

Sales tax harmonization

Canadian Assistive Devices Association

19 January 2010

Agenda

- ▶ Features
- ▶ Place of supply rules
- ▶ Imports
- ▶ ITC restrictions
- ▶ Transitional rules
- ▶ Planning

Features

- ▶ Ontario, BC – 13%, 12% - July 1, 2010
- ▶ Model for tax is existing HST with QST modifications
- ▶ Generally same tax base as GST
- ▶ Point of sale exemptions for certain items
- ▶ ITC restrictions for large businesses and financial institutions
- ▶ Maintain unrecoverable sales tax on insurance premiums

GST Treatment - Medical & Assistive Devices

- ▶ Zero-rated – 0%
 - ▶ Unconditional
 - ▶ Conditional
 - ▶ Special design features
 - ▶ For use by an individual with a disability or particular impairment
 - ▶ Can be used in the residence of an individual
 - ▶ Only on written order of a physician for use by a consumer named in the order

- ▶ Taxable – 5%, 12%, 13%

Place of supply rules

Current HST place of supply rules should apply

Place of supply

Goods by way of sale

- ▶ Goods delivered or made available in Ontario Ontario
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Goods by way of lease

- ▶ Goods in Ontario at commencement of lease Ontario
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Services

- ▶ $\geq 90\%$ of service performed in Ontario;
 - ▶ $\geq 10\%$ of service performed in Ontario and contract negotiated in Ontario; or
 - ▶ $\geq 50\%$ of service performed in Ontario and contract negotiated outside Canada Ontario
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Intangibles

- ▶ $\geq 90\%$ of Canadian rights can be used only in Ontario; or
 - ▶ If supply is negotiated in Ontario and rights can be used to any extent in Ontario Ontario
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Imports

- ▶ Commercial goods taxed at 5% - even after harmonization
- ▶ Many devices can be imported on a non-taxable basis
- ▶ Self-assessment of provincial component at 8% or 7% when for use in “GST-exempt” activities
- ▶ Non-commercial goods taxed at 13% (ON) or 12% (BC)

Input tax credit restrictions

- ▶ Do not apply to public service bodies
- ▶ Similar to Quebec restrictions
- ▶ Apply to large businesses (\$10M) and financial institutions
- ▶ Apply for 8 years with 3-year phase out
- ▶ Does not apply to resale/resupply
- ▶ Includes:
 - ▶ Energy
 - ▶ Telecommunications
 - ▶ Road vehicles and fuel
 - ▶ Food, beverages and entertainment

Example accounting – unrestricted ITCs

Office Supplies

- ▶ Purchase of \$100 with \$13 GST/HST
 - ▶ DR Expense \$100.00
 - ▶ DR GST recoverable \$13.00
 - ▶ CR Bank \$113.00

Example accounting - restricted ITCs

Energy

- ▶ Purchase of \$100 with \$13 GST/HST – non-production usage
 - ▶ DR Expense \$108.00
 - ▶ DR GST recoverable \$5.00
 - ▶ CR Bank \$113.00

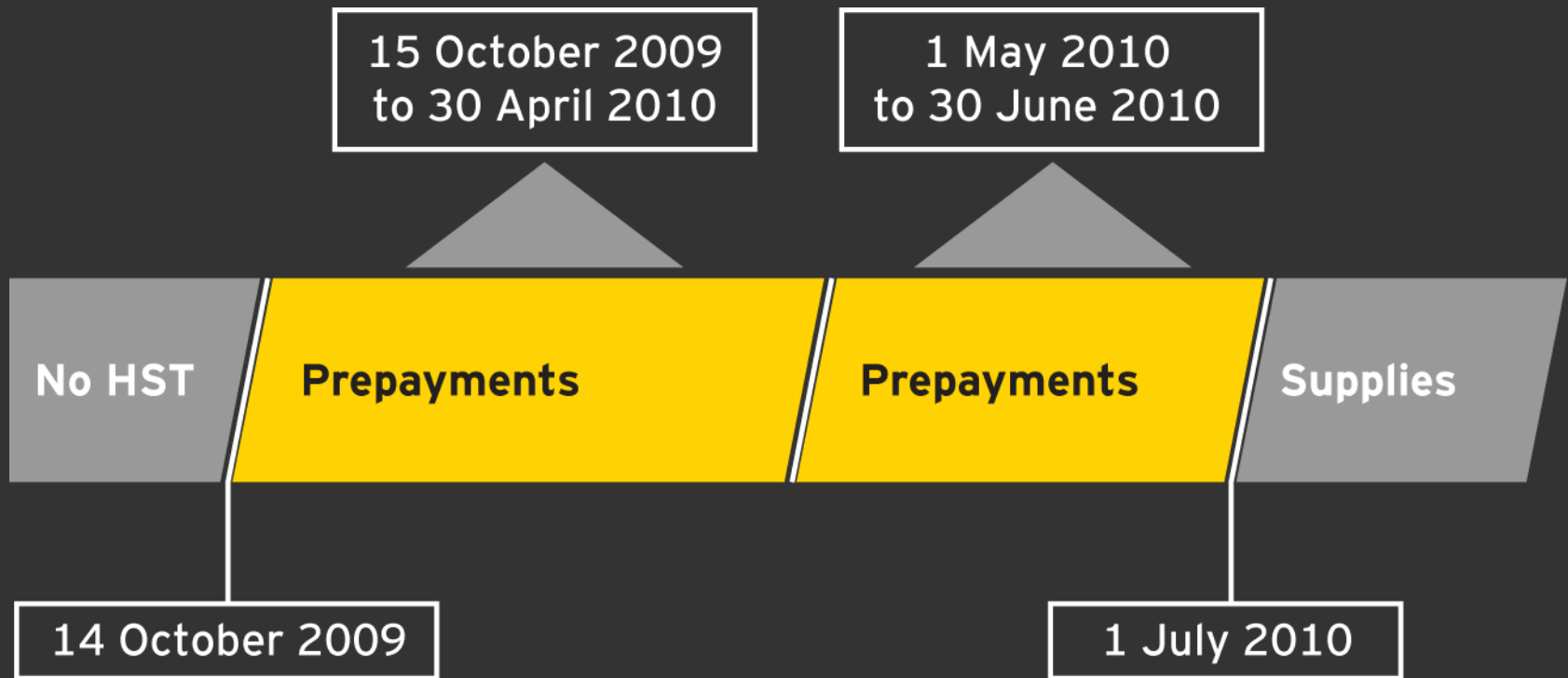
Meals & Entertainment

- ▶ Purchase of \$100 with \$13 GST/HST
 - ▶ DR Expense \$110.50
 - ▶ DR GST recoverable \$2.50 [50% x \$5]
 - ▶ CR Bank \$113.00

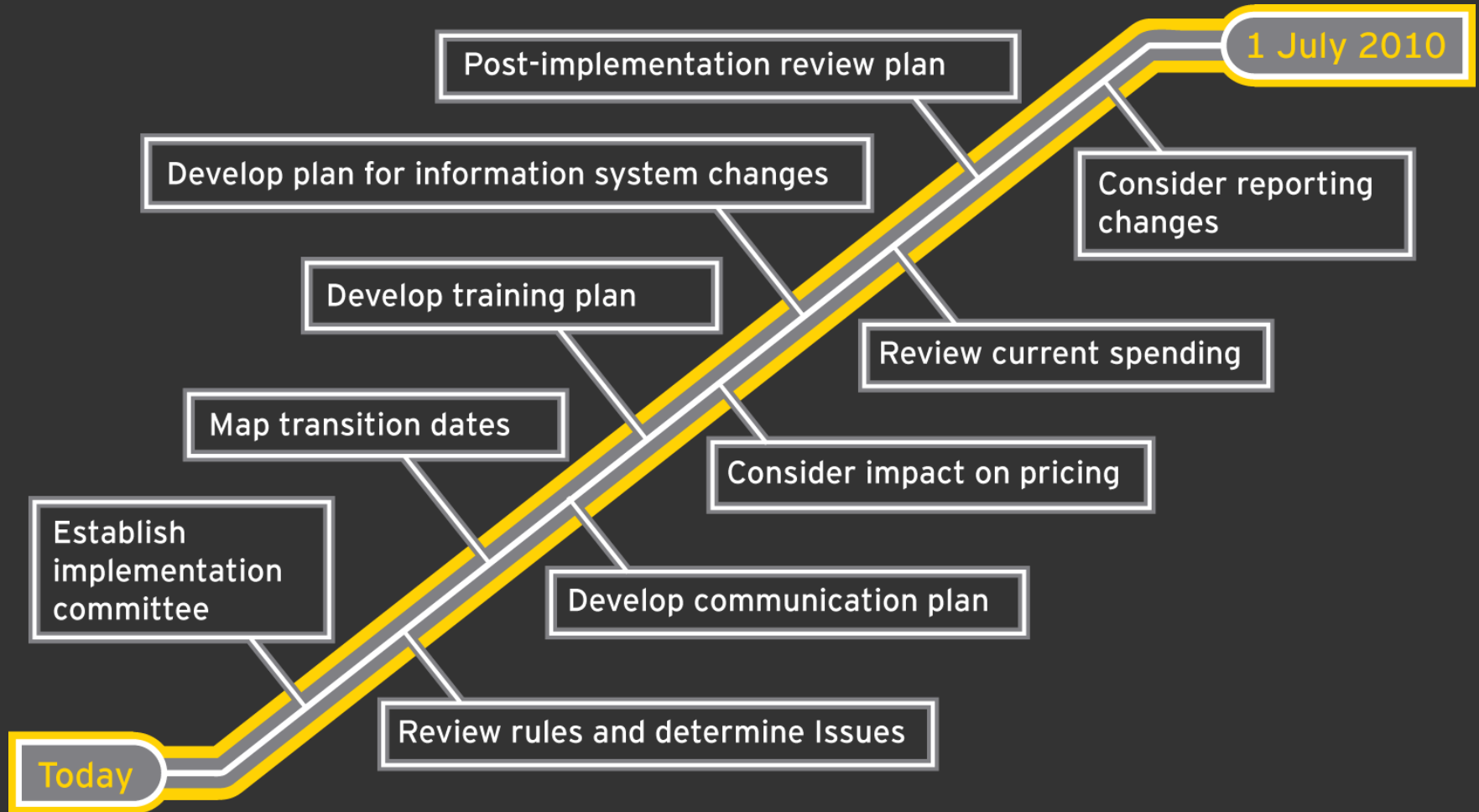
Transitional rules

- ▶ Goods: Ownership and possession transferred after 1 July 2010
- ▶ Services: On services performed on or after 1 July 2010
- ▶ Leases and licences: Applies to the part of the lease interval occurring after 1 July 2010
- ▶ Intangibles: Consideration that becomes due, or is paid without having become due, on or after 1 July 2010
- ▶ Real property: Both ownership and possession are transferred on or after 1 July 2010

Transitional rules: timeline



Planning



Planning

- ▶ Determine the impact of HST on your organization
- ▶ What is your current PST burden?
- ▶ How much of the HST will you recover?
- ▶ Assess the impact on pricing

Planning

- ▶ Tax coding and invoices need to be adjusted
- ▶ Current Ontario and BC rates may need to remain in the system for a period of time – returns
- ▶ Need to create new tax codes for items not currently subject to PST
- ▶ Consider additional cost of cash discounts if calculated on tax-included amount

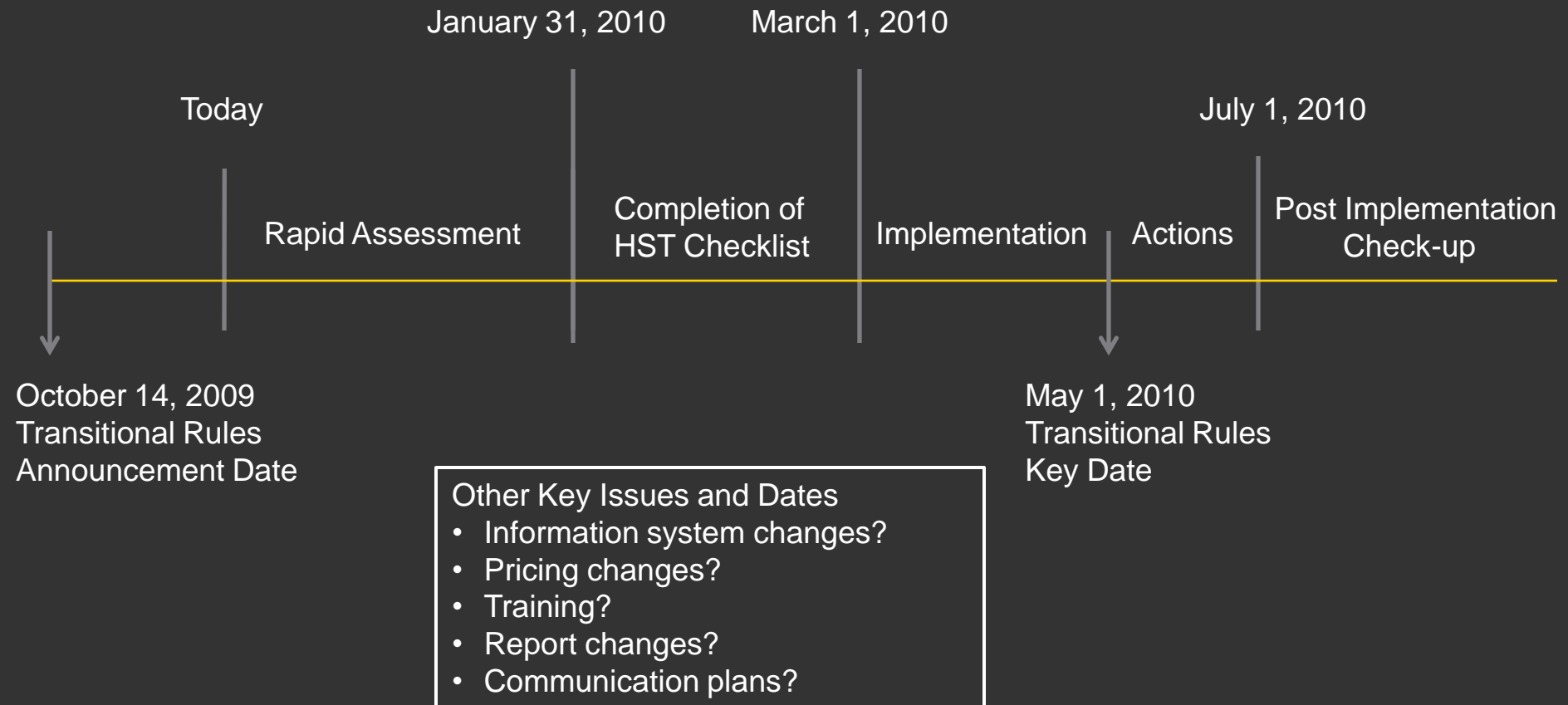
Planning

- ▶ Programming required to track various rates, and federal vs. provincial components of tax
- ▶ Templates need to be updated for employee expenses
- ▶ Current processes for self-assessing tax will need to be amended
- ▶ Training & communication & processes regarding restricted input tax credits

Planning

- ▶ Establish an implementation committee
- ▶ Determine who should participate
- ▶ Develop timeline
- ▶ Develop communication plan

Sales Tax Harmonization – Sample Implementation Timeline



Questions

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