



Ontario Harmonized Sales Tax *Are you ready?*

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Scott Merry, Senior Manager

Indirect Tax



Ontario sales tax harmonization

- Introduction
- Ontario Sales Tax reform
 - Costs
 - Compliance
 - Customers
- Transitional Rules for Real Property Contracts
- What is Deloitte doing?
- Q & A's
- Closing

Ontario sales tax harmonization

- Effective July 1, 2010, Ontario provincial sales tax will be harmonized with the federal goods and service tax, resulting in a federally administered 13% tax
- **Background**
 - Currently, Ontario imposes a single staged retail sales tax (RST) applicable to most goods and certain services at a rate of 8%
 - RST generally is not recoverable by businesses and consumers
 - Some exemptions apply for certain goods and services
 - On July 1, 2010, RST 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%)
 - Businesses must understand the impact of this sales tax reform and take up remediation measures

Ontario sales tax harmonization

- **Where we can help**
 - Help our clients why sales tax reform matters to them
 - 3 “C’s” our clients need to consider
 - Costs
 - Compliance
 - Customers



What types of goods and services are impacted?

Examples of items currently subject to 5% GST & 8% PST	Examples of items currently subject to 5% GST ONLY	Examples of items currently exempt of 5% GST & 8% PST
<ul style="list-style-type: none"> • Most Heavy Equipment • Tangible personal property (TPP), such as: <ul style="list-style-type: none"> – Computer hardware – Furniture – Advertising and marketing materials – Supplies (paper, pens, etc.) – Leasing of TPP • Telecommunication services • Computer software, other than custom software, including services related to: <ul style="list-style-type: none"> – Upgrading – Installing and configuring – Maintenance 	<ul style="list-style-type: none"> • Custom computer software • Professional services, such as: <ul style="list-style-type: none"> – Legal services (Ontario) – Accounting – Consulting – Contract staffing • Real property contracts, such as: <ul style="list-style-type: none"> – Supply and installation construction – Leasing of real property • Certain membership and association dues • Energy (e.g., electricity, fuel) • Many outsourcing arrangements (domestic and offshore) 	<ul style="list-style-type: none"> • E.g., many “financial services” <ul style="list-style-type: none"> – Banking services – Insurance products – Brokerage services – Other “intermediary” services
Result	Result	Result
<ul style="list-style-type: none"> • No additional tax to charge post - July 1, 2010 • Cost of supplying these items should decrease • Therefore, may offer flexibility in pricing of services 	<ul style="list-style-type: none"> • Additional tax to charge post - July 1, 2010 • Cost of supplying these items should decrease • Therefore, may offer flexibility in pricing of services 	<ul style="list-style-type: none"> • No tax to charge post - July 1, 2010 • Cost of supplying these items will increase • Therefore, may lead to increased pricing of services

Restricted ITCs for provincial component of OHST

- Energy, (e.g. electricity, natural gas, combustibles and steam) except where purchased by farms or used in production/manufacturing of TPP
- Telecommunication services, other than internet access or toll-free numbers
- Road vehicles weighing less than 3,000 kilograms (parts and certain services) and fuel to power these vehicles
- Food, beverages and entertainment
- **Affects**
 - Large businesses with taxable revenues over \$10 million
 - All financial institutions
- **Application**
 - First 5 years - full restrictions
 - Eligible ITCs phased back in over a 3 year period thereafter
- **Compliance**
 - Claim upfront ITC, with offsetting recapture/repayment in same reporting period
 - Tracking and disclosure separately on GST return

Transitional rules – Goods and services

	As of May 1, 2010	On or after July 1, 2010	HST Applies?
Goods (General rule for a supply)		<ul style="list-style-type: none"> • Consideration due • Delivery and ownership transferred 	Yes
Goods	<ul style="list-style-type: none"> • Contract entered into with customer 	<ul style="list-style-type: none"> • Goods delivered and ownership transferred 	Yes
Services (General rule for a supply)		<ul style="list-style-type: none"> • Service performed 	Yes
Services		<ul style="list-style-type: none"> • Consideration due • Service performed 	Yes
Services	<ul style="list-style-type: none"> • Contract entered into • Consideration due 	<ul style="list-style-type: none"> • Service performed 	Yes

HST transitional rules – other than new residential housing

- Purchases of land or commercial properties - OHST does not apply unless both possession and title pass on or after July 1, 2010
 - No “grandparenting” of contracts entered into before the OHST was announced
- Leases – OHST applies to the part of a lease interval ending after July 1, 2010 (except for a lease interval beginning before July 1, 2010 and ending before July 31, 2010).
 - Landlord will have to collect OHST on rentals prepaid on or after May 1, 2010
 - Tenant (other than individuals) may have to self-assess OHST on rental prepaid after October 14, 2009 and before May 2010
- No “grandparenting” of construction contracts – ORST/OHST will apply depending on whether work performed up to/ on or after July 1, 2010
 - No ORST refunds to construction materials in inventory on July 1, 2010 (except for qualifying contracts on residential properties – not new of sale)

HST transitional rules – progress payments (excluding residential housing contracts)

- Progress payments on contracts to “construct, renovate, alter or repair” (construct) real property:
 - HST will apply where the payments are reasonably attributed to property delivered or services performed on or after July 1, 2010.
 - that become due or are paid without becoming due after October 14, 2009 and before July 1, 2010, that relate to property delivered or services performed on or after July 1, 2010, the supplier would be required to account for the provincial component of the HST in its GST/HST return for July 2010
 - There is no requirement to account for HST on progress payments that relate to property delivered to service performed on or after July 1, 2010 where the payments became due or were paid without becoming due before or on October 14, 2009.

HST transitional rules – holdbacks

- A holdback from a progress payment is considered part of the progress payment from which it is held.
- The holdback would be subject to the same allocation as under the progress payment even if the holdback becomes due or is paid on or after July 1, 2010.

HST transitional rules – real property contracts greater than 3 months

- Where it is reasonably expected that a written contract to construct real property will require more than three months to complete, and the construction is **substantially completed (90 per cent or more) before June 2010**, the construction will be considered to have been substantially completed on June 1, 2010
 - Any consideration or part of the consideration payable on such a contract that had not been paid or becomes due on or before July 31, 2010, would be considered to have become payable on July 31, 2010 and any portion of such payment attributable to construction on or after July 1, 2010 would be subject to HST

Example – Contract to Construct Strip Mall (Value \$1.5M)

- Payment 1 - \$500K due March 15, 2010
 - 0% attributable to property or service delivered after July 1, 2010
- Payment 2 - \$500K due May 15, 2010
 - 0% attributable to property or service delivered after July 1, 2010
- Payment 3 - \$500K due (less a holdback amount) August 15, 2010
 - 70% attributable to property or service delivered after July 1, 2010
- Holdback \$150,000 (i.e., 30% of progress payment no. 3) due September 15, 2010
- All payments paid when they become due

Response

- 70% of Payment 3 subject to HST: \$245K (70%*(\$500K – 150K))
- 70% of Payment 3 Holdback subject to HST: \$105K (70% *\$150K)

Public Sector Bodies

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

Public service body	OHST 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%

- The effective tax rate represents the amount of non-recoverable tax paid on taxable expenses. For example, a charity will incur approximately \$39,400 of non-recoverable tax for every million dollars of taxable purchases

Your costs

- Managing your costs of inputs:
 - Costs of construction materials purchased pre July 1, 2010 – ORST will apply
 - Restricted ITCs
- Impact on contract pricing?
- Impact on your bottom line?
- Compliance and tracking costs

HST can benefit your company!!

- There is an estimated **\$5 billion a year** of unrecoverable ORST paid by businesses
- **What is your company's share of that \$5 billion per year saving?**
- **Opportunities:**
 - Reduce your costs
 - Give you a pricing advantage
- **Where are your embedded ORST costs?**
 - Your suppliers currently charge 8% ORST (or you self-assess ORST)
 - Your suppliers (or their suppliers) pay ORST that is embedded into their costs
 - Where can you find savings for your company?
- The elimination of the ORST and replacement with ITC-recoverable OHST is intended to remove this business cost

Why do impact analysis now?

- 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 calendar 2010 (1/2 year impact) and 2011 forward (full year impact)
 - Factor on the impact of restricted ITCs for provincial component of OHST (e.g., for electricity and fuel particularly)
- Cash-flow vs. net cost/savings projections where your business will be paying more tax but may also be collecting and remitting more tax

Why do impact analysis now?

- Assists in strategizing on planned purchases, projects, etc.
 - Defer?
 - Accelerate?
 - Abandon?
- Discussions with major suppliers to understand impact of OHST on them and pricing to you takes time
- Systems and process/procedures changes require lead time and priority setting
 - Consider implementation costs, staffing, training and changes to internal policies

- Remember the 3 “C’s”



What Deloitte is doing

- We are working with a number of our clients to model the impacts and work through implementation plans for their business
 - Implementation teams, plans and timelines
 - Systems changes require significant lead time
 - Quantitative impacts, budgeting, strategic planning, pricing, competitiveness
- We are developing tools to help us help our clients

Deloitte. v.10 (May 12/2009)

Ontario HST Toolkit

Value Proposition	Cash Flow Saving Strategies
Internal Controls	Timeline
General Considerations	Reports
Industry/Other Considerations	Imports
Impact Analysis Tools	Experience
Restricted ITCs	Subject Matter Experts



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Deloitte resources

- Things to think about” document
- Industry Point of Views (P.O.V.s) regarding the impact on:
 - Public sector bodies
 - Manufacturers
 - Non-resident businesses
 - Retailers and the consumer business sector
 - Outsourcing
 - Energy and resources
 - Insurers
 - Asset managers
 - Private equity
 - Real estate sector
 - Further details on OHST for residential real estate (June 26, 2009)
- http://www.deloitte.com/view/en_CA/ca/services/tax/article/d1cb0b8c56912210VgnVCM100000ba42f00aRCRD.htm

Deloitte contacts

Scott Merry

Senior Manager, Indirect Tax

(519) 650-7737 smerry@deloitte.ca

Scott Lamb

Partner, Tax

(519) 650-7776 slamb@deloitte.ca

Dlane Gilpin

Associate Partner, Audit

(519) 650-7720 dgilpin@deloitte.ca

Questions and answers

Deloitte.