



## HST COMING July 31, 2010

February 1, 2010:

On July 1, 2010 the Province of Ontario will be harmonizing the Goods and Services tax and the Provincial Retail Sales Tax. Understanding that this issue will impact all of our clients in one way or another we have highlighted a few areas we believe will bring some clarity to you, and assist in planning for the transition.

As always we are available if you have any questions related to this or any other issue.

In general the new HST will simplify record keeping and be modestly beneficial to businesses as they will be able to recoup a portion of the PST component of the HST.

The pain will be born by individuals purchasing services as the rate of tax will rise from the current 5% to 13% upon harmonization.

In the following paragraphs we have highlighted the major changes applicable to certain segments of the economy. The highlights are not exhaustive, and more information can be found either by contacting us directly, or alternatively by visiting the following website.

<http://www.rev.gov.on.ca/en/taxchange/index.html>

**CHARITIES**- charities and qualifying non-profits will find HST means a bit more work. Charities receive 50% of the 5% GST as a rebate. The Ontario 8% portion of the new HST will be subject to an 82% rebate. This implies more work, however it looks like an overall percentage of 69.6923% on the 13% HST will work.

$$5\% \times 50\% + 8\% \times 82\% = 9.06\%$$

$$9.06\% \div 13\% = 0.696923$$

**SMALL BUSINESSES**-generally HST will simplify small business accounting (no more PST filings) and will be modestly profitable (all HST will be recoverable whereas PST on asset purchases; phone, utilities, repairs and supplies, which are now a cost of business, will all become recoverable)



continued...

**CONSTRUCTION**- transitional rules are complex. You should speak to us to ensure GST/HST on transactions after May 1, 2010 are handled correctly, this includes holdback, deposits, etc.

-HST will now apply to progress payments from commercial customers on construction contracts if the work will be performed after July 1.

-New homes, where the purchase agreement is prior to June 18, 2009, will have 5% GST even if completed after July 1, 2010. GST purchase rebates (old rules) will apply for the buyer.

-The builder will have to pay a transitional HST tax depending on percentage completion at July 1, 2010.

-Deals after June 18, 2009, if possession and ownership takes place after July 1<sup>st</sup> bear HST at 13%. A new larger GST/HST rebate is available to the purchaser to add the provincial component of HST (rebate is added of 6% of the price up to a \$24,000 max. rebate) The Impact is that a new home buyer up to \$400,000 will pay about the same as before. Cost over \$400,000 will be about 6% more expensive under HST. The rebate will be prorated for properties under construction at July 1, 2010. (For condos the new rebate goes to the builder)

**HOME OFFICE**-can claim HST input credits on applicable utilities, repairs etc., but not capital expenditures/major renovations.

**TIPS**- Delay capital purchases for business until July to avoid paying non recoverable PST and pay recoverable HST instead. I would go so far as to consider short term rental/lease if needed, then buy in July.

**PLANNING POINT**- for service businesses with retail customers who will not recover the added cost of HST, if you bill the service on or before April 30, 2010, in respect of services that will be rendered after July 1, no 13% HST will apply (only the 5% GST), example: maintenance contracts, club dues, etc.