

This document can be made available in other accessible formats as soon as practicable and upon request

STAFF REPORT: Finance and IT Services



REPORT TO: Committee of the Whole
MEETING DATE: June 6, 2016
REPORT NO.: FAF.16.59
SUBJECT: Results from the HST Audit
PREPARED BY: Ruth Prince, Director of Finance & IT Services

A. Recommendations

THAT Council receive Staff Report FAF.16.59, entitled "Results from the HST Audit" for their information.

B. Background

The Town of The Blue Mountains was selected for a random Harmonized Sales Tax Audit (HST) that occurred January 25, 2016 for a week and a second week beginning March 14th.

The HST audit period was from January 1, 2013 to June 30, 2015.

The Canada Revenue Agency (CRA) has been performing random audits of Municipalities over the past several years.

The chart below provides a summary of the HST audit findings:

For the periods ending	December 2012	December 2013	December 2014	June 2015	Total
Tax Not Charged on Taxable Supplies		\$7,305.53	\$8,676.19	\$1,346.65	\$17,328.37
Input Tax Credits instead of Rebates		\$891.78	\$7,130.11		\$8,021.89
Adjustments from Collins Barrow Tax Recovery Service 2012	\$26,484.74				\$26,484.74
Total	\$26,484.74	\$8,197.31	\$15,806.30	\$1,346.65	\$51,835.01

Detailed Analysis of Audit Results and Corrective Actions

Tax Not Charged on Taxable Supplies – Over the course of the audit, all revenue for the Town was examined in detail. The majority of the revenue that is received by the Town is HST exempt (property tax, water/wastewater fee, landfill fees, building and planning fee, development charges). However, the Town does have revenue that is HST taxable.

A Taxable sale is the supply of property and services that are made in the course of a commercial activity and are subject to HST. For example, HST is charged on ice rentals, harbour fees, private wastewater treatment, sale of recyclable material, cemetery fees and merchandise sales. Over the course of the audit period, the Town had \$3,772,304 in taxable sales, collecting and remitting \$490,400 in HST. The HST that was missed during the audit period is 3.5% of the total taxable sales.

Staff has reviewed the process that occurs when the Town receives taxable revenue, and have advised all staff in regards to the HST implications. We have improved the process in our accounting system to calculate the HST on taxable sales. A process has also been in place to conduct a detailed review of all taxable revenue accounts quarterly to confirm that HST has been recorded correctly and remitted.

Input Tax Credits taken instead of Rebates – The majority of expenses that the Town incurs are subject to a municipal rebate of 100% of the GST and 78% of the Ontario portion of HST. The Town does have Input Tax Credits (ITC), which means the Town can recover all of the HST paid for the use, consumption, or supply in the course of their commercial activities. For example, all of the HST can be recovered from expenses at the Harbour. Over the course of the audit period, the Town had claimed \$3,922,026 in rebates and ITC's, meaning less than 1% was done incorrectly.

Staff have reviewed the process that occurs and have advised staff in regards to the HST rebate/ITC implications.

Adjustment from Collins Barrow Tax Recovery Service 2012

In 2012, The Town retained Collins Barrow to conduct a review of the GST/PST over payment and exposure for the years 2010 and 2011. Collins Barrow would receive 33% of any GST/PST overpayments if the Town was successful in receiving CRA approval.

When the review was completed by Collins Barrow, there was very little exposure for over payment of GST/PST, however an allocation of ITC's on common expenses was proposed in the amount of \$26,464.74, which would result in additional revenue for the Town. Since the Town had never contemplated anything like this in the past staff were reluctant to adjust our HST return, however Collins Barrow assured us that this was typical in other municipalities and in the past and CRA has approved the calculation. The Town did adjust the GST return by the amount of \$26,484.74, and kept the amount in accounts payable until we received confirmation from CRA that the proposed ITC allocation was approved by CRA. Collins Barrow was never paid on this amount as it remained outstanding and will not be paid for their services.

As part of the HST audit in 2016, this allocation was denied by the CRA and therefore appears on the adjustment. The Town has reversed the original entry that was completed in 2012.

C. The Blue Mountains' Strategic Plan

Goal #4: Promote a Culture of Organizational and Operational Excellence
Objective #4: To Be a Financially Responsible Organization

D. Environmental Impacts

None

E. Financial Impact

The amount that is due to CRA in total is \$54,438.21 and has been accounted for in 2015. There was a \$2,603.20 interest charge. The payment was made to CRA in May 2016.

The HST auditors were pleased with how staff has been handling HST and indicated that our level of error was very small compared to the volume of revenue and expenses that occur at the Town.

Staff will continue to strive to make the corrective actions and procedure changes as required.

F. In Consultation With

Troy Speck, CAO
Sam Dinsmore, Deputy Treasurer/Manager of Accounting & Budgets
Debbie Brown, Budget Analyst

G. Attached

1. None.

Respectfully submitted,

Ruth Prince
Director of Finance and IT Services

For more information, please contact:
Ruth Prince
rprince@thebluemountains.ca
519-599-3131 extension 228