Tax Law

March 27, 2009

Ontario Announces Shift to Harmonized Sales Tax

The 2009 Ontario Budget, tabled on March 26, sets out a proposal to harmonize Ontario's provincial sales tax ("PST") with the Federal goods and services tax ("GST") effective July 1, 2010. Ontario will become the fifth province to bring its sales tax in line with the GST (Newfoundland, New Brunswick, and Nova Scotia have harmonized sales taxes, while Québec's provincial sales tax is parallel to the GST, but is separately administered). Although the Budget indicates that the proposed shift to a single, federally administered, value-added sales tax remains "subject to the approval of the legislature", it includes some details of the proposed scope of the new tax and provides incentives to "help Ontarians through the adjustment period".

Very generally, sales tax harmonization will mean that a broader range of goods and services are subject to sales tax. However, it will also mean that tax on business inputs will be reduced or eliminated for many businesses. The rate of the harmonized tax will be 13% (which is equal to the existing 8% PST plus the 5% GST).

The Ontario component of the harmonized tax will largely mirror the GST. Therefore, as with the GST, most businesses will be able to claim input tax credits for the Ontario component of the harmonized sales tax that they pay. Generally, in those circumstances, the cost of doing business will decrease, as harmonization will permit the recovery of Ontario sales tax on business inputs, which is currently unrecoverable. However, businesses that are not entitled to full input tax credits (such as those operating in the financial services sector) will see an increase in the amount of unrecoverable tax they pay to the extent that their currently PST-exempt goods and services inputs are subject to the harmonized sales tax.

All businesses, especially those in the retail sector, will have to adjust their business systems to ensure proper compliance with harmonized sales tax collection, remittance, and accounting requirements.

In the Budget, the Ontario government stated that it will provide further details of the harmonization measures in the coming months. The proposed features of the harmonized sales tax described in the Budget include the following:

- Although most businesses will be able to claim input tax credits for all harmonized sales tax that they pay, large businesses (with annual sales exceeding $10 million) and financial institutions will, for a period of 5 years, be unable to claim input tax credits for the Ontario component of the tax on some of their inputs, such as certain energy supplies, food, beverages and entertainment, certain telecommunications services, and many supplies of and in respect of certain road vehicles. After the first five years, these restrictions will be phased out over a further three year period.
- Municipalities, hospitals, universities, colleges, school boards, charities and certain non-profit organizations will be entitled to rebates in respect of the Ontario portion of the tax similar to the GST rebates currently available to them. The proposed rebate rates differ, however, from the GST rates (Municipalities, Universities and Colleges – 78%; School Boards – 93%, Hospitals – 87%; Charities and Non-Profit Organizations – 82%).
- Small businesses will be eligible for a one-time transitional tax credit of up to $1,000 to

help with the costs of changing their accounting systems to account for the harmonized sales tax.

- The current compensation given to vendors for collecting and remitting PST will no longer be offered.
- A rebate of 75% of the Ontario portion of the tax will be available on purchases of new homes under $400,000. The rebate will be reduced for new homes priced between $400,000 and $500,000 and will not be available for more expensive homes. Resale homes will not be subject to the new tax.
- Books, children's clothing and footwear, children's car seats, feminine hygiene products, and diapers, which are currently PST-exempt, will be eligible for point-of-sale rebates for the Ontario component of the new tax.
- Families earning less than $160,000 and single individuals earning less than $80,000 will be eligible to receive transitional payments totalling $1,000 and $300, respectively.
- Low- to middle-income individuals and families will be entitled to an ongoing refundable sales tax credit of up to $260 per year.
- The Ontario tax rate on transient accommodation, such as hotel rooms, will increase from its current 5% to 8%.
- Ontario will retain a sales tax on private transfers of motor vehicles and on certain types of insurance premiums. Automobile insurance premiums will continue to be exempt from provincial sales tax.
- Although the provincial rate of sales tax on alcohol sales will be reduced to 8% from its current rates of 10% or 12%, the Budget proposes to make adjustments to current alcohol fees, levies and charges.

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