



Ontario Harmonized Sales Tax

Understanding and managing the impact

**Presentation to the
ING DIRECT Business Savings Clients**

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Agenda

- Background and comprehensive tax reform
- Current Ontario Retail Sales Tax (ORST) structure
- Ontario Harmonized Sales Tax (HST)
 - Basics
 - Transitioning to HST
 - Industry Highlights
- Getting prepared for HST
 - Impact on customers
 - Impact on costs
 - Impact on compliance
- Questions

Background

- Ontario currently imposes a single staged retail sales tax (ORST) generally applicable to most goods and certain services at a rate of 8%
 - Generally is not recoverable by businesses and consumers
 - Some exemptions apply for certain goods and services
- On July 1, 2010, the ORST will be combined with the federal GST to create a federally administered single **value added sales tax** for taxable supplies made in Ontario
 - Combined tax rate of 13%

Comprehensive tax reform

- HST is part of a more **comprehensive tax reform** that was announced on March 26, 2009 by the Ontario government in the 2009 Budget that also:
 - Lowers corporate income taxes over 5 years - **\$4.5 billion over 3 years**
 - Provides transitional and ongoing tax relief to consumers - **\$10.6 billion over 3 years**
- Federal government cash transition assistance totaling **\$4.3 billion over two years** addressed revenue shortfall concerns for Ontario

Comprehensive tax reform

Relief for businesses

- Transitional credit up to \$1,000 for businesses with less than \$2 million in annual revenues from taxable supplies
 - One time credit to compensate small businesses for the compliance costs associated with the transition to HST

Comprehensive tax reform

Relief for businesses (cont'd)

Provincial corporate tax rates falling (\$4.5 billion benefit over 3 years)	General	Small Business	SBD Surtax	M&P	CMT
Current rate	14.0%	5.5%	4.25%	12%	4%
July 1, 2010	12.0%	4.5%	nil	10%	2.7%
July 1, 2011	11.5%	4.5%	nil	10%	2.7%
July 1, 2012	11.0%	4.5%	nil	10%	2.7%
July 1, 2013	10.0%	4.5%	nil	10%	2.7%

Comprehensive tax reform

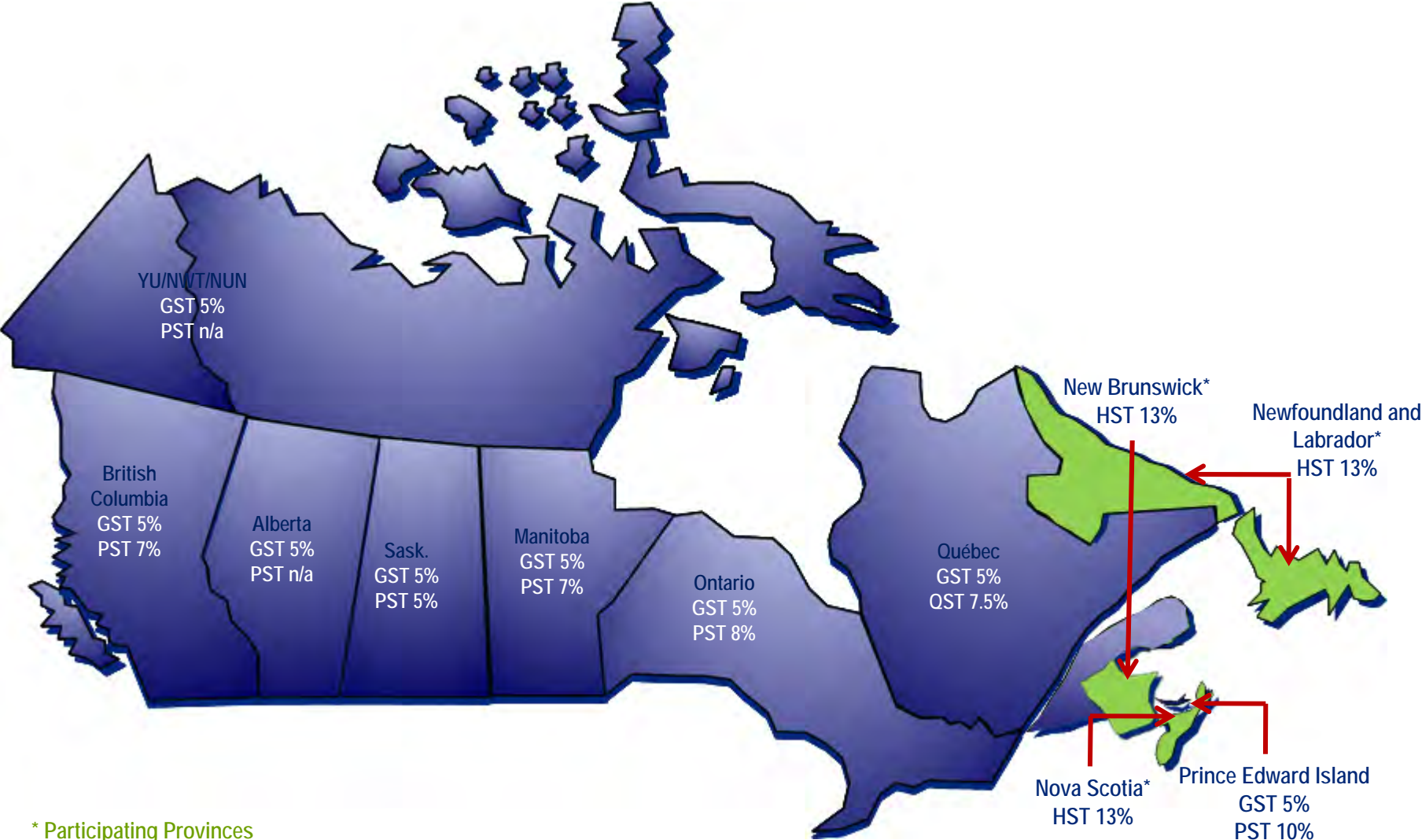
Relief for individuals

- One-time transition funding
 - \$1,000 for families with income below \$160,000
 - \$300 for singles with income of \$80,000 or less
- Enhanced sales tax credit of up to \$260 for every member of the household for low and middle income earners
- Enhanced property tax credit will provide an additional \$270 million in property tax relief every year to low- to middle- income Ontario homeowners and tenants
- Personal tax rate will be cut by 1% (6.05% to 5.05%) for the first \$37,106 taxable income for 2010

Current ORST structure

- Single incidence tax at retail or “final consumption” level
- Cost to the purchaser/end-user of the good/service purchased
- Direct ORST paid by businesses on their purchases forms a significant component of ORST collected by the Province
 - Embedded in operating costs and capital expenditures – estimated at **\$5 billion** annually
- Supplier’s ORST cost affects pricing and/or profit margins

Current sales tax rates



* Participating Provinces
 PST - Provincial Sales Tax
 QST - Quebec Sales Tax

Overview of current ORST

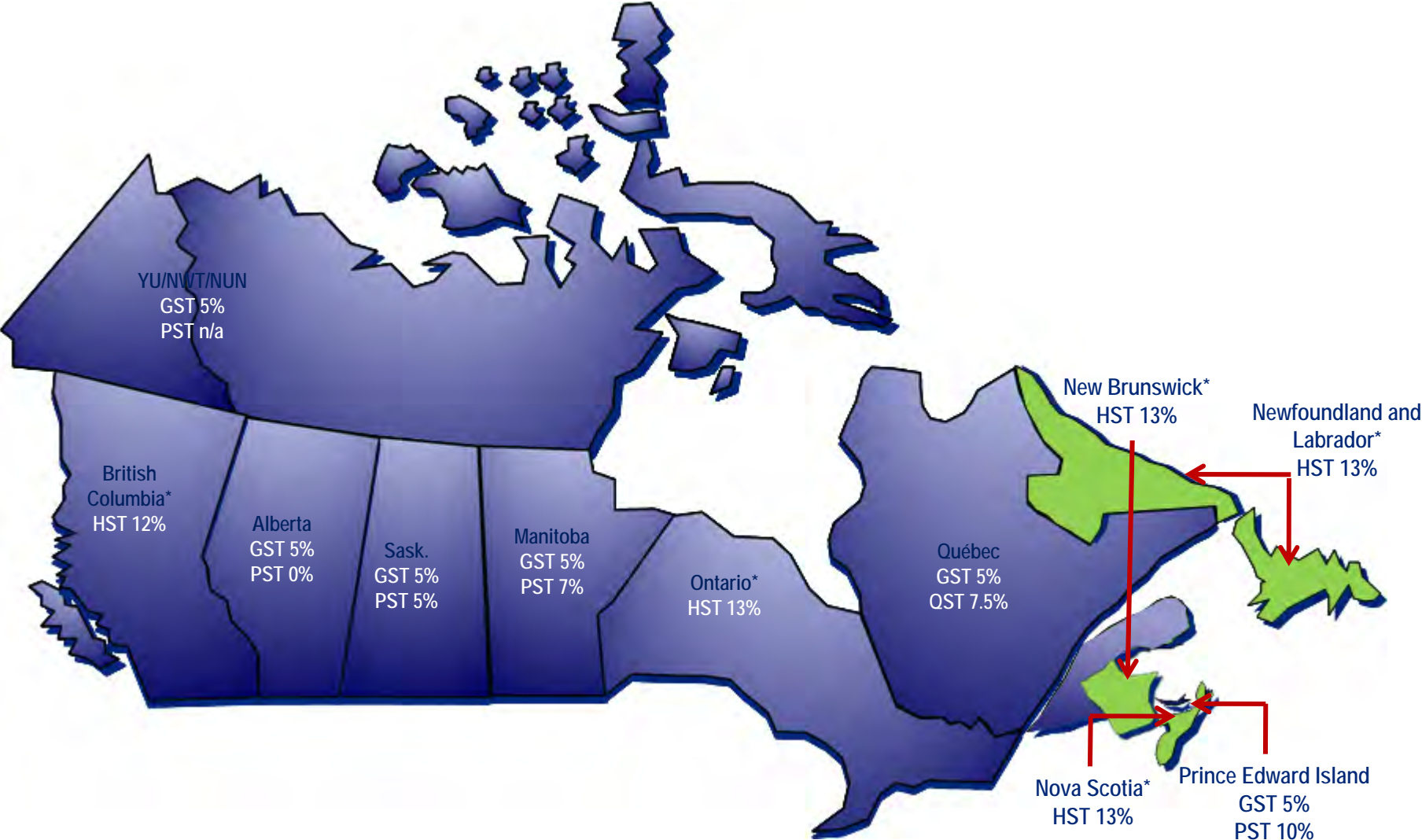
	General	Places of amusement	Alcoholic beverages	Transient accommodation
ORST rate	8%	10%	10/12%	5%
General tax base	<ul style="list-style-type: none"> • Most tangible personal property (TPP) • Labour to install, assemble, adjust, maintain or repair TPP • Telecommunication services • Computer software and related services • Certain P&C and group insurance products 		Sold in stores: 12% Sold in bars/ restaurants: 10%	
Examples of items not part of the base	<ul style="list-style-type: none"> • Real property transactions • Most professional services • Transportation services • Intangible property • Home care services 			
Examples of exemptions and relief measure (certain purchasers have exemption / rebate relief available. E.g., hospitals / charities / religious bodies, etc.)	<ul style="list-style-type: none"> • TPP for resale • Raw materials/consumables used in manufacturing and production • Manufacturing/production equipment • Certain books, magazines, newspapers • Electricity, gas and diesel fuel • Prepared meals under \$4 • Basic groceries • Children's clothing • Feminine hygiene products • Prescription medicine 	<ul style="list-style-type: none"> • Amateur/ charity sponsored events • Over 90% Canadian performers 		

Ontario HST

- On July 1, 2010, ORST will be combined with the federal GST to create a federally administered single value added sales tax for taxable supplies made in Ontario
 - Combined tax rate of 13% (provincial portion 8% and federal portion 5%)
 - Adoption of GST application rules
 - Broader GST tax base

Note: British Columbia will also harmonize its retail sales tax with GST on July 1, 2010 with a combined tax rate of 12%

Sales tax rates after harmonization in Ontario and BC



* Participating Provinces

Ontario HST - Basics

- Businesses selling taxable/zero-rated goods/services will be able to claim input tax credits (ITCs) for the provincial portion of the HST paid on their purchases, as under the GST
 - Generally, impact of HST will be **favourable** as inputs currently subject to non-recoverable RST will be subject to recoverable HST
 - **cost reductions**
- Businesses making exempt sales (such as financial services, health care services, residential rentals) will not be entitled to recover the HST as is the case with the GST
 - Generally, impact of HST will be **unfavourable** as inputs that are currently not subject to RST but will be subject to HST will cost more – **cost increases**

Ontario HST - Basics

- 8% non-recoverable ORST will continue to apply to:
 - Private sales of used vehicles
 - Insurance premiums currently subject to 8% RST (e.g., property and casualty insurance (other than car insurance), group insurance)

Ontario HST – Basics (Summary)

	General	Places of amusement	Alcoholic beverages	Transient accommodation	ORST
HST rate (provincial portion)	8%	8%	8%	8%	8%
General tax base	Same as GST	Same as GST	Same as GST	Same as GST	<ul style="list-style-type: none"> • Certain insurance products • Private sales of automobiles
Examples of items not subject to OHST	Exemptions and zero-rating same as GST	Exemptions and zero-rating same as GST	Exemptions and zero-rating same as GST	Exemptions and zero-rating same as GST	
Examples of provincial portion only relief	<u>Point of sale rebates for:</u> <ul style="list-style-type: none"> • Books • Children’s clothing and footwear • Children’s car/booster seats • Diapers • Feminine hygiene products • Prepared meals under \$4 • Printed newspapers <i>Partial rebate for new homes (up to \$24,000)</i>				

Ontario HST – Place of supply rules

- Rules exist to determine when to charge GST only versus higher-rated HST

General Place-of-Supply Rules		
Real property	Location of the real property	Status quo
Goods sold	Location where the goods are delivered	Status quo
Goods (other than specified motor vehicles) leased	Location where goods delivered (leases for 3 months or less) OR “ordinary location” (leases for more than 3 months)	Status quo
Services	Location of the recipient	Significant change
Intangible personal property	Location where IPP can be used only on a primary (50% or more) basis	Significant change

Ontario HST – Place of supply rules

- Specific rules exist for other types of supplies, including:
 - Personal services
 - Services and IPP in relation to real property
 - Services in relation to goods
 - Services in relation to location-specific events
 - Services in connection with civil, criminal or administrative litigation
 - Services of a trustee in respect of an RRSP, RRIF, RESP, TFSA, RDSP
 - Passenger transportation services
 - Customs brokerage services
 - IPP that relates to services to be performed
 - IPP that relates to goods
 - Memberships

- For more detailed information, see

http://www.deloitte.com/view/en_CA/ca/services/tax/indirecttaxandcustoms/ee89b3be31457210VgnVCM200000bb42f00aRCRD.htm

Ontario HST - Point-of-sale rebates

- Point-of-sale rebates for the provincial portion of HST available for the following items (i.e., these items will only be subject to 5% GST)

- ✓ Books
- ✓ Children's clothing
- ✓ Children's footwear
- ✓ Children's car seats
- ✓ Children's car booster seats
- ✓ Diapers
- ✓ Feminine hygiene products
- ✓ Print newspapers
- ✓ Qualifying prepared foods and beverages sold for a total of \$4.00 or less

- The rebates will apply throughout the distribution chain
- There is no requirement for the retailer to indicate the rebate amount on its invoices/sales slips

Ontario HST - Relief for the public sector

- Public service body rebates for provincial component of HST, as follows:

Public service body	HST at 8% Rebate	GST at 5% Rebate	Effective tax rate
Municipalities	78%	100%	1.76%
Universities and colleges	78%	67%	3.41%
School boards	93%	68%	2.16%
Hospitals	87%	83%	1.89%
Charities and qualifying non-profit organizations	82%	50%	3.94%
Non-qualifying non-profit organizations	0%	0%	13%

Ontario HST- Recaptured input tax credits (RITCs)

Affects:

- Businesses with annual taxable supplies over \$10 million
- Specified financial institutions
 - Banks, insurers, credit unions, trustees, seg funds, investment plans, related entities
 - Special rules for “selected listed financial institutions”

Does not affect:

- Public service bodies (charities, NPOs, schools, hospitals, colleges, universities and municipalities)
- Persons whose chief source of income is from farming

Ontario HST- RITCs

Impact:

- Input tax credits (ITCs) for the provincial portion of HST paid on the following categories of costs is denied:

Categories
Energy (electricity, natural gas, combustibles and steam) Except purchased by farms or used in production/manufacturing of tangible personal properties
Telecommunication Services Other than internet access or toll-free numbers
Road vehicles (weighing less than 3,000 kg) including related parts and services
Fuel to power above-noted road vehicles (less than 3,000 kg)
Food, beverages and entertainment

Ontario HST- RITCs

Application:

- First 5 years - full recapture
- Eligible ITCs phased back in over a 3 year period thereafter
- The restriction percentage (recapture rate) is as follows:

Recapture Rate	Period
100%	July 1, 2010 to June 30, 2015
75%	July 1, 2015 to June 30, 2016
50%	July 1, 2016 to June 30, 2017
25%	July 1, 2017 to June 30, 2018
0%	On or after July 1, 2018

• Compliance:

- Claim upfront ITC, with offsetting recapture in same reporting period
- Tracking and disclosure separately on GST return

Ontario HST- RITCs

- Proxy is also available for telecommunication expenses
- Energy used directly in the production of TPP for sale is not subject to RITC – proxies available for this as well
- More information is available here:

http://www.deloitte.com/view/en_CA/ca/services/tax/indirecttaxandcustoms/article/bf02ae35de2b6210VgnVCM100000ba42f00aRCRD.htm

Ontario HST – Transitional rules

- The rules deal with determining the application of the provincial component (i.e., 8%) of the HST for ***payments made/invoices issued prior to July 1, 2010*** that relate to HST taxable supplies of property and services relating to a period or periods after June 30, 2010
- Depending on when payments are made/invoices are issued, self-assessment or collection obligations are required

Ontario HST - Transitional rules

- Transitional rules released on October 14, 2009

HST applies generally to:

- Sales of goods where ownership is transferred and delivery is on or after July 1, 2010
- Services performed on or after July 1, 2010 (unless 90% or more was performed before July 1, 2010)
- Leases or licenses of goods and property for periods commencing on or after July 1, 2010 (with exceptions)
- IPP (e.g., intellectual property, contractual rights, software) where consideration due or paid without becoming due on or after July 1, 2010
- Sales of real estate where both title and possession transferred on or after July 1, 2010

Ontario HST - Transitional rules

- Special transitional rules apply to:
 - Subscriptions to newspapers, magazines, etc.
 - Prepaid funeral/cemetery services
 - Transportation services
 - Memberships and lifetime memberships
 - Admissions
 - Residential real estate
 - Progress payments and holdbacks

Ontario HST – Transitional rules

- From October 15, 2009 onwards, businesses and public service bodies may be required to self-assess the provincial component of the HST in the following circumstances:

Costs incurred relate to making sales that are exempt for GST purposes

Costs incurred subject to RITC rules

Person using simplified procedures for calculating net tax for GST purposes

Person is a “selected listed financial institution”

- Effective May 1, 2010, GST registered vendors will be required to collect HST for taxable supplies made in Ontario post June 30, 2010

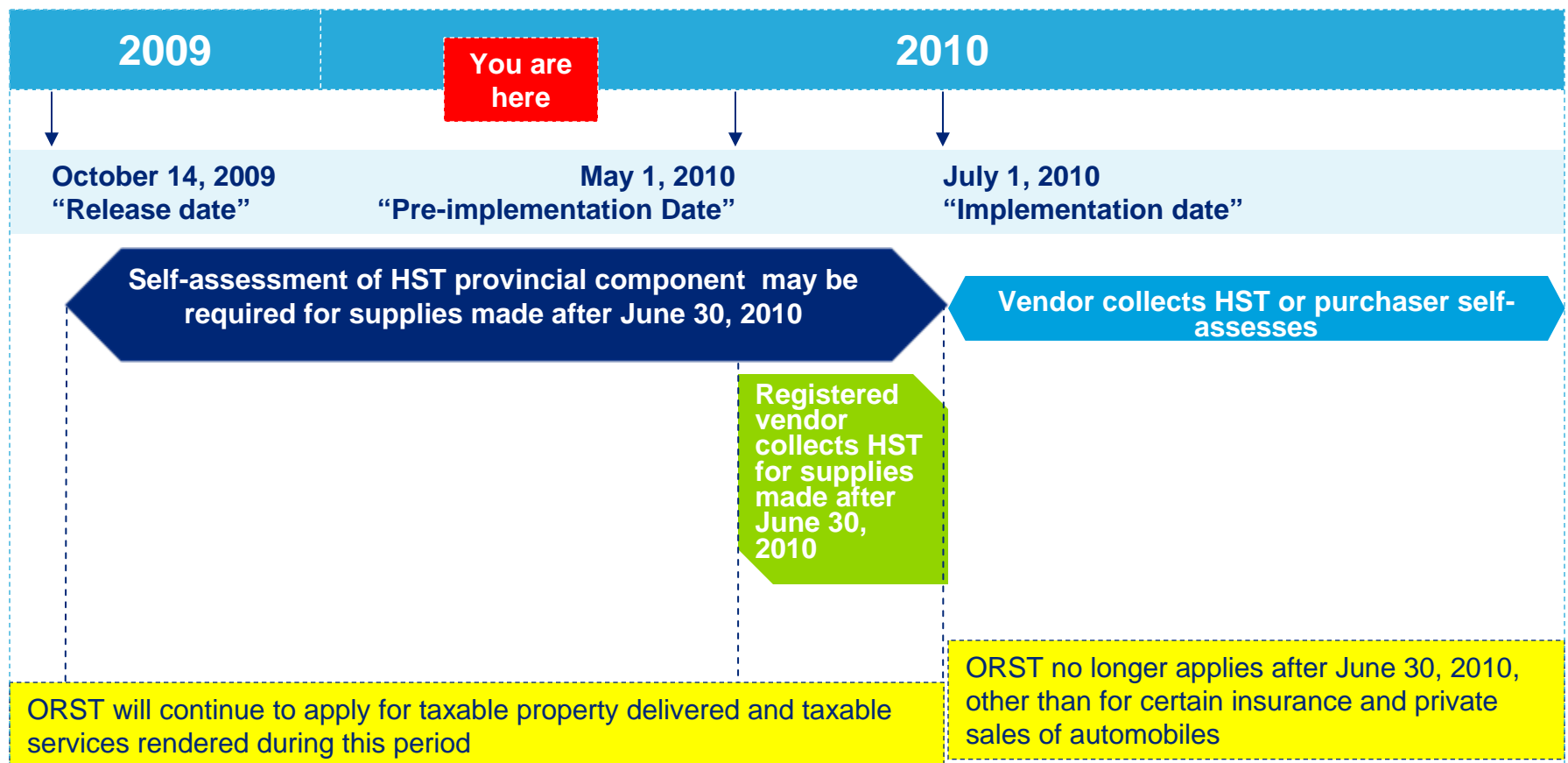
Ontario HST – Winding down of ORST

- Generally, no longer require to self-assess ORST for taxable purchases made/relating to after June 30, 2010
- Final ORST return for June 2010 to be filed on or before July 23, 2010 (unless there is any supplemental ORST return – must be filed no later than November 23, 2010)

	Before July 1, 2010	On or after July 1, 2010	Special situations
Tangible personal property (goods)			
Sales	PST	No PST	N/A
Leases, licenses or similar arrangements	PST	No PST	PST applies if the lease interval starts before July 1, 2010 and ends before July 31, 2010
Imported goods	PST	No PST	N/A
Taxable services	PST	No PST	PST rules apply if more than 90% of the service is performed before July 1, 2010
Admissions	PST	No PST	N/A
Accommodation	HRT (5%)	No HRT	HRT applies if the lease interval starts before July 1, 2010 and ends before July 31, 2010

Transitioning to HST - summary

- More information on the HST transitional rules can be obtained here:
http://www.deloitte.com/view/en_CA/ca/services/tax/indirecttaxandcustoms/article/93d6a12a7a874210VgnVCM100000ba42f00aRCRD.htm



Industry highlights – retail/consumer business

- Should realize cost savings under HST due to removal of non-recoverable ORST on certain input costs
- Cash flow considerations since no longer able to use purchase exemption certificates as done for ORST on goods for resale
- Key is setting tax rates to properly account for the tax effective July 1, 2010 and possibly May 1, 2010 for pre-bills and pre-payments
 - Impact on billing and point of sale systems could be significant
- Determine whether RITCs applicable – impact could be significant with respect to energy and telecommunication costs

Industry highlights – retail/consumer business

- Also need to consider:
 - Point-of-sale rebates on affected items need to be considered – only 5% GST applicable
 - HST impact on rebates, coupons and other loyalty programs need to be considered, etc.
 - Review current treatment of non-reimbursable coupons
 - It could make sense to restructure program
 - Returns and exchanges for items sold that were subject to ORST need to be considered
 - If returned/exchanged before November 1, 2010, retailer adjusts the ORST accordingly
 - After October 31, 2010, customer may apply for refund of ORST directly from the government

Industry highlights – manufacturing

- Similar issues as with retail/consumer business
- Plus, RITC for large businesses (i.e., over \$10 million taxable sales per year) does not apply to energy used directly in the manufacturing and production of TPP for **sale by** the large business
- Manufacturers required to determine use of energy between manufacturing/production (no RITC) and other uses (RITC applicable)

Industry highlights – manufacturing

- Affected businesses can elect to use a proxy percentage to determine what portion of the energy that it acquires would be considered to be used directly in the manufacturing/production process (based on the North America Industry Classification System (NAICS) for 2007)

Proxy use in manufacturing (no RITC applicable)	96%	87%	70%
NAICS Code	113, 211, 212, 322, 324, 325, 327, 331	311, 312, 313, 314, 321, 326, 332	315, 316, 323, 333, 334, 335, 336, 337, 339

- If the business' most significant activity does not fall under any of these codes, then the business has to make its own determination
- Also, no RITC in respect of energy used directly in activities that are considered eligible SR&ED activities (another proxy available)

Industry highlights – construction

Transition considerations

- Progress payments
 - where can reasonably be attributed to property delivered or services performed on or after July 1, 2010, HST applies
 - *e.g. on same invoice apply 5% on work before July 1, 2010, and 13% on work done thereafter*
 - due or are paid after October 14, 2009 and before July 1, 2010, supplier must charge and report the provincial component
- Holdbacks
 - follows same treatment as for progress payments to which they relate, even if holdbacks are paid or become due after June 30, 2010
 - *may create tracking problems when holdbacks are released after July 1, 2010*

Industry highlights – construction

Transition considerations (cont'd)

- Construction substantially (i.e., 90% or more) completed before June 2010
 - Generally, only 5% GST applies
 - However, for amounts payable on a contract that have not been paid or becomes due on or before July 31, 2010, any portion of such payment attributable to construction on or after July 1, 2010 would be subject to the HST

Industry highlights – new home builders

- Individuals purchasing newly constructed or substantially renovated homes will qualify for a partial rebate of the provincial component of HST, in addition to current GST rebate
 - 75% of 8% on the first \$400,000 of purchase price (max \$24,000 rebate available)
 - Separate rebate calculation from the current GST rebate
 - Builders can apply this rebate in the same manner as current GST rebate
- Rebate applicable to the other types of new residential properties that currently qualify for the GST new housing rebate for individuals or landlords
 - co-operative housing, owner-built or substantially renovated housing, housing on leased land, mobile homes and modular homes for use as primary places of residence, long term residential care facilities, multi-unit residential complexes

Industry highlights – new home builders

- Transitional Tax Adjustment (TTA)
 - Applicable for new construction **NOT** subject to HST that straddles July 1, 2010 (e.g., where agreement was entered into on or before June 18, 2009)
 - TTA is a tax on the builder intended to approximate the amount of ORST that would have been payable on expenses incurred after June 30, 2010
 - Eliminates benefit on grandfathered sales for costs subject to recoverable HST by builder

% completed as at July 1, 2010	Adjustment rate based on purchase price	% rate payable by builder
Less than 10%	2%	100%
10% to less than 25%	2%	75%
25% to less than 50%	2%	50%
50% to less than 75%	2%	25%
75% to less than 90%	2%	10%
90% or more	2%	0%

Industry highlights – new home builders

- Transitional Housing Rebate (THR)
 - Applicable for new construction **subject** to HST that straddles July 1, 2010 (e.g., where agreement was entered into after June 18, 2009 and ownership and possession occur after June 30, 2010)
 - THR is a rebate based on the estimated ORST paid on expenses incurred before July 1, 2010
 - Eliminates double taxation on HST taxable sales

Industry highlights – new home builders

- Transitional Housing Rebate (THR) (cont'd)
 - Can choose one of two methods, based on percentage of completion:
 - (a) “floor space method” – – \$45/meter²
 - (b) “selling price method” – 2% of selling price

% completed as at July 1, 2010	Rebate rate based on selling price	Rebate %'age based on construction completion
90% or more	2%	100%
75% to less than 90%	2%	90%
50% to less than 75%	2%	75%
25% to less than 50%	2%	50%
10% to less than 25%	2%	25%
Less than 10%	2%	0%

Industry highlights – exempt sectors (e.g., private health care, financial services providers)

- Higher tax cost on certain inputs
 - Professional services
 - Real property rent
 - Certain outsourcing arrangements
- Current GST exemption on service offerings continues post June 2010

Industry highlights – HST impact on a resale home purchase

Facts:

Industry highlights – HST impact on a resale home purchase

HST impact:

	Amount	GST Pre- July 1, 2010	ORST Pre-July 1, 2010	Total taxes Pre-July 1, 2010	HST Post- June 30, 2010	Cost Difference
Purchase price	\$600,000	Nil	Nil	Nil	Nil	Nil
Real estate commissions	\$30,000	\$1,500	Nil	\$1,500	\$3,900	\$2,400
Mortgage	\$400,000	Nil	Nil	Nil	Nil	Nil
Mortgage brokerage commissions	\$4,000	Nil	Nil	Nil	Nil	Nil
Legal fees	\$2,500	\$125	Nil	\$125	\$325	\$200
Home inspection	\$800	\$40	Nil	\$40	\$104	\$64
Total tax impact						\$2,664

Industry highlights – HST impact on a resale home purchase

New development

- Announcement by Department of Finance (Finance) on December 14, 2009 to change the GST legislation
 - Followed by Canada Revenue Agency (CRA) Notice 250 in February
- Affects many intermediary services related to financial products
 - Puts into question whether mortgage brokerage services (and other types of financial intermediary services) should be taxable for GST purposes
 - Tax cost would be significant to buyers of these services – 13% under HST!!!
- Lot's of lobbying underway and Finance and CRA seem to be rethinking broadness of proposed changes
 - CRA gathering input
 - **STAY TUNED!!!!!!!!!!!!**

Industry highlights – HST impact on a resale home purchase

HST impact (*assuming mortgage brokerage commissions are considered taxable*):

	Amount	GST Pre- July 1, 2010	ORST Pre-July 1, 2010	Total taxes Pre-July 1, 2010	HST Post- June 30, 2010	Cost Difference
Purchase price	\$600,000	Nil	Nil	Nil	Nil	Nil
Real estate commissions	\$30,000	\$1,500	Nil	\$1,500	\$3,900	\$2,400
Mortgage	\$400,000	Nil	Nil	Nil	Nil	Nil
Mortgage brokerage commissions	\$4,000	Nil	Nil	Nil	\$520	\$520
Legal fees	\$2,500	\$125	Nil	\$125	\$325	\$200
Home inspection	\$800	\$40	Nil	\$40	\$104	\$64
Total tax impact						\$3,184

Industry highlights – public sector

- Public service bodies (e.g., municipalities, schools, universities, colleges, hospitals, charities and certain NPOs)
 - Rebates available on the provincial component of HST paid on their costs in addition to rebates on 5% GST paid
 - RITCs do not apply
 - Likely HST impact will be cost neutral

- Governments (federal and Ontario) and their departments and agencies
 - Goods and services supplied to them in Ontario will be subject to HST (i.e., they will pay HST)

Where are you on the cost/benefit spectrum?



Getting prepared for HST

Regardless of the size of your business, there are 3 factors you need to consider to determine the impact of HST on the operations

- Impact on customers
- Impact on costs
- Impact on compliance

HST impact on customers

- Know your customers and the impact HST will have on them
- Individual consumers
 - Some customers may benefit from personal income tax relief measures, including transitional credit
 - Individual consumers not subject to self-assessment rules and could impact on strategies to bill/pre-pay prior to May 1, 2010 for services to be rendered after June 30, 2010
- Business/public service customers
 - Will they benefit from introduction of HST? Where are they on the cost/benefit scale?
 - Can they recover the HST in the form of ITCs or rebates?

HST impact on customers

- General
 - Will your products and services be subject to higher taxes?
 - What impact will HST have on your business?
 - Will your prices need to be adjusted for cost savings or cost increases you will realize as a result of HST?
- Proactive communications is key to helping your customers understand

HST impact on costs

- Determining how HST will impact on the cost of doing business is dependent on several factors
 - Quantum of costs that are subject to 5% GST only today
 - Quantum of costs that are subject to both 5% GST and 8% Ontario RST today
 - Entitlement to rebates of provincial portion of HST – e.g., for public service bodies
 - Input tax credit entitlement in respect of the 5% GST paid or self-assessable on costs
 - This depends on the businesses mix of services that are taxable versus exempt
 - Impact of recaptured input tax credits on your business

HST impact on costs

Examples of Items Currently Subject to 5% GST and 8% RST

- Computer software, other than custom software, including services related to:
 - Upgrading
 - Configuring
 - Installing
 - Maintenance
- TPP such as:
 - Computer hardware
 - Furniture
 - Advertising and marketing materials
 - Supplies (paper, pens, etc.)
 - Leasing of TPP
- Telecommunication services

Examples of Items Currently Subject to 5% GST Only

- Custom computer software
- Professional services, such as:
 - Legal
 - Accounting
 - Consulting
 - Contract staffing
- Real property contracts, such as:
 - Supply and installation construction
 - Leasing of real property
- Certain membership and association dues
- Energy (e.g., electricity, fuel)
- Many outsourcing arrangements (domestic and offshore)

Examples of Items Currently Exempt of /or non-taxable for GST and RST

- Many “financial services”
 - Banking services
 - Insurance products
 - Brokerage services
 - Other “intermediary” services
- Health care services
- Residential accommodation rentals

Impact

- **No additional tax to charge post July 1, 2010**
- **Cost of supplying these items should decrease**
- **Will/can savings be passed on through lower pricing?**

Impact

- **Additional tax to charge post July 1, 2010**
- **Cost of supplying these items should decrease**
- **Will/can savings be passed on through lower pricing?**

Impact

- **No tax to charge post July 1, 2010**
- **Cost of supplying these items will increase**
- **Will/can cost increases to service providers be passed on through raising of prices?**

HST impact on costs

- Example - real property lease (also applies to energy charges, GST-taxable professional services, GST-taxable outsourcing arrangements)

	Pre Harmonization	Post Harmonization	Cost Impact
Property lease	\$10,000	\$10,000	
GST/HST	500	1,300	
ORST	0	N/A	
Total cost before ITCs and/or rebates	\$10,500	\$11,300	\$800
ITCs	(500)	(1,300)	
Cost after ITCs	\$10,000	\$10,000	nil

HST impact on costs

- Example – computer hardware purchase (also applies to any costs subject to ORST today)

	Pre Harmonization	Post Harmonization	Cost Impact
Hardware purchase	\$10,000	\$10,000	
GST/HST	500	1,300	
ORST	800	N/A	
Total cost before ITCs and/or rebates	\$11,300	\$11,300	nil
ITCs	(500)	(1,300)	
Cost after ITCs	\$10,800	\$10,000	(\$800)

HST impact on costs

- Whether you believe the impact to be positive, negative or even neutral, action is required
- Affects budgeting/forecasting and planning for 2010 and subsequent years
 - The financial impact for fiscal 2010 (1/2 year impact) and 2011 forward (full year impact)
- Other considerations
 - ITC recapture for large businesses increases costs on certain expenses

HST impact on costs

Potential strategies to help mitigate cost increase of HST

- Work with key suppliers who are benefitting from HST to determine if benefits can be passed on through price reductions
- Deferring planned purchases of RST-taxable goods and services
 - Reduces impact of non-recoverable RST and is a potential strategy for businesses entitled even to partial ITCs of the HST
- Also, if you are not entitled to full ITCs
 - Accelerating planned purchases of goods and services which are currently exempt from Ontario RST and that will be taxable under HST
 - Outsourcing versus in sourcing versus other options
 - Ensure GST/HST ITC methodology is sound and is maximizing recoveries

HST impact on compliance

Changing systems and procedures for:

- Invoicing as well as tax collection and remittances to account for the additional 8% provincial portion on taxable supplies (also impacts credit notes and bad debts)
- Tracking the HST that is recoverable as an ITC or rebate and that is subject to ITC recapture
- GST/HST simplified accounting methods used and ITC allocation methodologies
- Eventual removal of RST self-assessment calculations/remittances on transaction no longer subject to PST
- Existing potential obligation to self-assess provincial component of HST on costs relating to periods after June 30, 2010
- Impact on procedures for employee taxable benefit calculations and employee expenses reimbursements and allowances paid

HST impact on compliance

Other considerations

- Some registrants will now be required to file electronically GST/HST returns, effective July 1, 2010, including
 - GST/HST registrants with greater than **\$1.5 million** in annual taxable supplies (**except for charities**)
 - all registrants required to recapture input tax credits for the provincial portion of the HST on certain inputs in Ontario or British Columbia; and
 - builders affected by the transitional tax measures applicable to housing announced by Ontario and British Columbia

For additional details, see

http://www.deloitte.com/view/en_CA/ca/services/tax/indirecttaxandcustoms/ff42fe98c9d16210VgnVCM100000ba42f00aRCRD.htm

Ontario HST - Closing

- Questions
- Want more information on HST?
 - Consult Deloitte's web page for write-ups of the HST
http://www.deloitte.com/view/en_CA/ca/services/tax/indirecttaxandcustoms/index.htm
 - Or contact :
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