

How HST will impact you and your business?

Getting ready for the tax changes

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The rules are slowly being published – here is what we know so far (February 1, 2010)

From 5% GST to 13% HST

The current PST and GST is being replaced in Ontario with the Harmonized Sales Tax (HST) which consists of:

- Federal GST 5%
- Ontario Value Added Tax (OVAT) 8%
- TOTAL (HST) 13%

The HST has the same tax base and structure as the Federal GST (with some exceptions). If your business is zero rated or exempt for GST the same applies for HST.

Several different filing dates

The Ontario Retail Sales Tax (ORST) will be eliminated on July 1, 2010. PST will be collected up to and including June 30, 2010. The last filing of your ORST is for the reporting period ended October 31, 2010 and is due on November 23, 2010. (Note: the PST purchase exemption certificate is eliminated as of June 30, 2009)

Exemption and transaction credit for small business

If your business revenues are < \$30,000 then HST is not applicable. A small business transition credit of up to \$1,000 will be available to most businesses, other than financial institutions, with less than \$2 million in annual revenue from taxable sales.

Buy the new fridge before July 1, 2010?

On tangible personal property (e.g. fridge, stove, furniture) there is no OVAT if the item is delivered or ownership transfers before July 1, 2010 regardless of when the consideration is paid. However, if the property is to be used for commercial purposes, then OVAT may apply.

More paperwork for subcontractors

The transitional rules for subcontractors apply to progress payments and holdbacks and application of HST to these payments is determined by the date of payment and the date the services are performed. Subcontractors may need to document and track the work done over the transition period on contracts to substantiate their accounting treatment at a later date to CRA.

Small businesses have to file electronically

Businesses will file a single tax instead of two with one payment and one point of contact for audits, appeals and taxpayer services. However GST/HST registrants with revenues of \$1.5 million or more are required to file GST/HST remittances electronically.



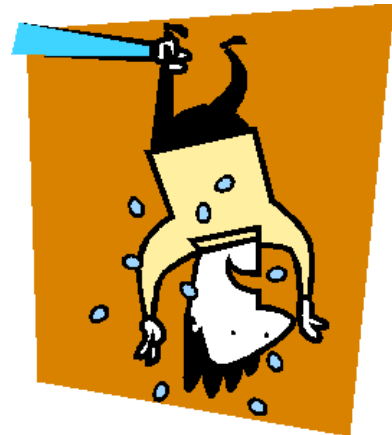
Lower tax rates to offset HST

To offset some of the impact of HST the government is reducing the small income tax rate, the small business deduction surtax as well as the manufacturing and processing income tax rate.

The **small business tax rate** will be reduced to 4.5% (from 5.5%), effective July 1, 2010. As a result, the combined federal and Ontario small business tax rate will be reduced to 15.5% (from 16.5%), effective July 1, 2010.

The **small business deduction surtax** will be eliminated, effective July 1, 2010. As such, all Canadian-controlled private corporations will be taxed at the small business rate on their first \$500,000 of active business income, regardless of their total income level. This will result in annual tax savings of \$27,500 or more.

The **manufacturing and processing income tax rate** will be reduced to 10% (from 12%), effective July 1, 2010. As a result, the combined federal and Ontario manufacturing and processing tax rate will be reduced to 29% (from 31%), effective July 1, 2010.



Tax grab from mid sized and larger businesses

Business with revenues greater than \$10 million are restricted from claiming the OVAT portion of certain Input Tax Credits (ITC's) for:

- energy,
- telecom (except internet and toll free)
- road vehicles weighing less than 3,000 kg and all related fuel, parts and services
- food , beverages and entertainment

These restrictions on claiming OVAT ITC's are for 5 years after which they will be phased in over a 3-year period.

New tax includes services

The HST will apply to a broader tax base than the old ORST. For example, professional services will now be subject to HST.

Changes in corporate minimum tax

A corporation or associated group with less than \$50 million in total assets (up from \$5 million) or less than \$100 million in annual gross revenue (up from \$10 million) will not pay corporation minimum tax (CMT), effective for taxation years ending after June 30, 2010. The CMT rate will be reduced to 2.7% (from 4%), effective for taxation years ending after June 30, 2010. The 20-year CMT credit carry forward will continue to apply.

Goodbye to corporate capital tax

The government plans to eliminate the corporate capital tax by July 1, 2010.

Businesses to change accounting systems

Business will be required to make changes to their financial accounting systems to manage the new HST reporting and recording requirements. The CRA has documented the invoicing requirements on its website (see below). Most large businesses will be required to implement systems to track the Federal GST portion and OVAT portions separately.

You may need to do a cash flow forecast

Purchases that were PST exempt will now attract HST which can be claimed as an ITC. However, this may result in cash flow implications as there will be a time lag between paying for the HST and receiving the ITC refund so we suggest preparation of a cash flow forecast to see the cash impact on your business.

Count your inventory

Business that supply and install should take a detailed inventory of product on hand at June 30, 2010 to make sure they calculate the tax correctly.



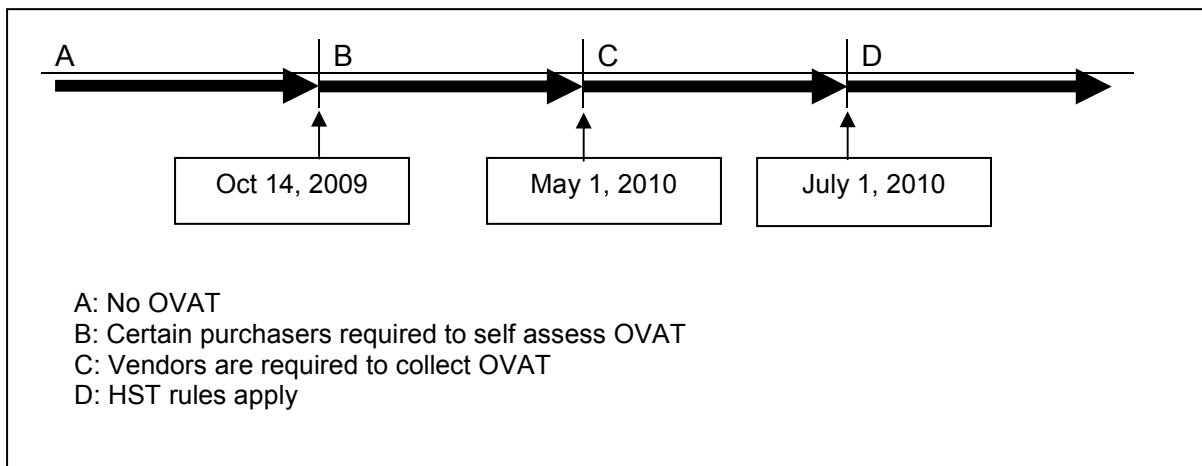
Bill work in progress

Service businesses (for example accountants, lawyers, garden cleanup, excavating) will either need to bill all work in progress as at June 30, 2010 or invoices that are for services that span the transition date will need to show PST and GST on services provided before June 30, 2010 and HST on service provided after July 1, 2010.

Different cut off dates

The transition rules are to deal with transactions that start before July 1, 2010 and end after that date. Businesses will be required to understand and implement the transitional rules that apply to them. There are several FAQ's on the CRA website to illustrate these rules.

In general for goods or services supplied after July 1, 2010 where consideration is paid in the following time periods:



For example, chamber of commerce memberships paid for the year in advance will fall under these rules. Goods or services sold at a trade show in the spring for delivery in summer (after July 1, 2010) will be subject to these transitional rules.

Businesses and annual files have to self assess

Businesses are required to self- assess OVAT if:

- The supply is not used exclusively in commercial activities
- The business is subject to ITC restriction or recapture
- In some cases the business can claim an ITC for the GST paid on expenditures incurred before July 1, 2010 where the service is provided after July 1, 2010 and an ITC for the corresponding OVAT after July 1, 2010.

Annual filers must claim or self assess transitional OVAT on or before November 1, 2010.

Switch over of services

There are transitional rules that apply if services are provided after July 1, 2010 but paid for:

Before Oct 14, 2009 – No OVAT

Between Oct 14, 2009 and May 1, 2010 – certain purchasers are required to self assess

Between May 1, 2010 and July 1, 2010 – the supplier is required to collect and remit OVAT

After July 1, 2010 – HST rules apply

Landlords face HST

HST is required on real property leases and these are to be remitted by the landlord for the lease interval from July 1, 2010 onwards.

Rebate for supply and installers.

Businesses that supply and install goods will be eligible for an ORST rebate on materials in inventory on June 30, 2010. The rebate application must be filed by December 31, 2010 which means management should take an inventory count on June 30, 2010 to substantiate their claim.

Prove it!

In general, businesses would be wise to use: date stamps on bills, timesheets and detailed work orders; photographs with date stamps; and dated documentation to substantiate their application of the transition rules as CRA will audit many of these situations.

Buy more accounting software

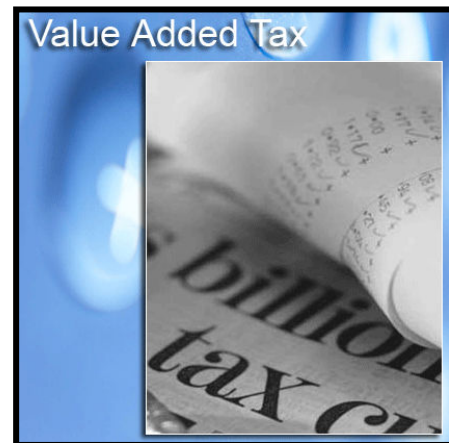
Businesses will need to upgrade their accounting software to accommodate these changes. For example, QuickBooks users will need to keep their current accounts for PST and GST to account for taxes over the transitional period and will require a new HST payable account.

Find more rules here

The transitional rules and exemptions are being updated regularly and can be viewed on the following websites:

www.ontario.ca/revenue or

www.cra-arc.gc.ca/harmonization



Summary of consumer rebates and exemptions

The HST will not be charged on the following items that are currently not subject to PST:

- Basic groceries
- Prescription drugs
- Certain medical devices
- Child care
- Residential rents
- Municipal public transit
- Most health and education services
- Legal aid
- Most financial services
- Tutoring
- Music lessons
- Consumers will not have to pay the provincial portion of the HST for:
 - 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)
 - Buyers of new homes will receive a rebate of up to \$24,000 regardless of the price of the new home.
 - Buyers of new residential rental properties will receive a similar rebate



The HST will not apply to purchases of resale homes.