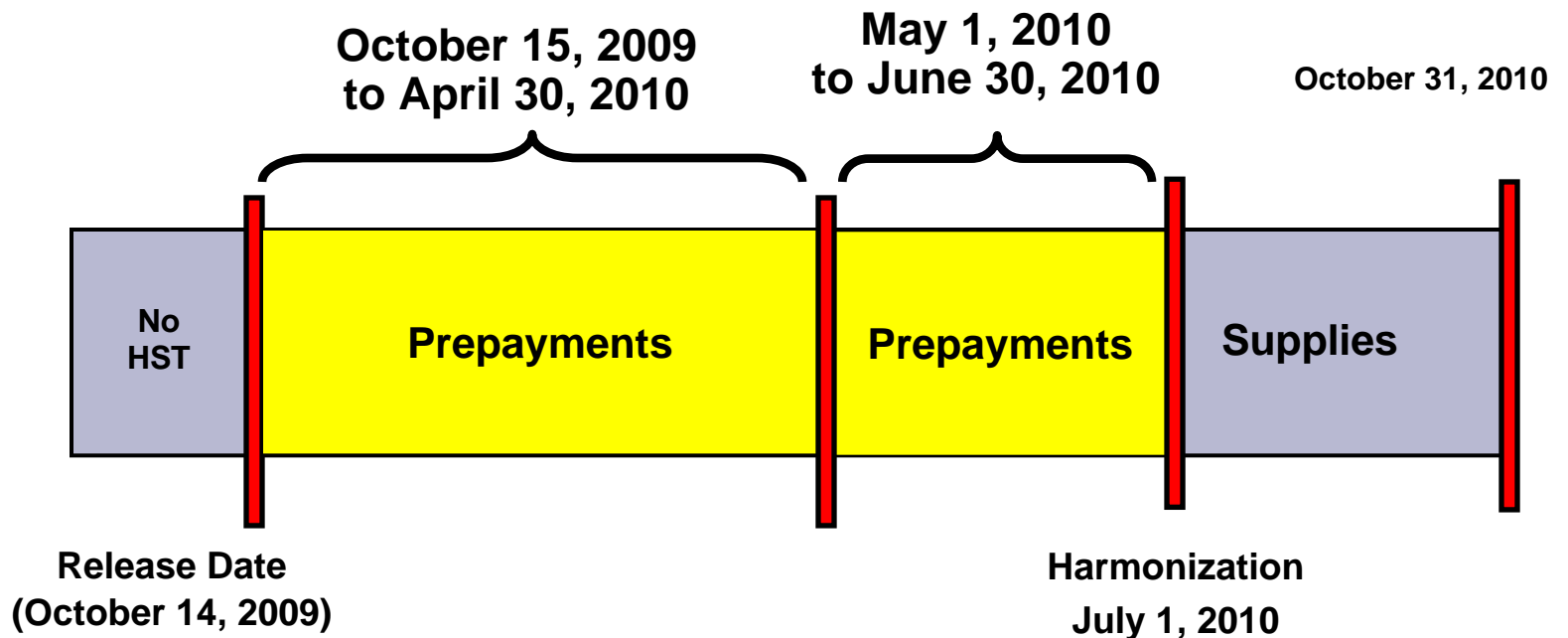
- ◆ Cost currently exempt of PST

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

# 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,
  - Leases
  - Transportation

## Ontario HST – Transitional Rules

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- ◆ 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

### ◆ Construction contracts

#### - Progress payments

- HST to the extent that payment made after October 14, 2009 and property delivered or services performed on or after July 1, 2010
- No HST if progress payment paid or due before October 14, 2009
- e.g., progress payment billed July 5, 2010 for work completed to June 30, 2010 – 5% GST only

#### - Holdbacks

- Generally follow the GST/HST on the related progress payment
- Holdbacks relating to progress payments made prior to October 14, 2009 will not have HST- only GST

## Ontario HST

### Purchases – HST Self-Assessment on Prepayments

#### ◆ Self-assessment

- Self-assess the provincial component of the 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 of the provincial component if
  - purchaser is a consumer; or
  - purchaser is a business entitled to a full input tax credit
- Examples where self-assessment may be required:
  - Universities, colleges and similar exempt organizations pre-paying for equipment delivered on or after July 1, 2010
  - persons subject to input tax credit restriction such as prepayments for electricity
  - persons using simplified accounting for GST/HST (e.g. special quick method)

## Ontario HST Purchases – PST Refunds on Prepayments

- ◆ PST Relief on Prepayments
  - PST will generally not apply to goods, services and admissions supplied on or after July 1, 2010
  - An exception applies to prepayments for goods, services and admissions that become due between October 15, 2009 and May 1, 2010 – PST will apply.
  - However, the University is required to self-assess the provincial component of the HST on these pre-payments.
  - Will suppliers grant relief of PST?
  - Track PST paid on these prepayments and claim refund for tax paid in error.
  - Example: Maintenance agreement

## 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 research equipment



## KPMG – Presenter Contact Details

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