

HST Questions & Answers

Addressing the concerns of Ontario businesses.



We see more than numbers.

What is HST?

Answer

On July 1, 2010 Ontario will implement a major tax reform that will, with few exceptions, harmonize the tax base of the existing provincial sales tax (PST) with the federal GST under one value-added tax system.

Why is Ontario pursuing and implementing HST?

Answer

The province has said that the implementation of a single sales tax would bring Ontario into line with *"what is viewed as the most efficient form of sales taxation around the world."*

Converting the PST into a value-added tax and harmonizing with the GST would reduce the cost of goods that Ontario exports. This would make the province of Ontario more competitive.

At the moment, businesses may not deduct the PST from the cost of materials and other products they buy; instead, they pass the cost along to consumers. But under harmonization, businesses may claim tax credits for those purchases, which some estimates suggest could save them \$5 billion a year.

The Ontario Chamber of Commerce believes a fully blended system would cost consumers approximately \$905 million in additional sales taxes per year, while the GST and PST bill for companies would fall by \$1.6 billion annually.

How can I learn more about HST?

Answer

Address your concerns, or learn more, by consulting a local Certified General Accountant or the following sources:

- Ontario Ministry of Revenue at www.rev.gov.on.ca/en/
- Ontario HST Information line at 1-800-337-7222
- Canada Revenue Agency at 1-800-959-5525
- Ontario Chamber of Commerce and Smart Taxation Alliance at www.occ.on.ca

To locate a Certified General Accountant in your community please reference CGA Ontario's accountant referral service at www.cga-ontario.org/applications/accountantreferral/default.aspx.

Is HST a tax grab?

Answer

Some people are viewing the blend of PST and GST this way; however HST in Ontario is part of a comprehensive tax reform package that will accumulate to \$1.1 billion in income tax cuts, reduce the corporate tax rate to 10 per cent by 2013, and reduce small business tax rates to 4.5 per cent. The government will also be giving a tax break of up to \$1,000 for most families.

Businesses will be able to reduce costs because of administrative savings, along with the ability to claim the full amount of sales tax paid (in most cases). Most of the savings should be passed on to the consumer. This will create a more competitive marketplace for businesses. More competitive businesses that pay less tax will invest more heavily in machinery and other capital goods, hire more workers, and cut prices on what they produce.

It is a model that has been implemented by many countries and several Canadian provinces.

Most goods (and some services) are currently subject to both GST and PST for a combined 13 per cent sales tax. As such, the change to a harmonized sales tax of 13 per cent will have little to no impact. Some services are currently not subject to PST so consumers will experience a tax increase on those services. Note that some items do not attract GST, (e.g. auto insurance, long-term residential rent) and will not be subject to HST.

Some items are subject to special provincial taxes, e.g. excise tax on gasoline, amusement tax on movie and theatre tickets. It is unclear at this time whether these taxes will be removed in favour of HST (which would be lower than the current taxes).

In short, many items are currently subject to 13 per cent tax; other items will have a tax increase, and some may have a tax decrease. Regardless, the new harmonized tax will allow most businesses to reclaim the full amount of sales tax they pay, thereby removing the current amount of sales tax that is embedded in the price of most goods and services people purchase. This should result in a decrease in the retail price of many goods and services, as was the experience in the provinces that have already harmonized their provincial sales tax with the GST.

What is exempt from HST?

Answer

Rebates and Exemptions - The proposed HST will not be charged on many items that are currently not subject to PST including:

- Basic groceries
- Prescription drugs
- Some medical devices
- Municipal public transit
- Most health and education services
- Legal aid
- Most financial services
- Child care
- Tutoring
- Music lessons
- Long-term residential rents

Consumers will not have to pay the provincial portion of the proposed HST for:

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

Buyers of new homes would receive a rebate of up to \$24,000 regardless of the price of the home.

- Buyers of new residential rental properties would receive a similar rebate.
- The HST would not apply to purchases of resale homes.

Eliminating Hidden Taxes – Right now, PST is paid by most businesses on various costs throughout the production of an item. In other words, though you may not realize it, the PST is charged multiple times before a product reaches the store.

When Newfoundland and Labrador, Nova Scotia and New Brunswick harmonized with the federal GST, most cost savings were passed through to the consumer. This led to lower prices for some products.

Tax Benefits for People – To help Ontarians transition to the HST, the Ontario government has proposed \$10.6 billion over three years in direct payments and permanent personal income tax cuts.

What does this mean for my customers?

Answer

In combining the PST and GST the sales tax rate on many services will increase from five per cent to 13 per cent. That said, the cost of providing a service will be reduced, since businesses will be eligible to claim full input tax credits on the HST they pay on their taxable inputs. Businesses will also benefit from having to comply with only one sales tax system rather than the two completely separate sales tax systems.

These two measures will help lower the company's operating costs which should result in their ability to lower their pre-tax prices and make the company more competitive.

Will prices lower for consumers even if businesses' costs are lowered?

Answer

There are many factors that could have impacted the statistics regarding price-drops. With an annual business administrative savings from not having to deal with two separate taxes, and with the ability to claim input tax credits on the provincial component of HST (most businesses are not able to claim a refund of PST paid), businesses will likely be able to reduce their prices while maintaining current profit margins. The competitive nature of the marketplace will likely result in lower prices, as was the experience in the three Atlantic provinces that harmonized their sales tax with GST.

One major benefit of the HST is that it will make Ontario businesses more competitive and will result in increased investment and employment. In fact, the reason that the BC government decided to harmonize its sales tax with the GST was specifically in response to Ontario's decision, as the BC government did not want its economy to become uncompetitive vis-à-vis Ontario's economy.

How will HST affect my lifestyle and living expenses?

Answer

The government is providing sales tax rebates for individuals and families below a certain threshold up to \$300 per individual or \$1000 per family, and is lowering personal income tax rates. Combined, these two measures should more than offset the increased sales tax that lower income Ontarians will pay on their taxable expenses. As well, the government has increased the Ontario Senior Homeowner Property tax grant, and the Ontario property tax credit and sales tax credit for low income Ontarians effective 2010.

Why aren't all the other provinces following suit?

Answer

BC has already announced its plan to harmonize its sales tax in July 2010 in order to remain competitive with Ontario.

Each provincial government deems what is best for its economy, employers, employees and residents.

Quebec for example has had a value-added tax since 1992, Nova Scotia, New Brunswick and Newfoundland and Labrador all blended their taxes in 1997; If Ontario wants to have a competitive edge in the marketplace, in light of this economic crisis, Ontario must harmonize the sales tax to ensure competitiveness. Ontario has been losing businesses and therefore jobs. If we want those businesses to return to Ontario, there needs to be an incentive for them to do so.

How will HST affect the average Canadian?

Answer

While some goods and services will be subject to a higher rate of tax compared with the current sales tax system, the tax reform package includes income tax breaks and up to a \$1,000 rebate for most individuals and families. As a result, many Ontarians will, in fact, be saving money.

Additionally, Ontario will be reducing the first income tax rate from 6.05 per cent to 5.05 per cent in 2010, so lower-income earners are actually better off with the HST than without it.

How will HST affect the average Canadian? (Continued)

As well, a recent study by the TD Bank Financial Group estimates that, while consumers will be paying more for goods and services including the new tax, the overall price level will only increase by 0.7 per cent.

Are our businesses really in favour of this new tax?

Answer

Many business groups including the Retail Council of Canada, Ontario Chamber of Commerce, Canadian Chamber of Commerce and the Canadian Council of Chief Executives, are in favour of a harmonized sales tax since it will reduce tax administration costs and will reduce operating costs since PST will no longer be embedded in the cost of goods and services purchased for operating a business.

In 2005, according to a Canadian Federation of Independent Business report entitled "prosperity restricted by red tape," compliance with regulation cost Canadian businesses over \$33 billion, while other evidence suggests that regulation has a disproportionate impact on small businesses when compared to their larger counterparts. One fundamental reason for this is that small business owners are unable to spread the cost of regulatory compliance across large scale operations.

Recent economic studies show that most savings are passed on to consumers in the form of lower prices. This is a fundamental feature of our market economy as businesses will need to lower prices if they wish to remain competitive within the Ontario marketplace.

Won't restaurants now have to charge their customers an extra eight per cent and thus cause them to think twice before going out for dinner?

Answer

HST will have no negative impact for restaurant customers since restaurants currently charge eight per cent PST on meals exceeding \$4.00 as well as five per cent GST. The Ontario government is providing a point-of-sale rebate on the Ontario component of HST for prepared meals under \$4 (similar to the rules under PST).

Is it the wrong tax at the wrong time?

Answer

This is actually an excellent time for HST. As businesses are getting back on their feet and beginning the recovery from the challenges of the past few years, they will be looking for the most efficient and cost-effective places to do business.

Having the HST in place will attract those businesses to Ontario instead of to other provinces. There will also be \$1.1 billion in income tax cuts, by reducing the first tax rate from 6.05 per cent to 5.05 per cent in 2010; tax rates for small businesses to be reduced from 5.5 per cent to 4.5 per cent to help small businesses thrive in Ontario. This will create more jobs, generate consumer spending, reduce administration costs of having two separate taxes and therefore lower costs for consumers.

Small and medium-sized enterprises (SMEs) are the backbone of Ontario's economy, representing over 95 per cent of all businesses in Ontario, almost 60 per cent of Ontario's employment and almost 50 per cent of Ontario's GDP. By harmonizing the two sales taxes businesses will save administration costs which will result in lower prices.

What about the real estate market?

Answer

Although homeowners will initially pay the eight per cent on new homes a six per cent rebate will be issued to the home owner up to a maximum of \$24,000.

Homeowners pay a significant amount of PST embedded in construction materials used to build a home. It is estimated that 3.2 per cent of the price of a new home is the cost of PST that the builder pays on materials. With this cost removed, along with the 6 per cent rebate, the provincial component of HST on a new home under \$400,000 should have minimal impact on the purchase price of the new home.

The Ontario government has also provided transitional rebate rules for homes that are built primarily before July 1, 2010 to account for the PST that is embedded in the materials used in building the home.

It is noted that the services associated with the purchase of a home on the re-sale market will be subject to a higher rate of tax, as will some other services. However, looking at the implementation of HST on a bigger scale, it is anticipated that HST will have significant benefits for Ontario as it will make our businesses more competitive, will attract more investment and create more employment opportunities.

Will accounting fees increase as a result of the HST? If so, why is CGA Ontario in favour of this tax if it means CGAs will have to charge more for their services?"

Answer

CGA Ontario believes that HST will allow business in Ontario to be more competitive. It will ease administration costs for many businesses and will help CGAs as they assist their clients in developing sales tax administration and compliance systems.

Business clients will be able to claim input tax credits for the HST they pay in the course of their commercial activities, including the tax they pay on accounting services. As such, CGA Ontario believes that the benefits associated with HST outweigh the impact of having a higher rate of sales tax on accounting services.