

PROPOSED HARMONIZED SALES TAX IN ONTARIO

In its recent Budget, the Government of Ontario announced that the province will harmonize the existing 8% Ontario Retail Sales Tax (RST) with the federal Goods and Services Tax (GST). This new tax will be called the Harmonized Sales Tax (HST).

When Does This Become Effective?

The harmonization of the RST with the GST will be effective July 1, 2010. There are no immediate implications from this announcement, neither from the standpoint of the vendor, nor from the standpoint of the individual or business consumer.

What Will Be the HST Rate ?

The new HST will be applied at a rate of 13%, which is the sum of the current 5% rate of the GST and the current 8% rate of RST.

Implications to the Individual Consumer

Generally, the new HST will apply to the provision of goods and services in the same manner as GST currently applies. That is, property and services that are currently subject to the 5% GST will now be subject to the 13% HST (subject to full point-of-sale rebates for books; children's apparel, car seats, diapers; and hygiene products). The Ontario HST is expected to be substantially similar to the HST that was introduced in Newfoundland, Nova Scotia and New Brunswick in 1997.

For example, where an individual consumer paid 5% GST for the preparation of their personal income tax return by an accountant, the new 13% HST will be applied on such services.

To reduce the impact of HST on consumers, Ontario is providing a sales tax transition benefit to individuals and families. Single individuals resident in Ontario with income below \$82,000 will receive up to \$300 from the Ontario government, paid in three installments. Single parents or couples resident in Ontario with income below \$166,700 will receive up to \$1,000 paid in three installments.

As with the GST which provides a GST credit to low-income Canadians, Ontario will provide an additional HST credit of up to \$260/person, paid quarterly, to individuals earning less than \$20,000 and families earning less than \$25,000.

Residential Real Property

For buyers of newly constructed primary residences priced up to \$400,000, there will be a rebate of 75% of the provincial portion of the tax (i.e., a rebate of 6% of the 8% provincial component of the HST). The rebate is phased out for houses priced between \$400,000 and \$500,000. In other words, the full 8% HST is proposed to apply to the sale of all new housing in Ontario with a value greater than \$500,000.

Implications to the Business Vendor

Purchases

For those businesses which are currently permitted to claim input tax credits in respect of GST paid on their expenses, the HST will represent a significant cost savings over the existing RST; no credit was available for RST paid on taxable goods and services, whereas a full input tax credit will now be available for HST paid on taxable goods and services.

For example, where a business registered for GST had to absorb the cost of the 8% RST when purchasing a computer, they will be entitled to an input tax credit on the full 13% HST paid on the purchase of that computer.

Sales

For those businesses not currently subject to having to charge RST on their sales/revenue, the full 13% HST will now apply on their revenue.

For example, a self-employed consultant will now have to charge 13% HST on their invoices.

To assist small businesses (less than \$2 million in annual revenue) in adjusting their accounting and point-of-sale systems, Ontario will provide a one-time transition credit of up to \$1,000.

Businesses not engaged in commercial activities

Similar to the GST, there will be rebates of HST for public service bodies as follows:

Municipalities: 78% of Ontario component; 100% of federal component

Universities and Colleges: 78% of Ontario component; 67% of federal component

School Boards: 93% of Ontario component; 68% of federal component

Hospitals: 87% of Ontario component; 83% of federal component

Charities and Qualifying Not-for-Profit Organizations: 82% of Ontario component; 50% of federal component.

Administration

The HST will be administered by the Canada Revenue Agency (CRA) under rules similar to the GST. HST registrants will file a single return for HST (i.e., replacing their GST and provincial sales tax returns).

Businesses currently registered for RST purposes will cease filing RST returns for periods after July 1, 2010.

Small Businesses & Small Charities

As is currently the case for GST, business with less than \$30,000 in annual taxable sales will not be required to be registered for HST purposes. Businesses below this threshold that are currently registered for RST will be entitled to deregister as of July 1, 2010 and to stop charging, collecting, or filing sales tax returns. Such businesses may voluntarily register in order to claim input tax credits to recover the HST they pay on expenses.

The small supplier threshold for charities and other public service bodies is \$50,000.

This 'n That at Logan Katz

Update on Breakfast Seminars Series for 2008-09

An encore presentation was held on March 5th for our breakfast seminar on *Tax Implications of Investing in Real Estate*. In total, more than 125 people attended the two seminars hosted by **Gary Katz** and **Denis Chainé**.

Another 45 individuals took in the lunch edition of our Breakfast Seminar Series on March 20 at Tulips & Maple to hear **Dr. Paul Groulx** offer an insightful and fascinating presentation on *Stress Management – Learning for Health and Life*.

Mr. Patrick Murphy provided valuable information on *Wills, Trusts and Powers of Attorney* on April 16th.

On deck for May 21st is **Mr. Rob Notman** of KWA Partners. This interactive presentation will focus on the Changing Job Market and its impact on attraction and retention strategies for small businesses.

Last but not least join us on June 18th when we will be inviting **Mr. Jamie Larabie** of Lara-tech to discuss "Spam Spyware Prevention Tips".

New Faces at Logan Katz

Logan Katz welcomes two Algonquin College Students – Marie-France Castonguay and Trung Bui who are with us for a work placement until the end of April. They will assist with our personal income tax services. We are proud to be a supporter of the Business Accounting Work Placement program at Algonquin College.