

STAFF REPORT: Financial and Information Services



REPORT TO: Finance and Administration
MEETING DATE: December 15, 2009
REPORT NO.: FIS.09.76
SUBJECT: HST – Harmonization of the Goods and Services Tax and the Provincial Sales Tax
PREPARED BY: Elizabeth Thompson, Manager of Accounting & Budgets / Deputy Treasurer

A. Recommendations

THAT Council receive Staff Report FIS.09.76 “HST – Harmonization of the Goods and Services Tax and the Provincial Sales Tax”, for information purposes.

B. Background

The Government of Ontario recently introduced draft legislation to establish the framework to implement tax harmonization in Ontario. The Ontario Harmonized Sales Tax (HST) is scheduled to be implemented on July 1, 2010 in a similar manner as the Goods and Services Tax (GST) is currently applied. Both the Federal and the Provincial Governments must pass legislation to harmonize the provincial and federal tax. On December 4, 2009, the Federal Government amended the Excise Tax Act to allow Ontario and British Columbia to implement the Harmonized Tax effective July 1, 2010.

All provinces currently have the ability under federal law, to harmonize provincial tax with the Federal Goods and Services tax. Only Nova Scotia, New Brunswick, Newfoundland and Labrador, and Quebec harmonize their sales tax with the GST. Ontario and British Columbia intend to harmonize the tax in a similar manner to the Maritime Provinces. After implemented, the HST will be administered by the Canada Revenue Agency. HST means that the Province has contracted the Federal Government to collect the Provincial Tax on their behalf.

The details of how the HST will be implemented are still changing. It is anticipated in the next few months that additional information will be available. Through the 2009 Ontario Budget announcement, municipalities will receive 78% of the provincial portion of the HST as a rebate. Currently under the GST rules, municipalities receive 100% rebate on expenses and 100% for Input Tax Credits (ITC). The provincial portion of the HST is proposed to have 78% rebate on expenses and 100% for ITC.

Some of the rules under the HST will differ from the current GST rules. These differences are still unfolding as the Province reviews the HST legislation.

On June 30, 2010 the Retail Sales Tax (RST) will no longer be applicable and the Ontario HST will commence on July 1, 2010. Municipalities and businesses may be eligible to claim back all or a portion of the HST paid. The rules and filing related to the Goods and Services Tax is not changing. Reporting requirement will be the same as the GST requirements. The last RST reporting will be up to June 30, and due July 23, 2010.

Businesses will have the ability under the HST system to recover the provincial component of the HST through an input tax credit, the same as the GST. This cost savings to businesses will then be available to be passed on to the consumer. In the Maritimes it took approximately eighteen months for the consumer to recognize the savings.

IMPLEMENTATION CHALLENGES

Modifications are required to the Town's financial processes to implement the HST. These include invoice payments, sales receipts, and purchase orders. These changes are underway. Important consideration is being given to include the HST in new contracts and agreements negotiated that will extend beyond June 30, 2010.

With the implementation of the HST, many purchases will be applied with the provincial portion of the HST that previously was not taxed with provincial tax. Food, clothing, education and burials will all be subject to the HST with the exception of prepared foods under four dollars which has no charge at point of sale. The costs of the following list will experience an increase of 8% on July 1, 2010 and qualify for a rebate of 78%.

Fuel – gas and diesel; hydro electricity; hotel rooms; postage and courier; professional services like legal, audit, consulting etc. – currently being charged 5% and will now increase to 13%

Fire fighting vehicles are currently exempt under the RST and receive a 100% rebate under the GST. The proposed legislation indicates the Federal and Provincial HST will apply to fire fighting vehicles. This will increase the cost to the Town by 1.76% (provincial portion of the HST will be rebated at 78% after July 1, 2010).

One exception is insurance, which will continue to be GST exempt and HST exempt, and will continue to be charged RST, which is not subject to a rebate. Private sales of automobiles will also be subject to RST and not available for a rebate or an IT credit.

The Town is not required to register for HST. The current GST registration number will automatically be the new HST registration.

Currently, the RST deducts an allowance for collection of the RST. No commission will be paid for collecting HST.

C. The Blue Mountains' Strategic Plan

Ensuring long-term financial sustainability and providing a strong, well managed municipal government.

D. Environmental Impacts

None

E. Budget Impact

Through the implementation of the HST, there will be winners and losers. Some strategic procurement can be implemented to initiate construction before July 2010 with only the GST charged.

Impact of the Harmonized Sales Tax on the Town:

Currently the GST is rebated at 100% for all departments with the exception of Cemetery, Harbour, BVCC, the Depot, and Small Halls who receive a 100% Input Tax Credit. The HST will be implemented in the same manner with the exception of the municipal rebate which will be 78% and not 100% as the GST is.

The effect of the HST is estimated to be as follows:

Savings on RST Expenses	-\$ 75,000
2% Savings on Expenses	-\$110,000
TOTAL HST ITC Savings	-\$ 9,000
TOTAL HST Cost Increase	<u>\$330,000</u>
Total Annual Cost to the Town	
	\$136,000
Cost to Water and WW	\$ 109,000
Cost to Taxation Dept	\$ 40,000
Rebate to Building	-\$ 4,000
ITC savings to Arena/Harbour	<u>-\$ 9,000</u>
Total Annual Cost to the Town	
	\$ 136,000

The cost increases are primarily on Capital Expenses and are typically funded from sources other than taxation and user fees. Further analysis would be required to identify project impact.

F. Attached

None

Respectfully submitted,

Elizabeth Thompson,

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