

# Preparing for HST

Presentation to the  
Auctioneers Association  
of Ontario

February 19, 2010



CERTIFIED  
GENERAL  
ACCOUNTANTS

We see more than numbers.

# Background

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- GST implemented in 1991
- 3 provinces harmonized in 1997
- Quebec introduced its own VAT in 1992  
(virtually identical to GST)
- Alberta, 3 territories – no separate sales tax
- BC, Ontario to harmonize in 2010
- Outliers – SK, Manitoba, PEI



## Background (cont'd)

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- VAT in place in approx. 140 countries (condition of entry in EU)
- VAT considered more efficient than RST
- Canada is the only country to have both VAT and RST
- USA only OECD country without a VAT



# Benefits of Harmonization

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## Tax Compliance

- 1 set of paper work (e.g. tax return, elections)
- 1 government to answer questions
- 1 tax cycle (e.g. annual, quarterly – GST and RST tax periods differ)
- 1 tax base (with minor exceptions)
- Savings - \$500 M annually



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## Benefits of Harmonization (cont'd)

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### Lower Pre-Tax Price

- Current situation:
  - GST – ITCs
  - RST – Businesses only get RST refund for goods sold (no refund for RST paid on other expenses); cost to business \$5 Billion



## Benefits of Harmonization (cont'd)

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### Lower Pre-Tax Price

- Under HST:
  - Full ITCs (with minor exceptions)
  - In other words, full refund for HST paid
  - Sales tax no longer business expense



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## Benefits of Harmonization (cont'd)

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### Net Result

- For goods/services currently subject to both taxes, prices should be reduced
- For goods/services currently subject to one tax, post-tax price to rise (but not necessarily by full tax amount)
- Overall no real impact on CPI



# Benefits of Harmonization (cont'd)

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## Net Result (cont'd)

- Sales tax no longer cost to businesses
- Administrative savings
- Funds available for future investment (\$36 Billion)
- More competitive economy
- CD Howe Institute estimates
  - 0.5% annual increase in Ontario GDP (within 10 years)
  - 1.5 – 2% annual increase in investment (within 2 years)



# Benefits of Harmonization (cont'd)

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## Experience in “N” Provinces

- Per capita investment rose by 11% within one year (compared with other provinces)
- Investment in machinery and equipment rose by 12%
- Prices dropped by 1% (Atlantic Institute of Market Studies)



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## Benefits of Harmonization (cont'd)

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“We did not want to be at a competitive disadvantage with Ontario when it came to attracting jobs, especially at a critical time in the economic recovery.”

- Hon. Colin Hansen, BC Minister of Finance



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# Application of HST

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Virtually identical to GST:

- same tax base (with minor exceptions)
- same ITC eligibility (with minor exceptions)
- same tax return and filing frequency options



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# Application of HST (cont'd)

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Exceptions to tax base:

- point-of-sale rebate of provincial component for
  - children's clothing and footwear
  - diapers
  - car seats and booster seats
  - books and audio books
  - others



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## Application of HST (cont'd)

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Exceptions to tax base (cont'd):

- provincial tax remains on P&C insurance
- beer and alcohol – dedicated 2% tax will be levied since provincial sales tax rate lowered from 10% to 8%



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## Application of HST (cont'd)

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Limitations to ITC eligibility on prov component:

- large businesses (annual revenue > \$10 M)
- First 5 years of HST regime, no ITCs on:
  - energy (with minor exceptions)
  - telecommunications (except Internet)
  - vehicles < 3,000 kg and fuel
  - food, beverages, entertainment



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## Application of HST (cont'd)

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### Limitations to ITC eligibility (cont'd):

- List of exceptions similar to QST
- Gradual lifting of limitation: July 1, 2015 – June 30, 2018
- Full eligibility to claim ITCs as of July 1, 2018



# Rules for Auctioneers

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Application of HST – similar to GST

- auctioneer deemed to have sold goods (not owner)
- Auctioneer must collect and remit HST on entire purchase price, including auctioneer's fee (buyer's premium) even if owner not a registrant



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## Rules for Auctioneers (cont'd)

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Auctioneer not required to account for HST on services related to the sale of goods:

- pre-sale cleaning
  - advertising
  - short-term storage
- Auctioneer must account for HST if services are provided (and charged); goods not sold



## Rules for Auctioneers (cont'd)

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GST Election 502 – between auctioneer and principal

- allow owner to account for tax on specified goods – cars, trucks for highway use; heavy equipment and machinery
- sale of owner's goods > 90% of day's auction
- Election option likely stay in effect



# Transition Rules – Key Dates

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May 1, 2010 – HST applies on consideration paid or payable on goods/services to be provided on or after July 1, 2010

July 1, 2010 – all taxable supplies made in Ontario on or after this date subject to HST

<http://www.rev.gov.on.ca/en/notices/hst/03.html>



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# Preparing for HST

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Amend software that generates invoices

Develop codes for point-of-sale rebates

Do sales tax analysis of goods you sell

Track all ITCs including provincial component

Adjust bad debt tracking

Revise cash flow projections and budgets



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## Preparing for HST (cont'd)

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**PLAN AHEAD!**

**TEST YOUR SYSTEMS!!**

- Errors result in greater tax exposure – 13%, not 5%



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# Issues to be Resolved

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Application of Quick Method and Simplified ITCs

Place of Supply Rules – primarily for services,  
intangible personal property

Tax paid in error

Employee expenses report – simplified factor

Others



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# Tools to Help You Get Ready

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## Seminars on HST

- In class
- Webinar (tbc)
- video distribution (tbc)



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# Tools to Help You Get Ready (cont'd)

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## Publications

- Booklet “Harmonized Sales Tax in Canada”  
prepared by Ontario’s Certified General Accountants

<http://www.cga-ontario.org/assets/file/HST.pdf>

- HST Q&A

<http://www.cga-ontario.org/assets/file/HST%20Book.pdf>



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# Government Information

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Ontario Ministry of Revenue, [rev.gov.on.ca/en/](http://rev.gov.on.ca/en/)

(800) 337-7222

Canada Revenue Agency

[http://www.cra-arc.gc.ca/formspubs/tpcs/gst\\_hst-eng.html](http://www.cra-arc.gc.ca/formspubs/tpcs/gst_hst-eng.html)

(800) 959-5525



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## Government Information (cont'd)

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### CRA GST/HST Info Sheet for auctioneers

- <http://www.cra-arc.gc.ca/E/pub/gi/gi-010/gi-010-e.pdf>

### GST Election 502

<http://www.cra-arc.gc.ca/E/pbg/gf/gst502/gst502-08e.pdf>



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# Contact Information

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For additional information, please contact:

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