

## **HST – WHAT? WHEN? WHY? WHERE? WHO?**

### **An introduction to Ontario's new sales tax regime**

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Following up from the HST webinars presented by the Municipal Finance Officers' Association of Ontario (MFOA), this is the first in a series of newsletters that will address various aspects and details of the change from the Ontario Retail Sales Tax (RST) to the Harmonized Sales Tax (HST), especially from the perspective of Ontario municipalities. This first newsletter will provide an overview of what the tax change is and what it will mean to you as a municipal finance officer. Future newsletters are anticipated to cover the following topics:

- RC4049 – the GST/HST Guide for Municipalities – for Ontario
- Collection of HST and reclaiming HST paid
- HST reporting issues – your HST return and your financial statements
- Accounting for HST
- Budgeting for GST
- Implementation and change-over issues
- Plus other aspects of the tax change which members of MFOA request to be addressed through the medium of a newsletter

#### **The What**

From a CRA information sheet that was included with the December 31, 2009 GST return (09-114):

*“..... The Government of Canada and the provinces of Ontario and British Columbia have signed Memoranda of Agreement that provide the framework for introducing the Harmonized Sales Tax (HST) in Ontario and B.C. These will come into effect in these provinces on July 1, 2010, at a rate of 13% in Ontario and 12% in B.C. The HST will use the same tax base and structure as the GST, with some exceptions. ....”*

The two provinces have signed tax collection agreements with the Federal Government, which effectively uploads sales tax collection on behalf of the province to the Canada Revenue Agency. This means that sales tax collection on behalf of the province will henceforth use the same tax base and structure as the current GST. There are a few, very few, exceptions. HST will essentially be collected, reported, and claimed back on the same basis that you currently use for GST. (This almost suggests RST continues in some form, but collected by the CRA. I wonder if we can restate to simply say that HST is a federal tax that is basically GST at a 13% rate for transactions within Ontario.) Except for the specific Ontario provisions, which we will discuss in the next newsletter, the tax treatment for any transaction under HST will be exactly the same as it is now for GST. In spirit and in essence, HST is simply a value-added tax (VAT) like GST for the two separate jurisdictions at a consolidated rate of 13%. As of June 30, 2010, the Ontario Retail Sales Tax, with all its current terms, provisions and exemptions will no longer be applicable to any sales transactions occurring after that date, save and except for insurance premiums and the private sale of used vehicles. Note that the specific Ontario provisions in the implementation of HST, including provision for point-of-sale rebates on certain purchases, are being legislated as an amendment to the [Ontario Retail Sales Tax Act](#).

Amendments to the Provincial legislation and enabling Federal legislation have been passed. In January 2010 CRA provided some transitional rules for certain types of transactions. These are listed in the Useful References section at the end of this newsletter. Other transition rules and guidance may be forthcoming.

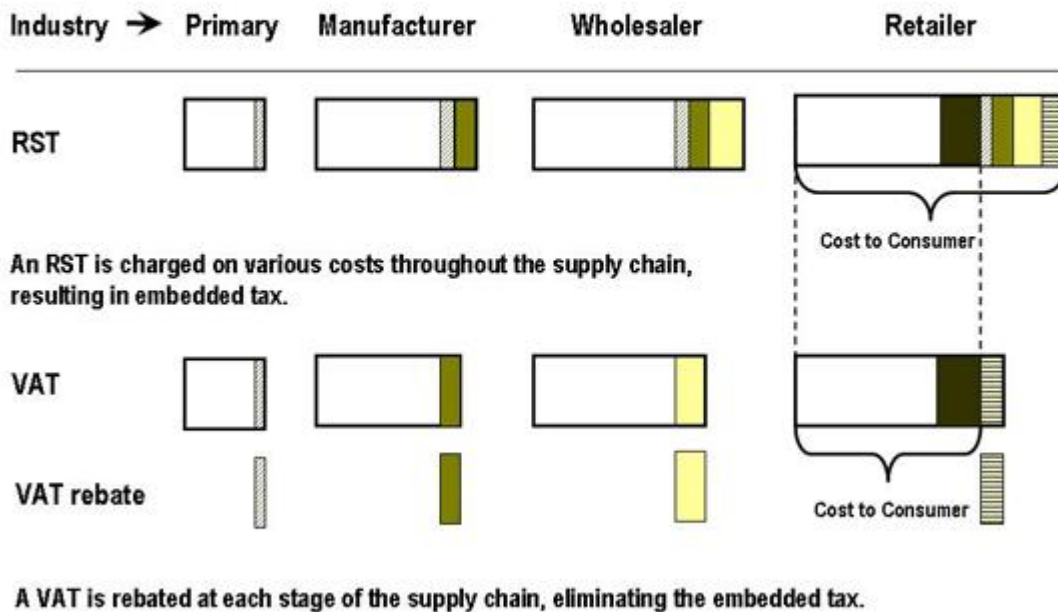
**The When**

HST comes into force in Ontario on Thursday, July 1, 2010. Certain transactions that are entered into before that date, with provision of goods and/or services after that date will be governed by transition rules with respect to HST and RST collectible and payable.

**The Why**

**VAT Lowers Costs**

Chart 2



Note: Illustrative example only. Not to scale.

The above chart, provided by the Ontario Ministry of Finance, illustrates well the difference between the current Retail Sales Tax (RST) and a value-added tax (VAT), which is what GST and HST are.

The current RST may be paid on supplies at every stage of the supply chain, so that the 8% paid by the final consumer will be a tax on tax already paid. There is provision for vendor exemption certificates, but only for purchases that will go directly into the production of tangible personal property or for resale. Each intermediary can provide an exemption certificate to eliminate RST on the product being sold him or her, but the RST on costs that were the result of being in business remain built into the cost base at each step. Telephone bills, stationery and other ancillary supplies would not be exempt from RST, and the 8% on those invoices will be embedded in the cost structure as shown. There are some cases

where RST may be refundable by the Ministry, but never at the point of sale. Note the potential compounding effect of retail sales tax on the price of an item.

By contrast, value added taxes such as GST and HST are value added taxes (VAT). The inputs used to add value for selling output as a taxable good or service are not so much consumed as passed through, so any tax paid is credited back, as an input tax credit or as a public sector body rebate. With a VAT, or GST/HST, all tax paid on inputs by the business is refunded, and tax is charged on the market value of the good or services being sold. And so on through the supply chain.

The end consumer actually pays the VAT, but based on the actual costs of producing the item, without any embedded sales taxes included in the sale price. Thus, on goods purchased, the move to HST could result in a lowering of prices, depending on market conditions for the goods or services in question. This change is important for Ontario businesses, as it helps to make them more competitive in world markets, since at least 140 countries in the world have a value-added tax, the United States of America being the one notable exception.

### **The Where and the Who**

HST in Ontario will be a Federally-administered VAT, with a few special provisions to support Ontario Provincial Government objectives and policies. After you file your last regular RST return with the Ontario Ministry of Revenue on or before October 23, 2010, you will be dealing solely with your designated Canada Revenue Agency Taxation Centre for all matters relating to HST.

There will be only one HST return to file, with the same frequency that you currently file GST returns. All future contact with respect to HST, including audits, will be with staff of Canada Revenue Agency. Any further contact or filing with the Ontario Ministry of Revenue with respect to sales taxes will only be if you collect insurance premiums, or sell used vehicles privately.

### **Useful References**

The government of Ontario introduced legislation to implement tax harmonization in Ontario. In an effort to explain tax harmonization, and other tax reform measures from the 2009 Ontario budget, the government circulated [Ontario's Tax Plan for Jobs and Growth](#). This is a guide that explains the comprehensive tax package to Ontarians. One important piece of good news for municipalities found in this document is that restricted input tax credits will not apply to municipalities (see page 29).

On November 16, the Ontario government introduced for first reading Bill 218, or the [Ontario Tax Plan for Jobs and Growth Act, 2009](#). This is an omnibus bill that amends a number of statutes. No amendments are made to key municipal statutes such as the Municipal Act or the Assessment Act. However, significant changes are made to the Retail Sales Tax Act in Schedule R to pave the way for tax harmonization. This Act received Royal Assent on December 15, 2009.

Schedule R of Bill 218 amends the Retail Sales Tax to provide for the ratification of the [Comprehensive Integrated Tax Coordination Agreement](#) signed between the governments of Ontario and Canada. This agreement sets out the broad framework for tax harmonization. Section 4 deals with implementation and confirms the July 1, 2010 implementation date and gives the federal government until March 31, 2010 to introduce legislation to implement harmonization. Schedule R also covers the specific Ontario provisions or addenda to the general implementation of HST, which we will look at in our next newsletter.

On December 4, 2009, the Honourable Jim Flaherty, Minister of Finance, introduced [Bill C-62](#), An Act to Amend the Excise Tax Act, for first reading in the House of Commons. This bill also received Royal Assent on December 15, 2009. Part IX of the [Excise Tax Act](#) deals with the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST).

More recently, CRA has issued a number of taxation information sheets on transition rules that you may find very useful for certain types of transactions that your municipality may engage in. See the following links for further information:

[HST for Ontario and British Columbia - Q&A on General Transitional Rules for Personal Property and Services](#) (Federal)

[General Transitional Rules for Ontario HST](#) (Ontario)

[GST/HST Info Sheet GI-053 Ontario and British Columbia: Transition to the Harmonized Sales Tax - Freight Transportation Services](#)

[GST/HST Info Sheet GI-054 Ontario and British Columbia: Transition to the Harmonized Sales Tax - Passenger Transportation Services](#)

[GST/HST Info Sheet GI-055 Ontario and British Columbia: Transition to the Harmonized Sales Tax-Transportation Passes](#)

[GST/HST Info Sheet GI-056 Ontario and British Columbia: Transition to the Harmonized Sales Tax-Services](#)

[GST/HST Info Sheet GI-057 Ontario and British Columbia: Transition to the Harmonized Sales Tax-Memberships](#)

[GST/HST Info Sheet GI-058 Ontario and British Columbia: Transition to the Harmonized Sales Tax-Admissions](#)

[GST/HST Info Sheet GI-059 Ontario and British Columbia: Transition to the Harmonized Sales Tax - Intangible Personal Property](#)

## Summary

This has been a very brief overview of a major tax change for Ontario. It is the reality that your municipality, and you and I will have to deal with, come July 1<sup>st</sup> this year, if not before. Hopefully this and future newsletters will assist you to do this.

Our next newsletter will look at the CRA Publication RC4049, “Guide to GST/HST for Municipalities”, and what an “Ontario edition” of this publication might look like.

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For more information and resources regarding Harmonized Sales Tax, please go to [MFOA's HST webpages](#), or contact:

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**NOTE:** This Newsletter is published to assist you in preparing for the changeover to HST in Ontario as of July 1, 2010, based on information believed to be current up to a week before posting on the web. While every endeavour has been made to be as complete and accurate as possible, MFOA and the author accept no responsibility for any differences of opinion that the Canada Revenue Agency and the Ontario Ministry of Revenue may adopt with respect to the ideas and concepts presented, nor for any outcomes of those differences. The ultimate authority in these matters is the respective Federal and Provincial legislation.