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# ROSENTHAL ZARETSKY NIMAN & Co., LLP

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CHARTERED ACCOUNTANTS & LICENSED PUBLIC ACCOUNTANTS

JOHN M. ROSENTHAL, CA

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RAYMOND L. WINER, CA

May 20, 2010

Dear Client,

**Re: Harmonized Sales Tax ("HST")  
Implementation Commentary - July 1, 2010**

The Provinces of Ontario and British Columbia have enacted legislation to implement the Harmonized Sales Tax (HST), which will replace existing provincial sales taxes and the federal Goods and Services Tax (GST) in those provinces beginning July 1, 2010 and will be administered by the Canada Revenue Agency.

Legislation to enact the HST has been passed by the Governments of Canada and Ontario. The HST will be applied on most supplies of goods and services made in Ontario at a rate of 13%, consisting of the 5% federal portion and an 8% provincial portion.

Businesses in Ontario that are registered for the GST will be required to collect the HST and will report their HST according to their current GST filing frequency.

Retailers and service-providers should begin to upgrade their point-of-sale, cost and accounting systems as early as possible to ensure that they meet the implementation date of July 1, 2010.

We have enclosed our **RZN Commentary** on the implementation of HST to provide some insight and general guidance with respect to this new HST tax regime.

Please do not hesitate to contact any of the Partners or other professional staff to meet to discuss your specific HST concerns.

Yours very truly,

ROSENTHAL ZARETSKY NIMAN & Co., LLP



Enclosure: HST Implementation Commentary

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## HARMONIZED SALES TAX ("HST")

## IMPLEMENTATION

## COMMENTARY

JULY 1, 2010

# **HARMONIZED SALES TAX ("HST")**

## **IMPLEMENTATION COMMENTARY**

**JULY 1, 2010**

This analysis is of a general nature and is only presented for the general information of our clients and staff. The reader is advised to refer to the specific legislation. Specific professional advice should be obtained before taking action based upon the information provided in this commentary.

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# HARMONIZED SALES TAX ("HST")

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## 1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010

### 1.1 Summary

HST is the federally administered Harmonized Sales Tax on most supplies of property and services made in Ontario at a blended rate of 13%. With some exceptions, the HST applies to the same base of property and services as the current GST.

Ontario & BC join Nova Scotia, New Brunswick and Newfoundland (HST since 1997) as part of the HST Regime.

The HST is to be reported on the same form that has been in place since 1997 [*Goods and Services Tax/Harmonized Sales Tax Return for Registrants - CRA GST 34 form*]

Businesses can recover HST by claiming Input Tax Credits ("ITC") amounts for HST tax it pays (or owes) on purchases / expenses used in commercial activity on the cash or accrual basis consistently applied. Therefore, businesses that currently recover GST ITC amounts will recover HST ITC amounts.

Businesses that recover the HST will now benefit from the introduction of the HST, as they will now recover the provincial component of the HST on items that previously included invoiced Ontario RST, which were not recoverable (*such as supplies, computers, furniture as well as car repairs, meals, and telephone expenses, unless they are large corporations subject to the special ITC recapture rules*).

The same GST rules for exempt items apply for HST purposes, such as used residential housing, medical / dental services, child care, educational services, music lessons and insurance.

There is no vendor compensation for HST, as there was for PST.

### 1.2 New HST Filing Requirements

Taxpayers must use electronic filing if the taxpayer group has greater than \$1.5 million of revenues per year.

Paper filing is still accepted if the taxpayer group's annual revenues are less than \$1.5 million.

Effective July 1, 2010, there will be one of four (4) mandatory electronic filing methods:

- **Net file**
- **Telefile**
- **EDI**
- **Internet file transfers**

*Note: For the construction industry - Builders - there are specific filing requirements.*

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CHARTERED ACCOUNTANTS & LICENSED PUBLIC ACCOUNTANTS

1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010 *(continued)*

1.3 Recapture ITC Amounts for Large Corporations (special provincial issue)

The provincial portion of HST ITC's are subject to recapture if revenues (of the associated group) are greater than \$10 million per year.

If the taxpayer is subject to "recapture" of HST ITC amounts, the taxpayer must use the **Netfile** method.

These rules are similar to Quebec's restrictions and/or reductions on claiming ITCs on QST, although the reporting is different.

The revenue threshold will be based on the fiscal year ending prior to June 30 of each year. There are also various rules with respect to business combinations, such as amalgamations.

There are restrictions (*the recapture amounts*) in claiming ITC amounts for the Ontario portion of HST on the following goods and services:

- Energy (except to produce goods);
- Telecommunication, including local phone, long-distance, cable, satellite, fax, email (except Internet access or toll-free numbers);
- Motor vehicles (i.e. the purchase of the vehicle itself). Applies to road vehicles < 3,000 kg;
- Certain parts and service within 12 months of purchase, such as an anti-theft system, but does not include routine repairs and maintenance;
- Fuel for motor vehicles, excluding diesel fuel;
- Food, beverages and entertainment.

The recapture of ITC amounts is to be phased out over 8 years, such that the recapture is as follows:

- 100% - July 2010 to June 2015
- 75% - July 2015 to June 2016
- 50% - July 2016 to June 2017
- 25% - July 2017 to June 2018
- 0% - after June 2018 (**full claiming of ITC amounts now allowed**)

Note that as these ITC amounts are recaptured and not considered to be denied, therefore the recaptured amount must be reported on a separate line of the HST return:

- penalties will be assessed if not properly reported;
- accounting / bookkeeping systems must somehow track these recaptured amounts.

This ITC recapture does not apply if selling the specified property (such as a car dealership selling cars or a restaurant selling food).

Car dealerships will have a 2% per month recapture of HST on demonstration vehicles. This replaces the current 'own use' rules that exists for Ontario RST for this industry.

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**1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010 (continued)**

**1.4 HST Transitional Rules**

**If goods are delivered or ownership is transferred prior to July 1, 2010 - GST only (RST would be applicable as well, based on the current RST regulations).**

If goods are delivered or ownership is transferred on or after July 1, 2010:

- if invoiced / paid prior to May 1, 2010 - GST only (RST may be applicable as well)
- if invoiced / paid after April 30, 2010 - HST applies to sale

Mixed services - if product and service, and perhaps product delivered prior to July 1 but service (installation) after July 1, then GST (RST may be applicable as well) on the product and HST on the service (it is as if the invoice is split into two components).

Reporting of HST from May 1, 2010 to June 30, 2010:

- federal (5%) portion is included on GST return based on the regular rules;
- Ontario (8%) portion is included in HST return which includes July 1 (this applies to both the vendor and purchaser).

Businesses that do not recover ITCs must self assess HST on purchases from October 14, 2009 to April 30, 2010 for services to be performed after July 1, 2010.

Memberships and Annual Fees:

- if invoiced in May or June, 2010 for a period ending after June 30, 2010, GST is payable on the portion of the services to June 30, 2010 and HST on the portion from July 1, 2010.

Services straddling July 1, 2010: If 90% or more of the service is before July, GST is payable only, otherwise prorated GST up to June 30, 2010 and HST from July 1, 2010.

**1.5 Point of Sale Rebates**

Point of Sale Rebates are being implemented for items that were previously PST exempt. Under the GST regime, these items only had GST charged when purchased. In order to keep the same PST-level exemption, there are Point of Sale rebates that are applicable on the items noted below.

For these items, the Vendor is effectively only collecting the 5% federal portion of the HST, while crediting the Ontario 8% portion.

If the vendor does not credit at the Point of Sale (i.e. at the checkout counter), the recipient can file a GST 189 form in order to recover the 8% Ontario portion. This applies even if the purchaser is registered for the HST, as they are only entitled to claim the 5% federal portion as an ITC, not the 8% Ontario portion that should not have been charged.

*The vendor has 3 choices with respect to invoicing:*

1. Report the 13% HST charged and also report the 8% rebate;
2. Report the 5% HST, which is already net of the rebate;
3. Report the total price, which includes the 5% HST.

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**1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010 (continued)**

**1.5 Point of Sale Rebates (continued)**

*On the GST return, for the vendor there are 2 choices for reporting rebates on the HST return:*

- 1.** Report the 13% HST collected on line 103 and the 8% rebate as an adjustment on line 107 of the HST Return;
- 2.** Report the 5% net HST collected on line 103 of the HST Return.

***Items subject to Point of Sale Rebates are:***

- a) Newspapers** - does not include flyers, inserts, magazines, periodicals, digital publications
- b) Feminine hygiene products** - does not include deodorants, sprays, syringes, wipes
- c) Children's goods**

**- Children's clothing:**

- garments designed for babies (bibs, bunting blankets, receiving blankets);
- children's garments (to girls size 16 & boys size 20, or children's sizes S, M, L);
- children's socks, hats, scarves, gloves, mittens - if in children's sizes;
- Does not include adult sizes (even if purchased for a child), costumes, sports equipment.

**- Children's footwear:**

- babies' sizes;
- girls and boys to size 6, or children's sizes S, M, L;
- Does not include sizes greater than 6 (even if purchased for a child), skates, ski boots, etc.

**- Children's diapers:**

- cloth or disposable diapers designed for children;
- includes inserts, liners, rubber pants, training pants;
- Does not include adult sizes, does not include diaper services (even the diaper portion is excluded).

**- Children's car seats and booster seats:**

- must meet Transport Canada requirements;
- Does not include a combination stroller / carrier / car seat sold in a package.

- d) Prepared food and beverages** - amounts less than \$4 (the same rules as PST exempt now)

- e) Books** - printed book, audio book, printed scripture (i.e. religious);  
does not include brochures, pamphlets, sales catalogues, warranty booklets, owners' manuals, colouring books, event programs, calendars, timetables.

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1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010 (*continued*)

1.6 HST on Insurance Premiums

Ontario RST on insurance premiums will continue to be charged at the rate of 8%.

All insurance will continue to be GST / HST exempt, but will remain subject to RST (except for vehicle insurance premiums).

As of June 30, 2010, all RST accounts are to be closed. Insurance businesses will automatically be re-registered (**presumably Ontario tax authorities know which entities are insurance businesses**).

The RST filing frequencies (monthly, quarterly, semi-annually) will not change for reporting of the RST amounts collected

These insurance businesses will continue to be eligible for the \$1,500 per year RST Vendor compensation, as per the pre-2010 regime.

1.7 HST Assistance - Individual

For individuals, the credit is dependant on whether it is an individual or family.

Payments are to be made in June 2010, December 2010 and June 2011.

In order to qualify, personal CRA (T1) tax returns for 2009 need to be filed by April 30, 2011 (with respect to the 2010 payments) and personal CRA (T1) tax returns for 2010 need to be filed by April 30, 2012 (with respect to the 2011 payments).

**Individuals** - payments of \$100 each if net income is less than \$80,000. If net income is greater than \$80,000, 5% of each payment is clawed back, such that there will be no payment if net income is greater than \$82,000.

**Families** - payments of \$330, \$335 and \$335 if net family income is less than \$160,000. If the family's net income is greater than \$160,000, 5% of each payment is clawed back, such that there will be no payment if net income is greater than \$166,700.



1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010 (*continued*)1.8 HST Assistance - Business

**Small businesses** - (less than \$2 million of annual revenue) will receive a small business transitional credit of up to \$1,000.

This transitional credit is intended to provide assistance to help small businesses make changes to their point-of-sale and accounting systems in order to collect the HST.

In order to qualify for a transition support payment, an eligible business must:

- not be a listed financial institution;
- carry on business in Ontario and be a GST / HST registrant on July 1, 2010;
- make GST / HST taxable supplies (including zero-rated supplies) in the course of carrying on business;
- have taxable annual revenues of less than \$2 million.

Eligible businesses will qualify for a transitional support payment of up to \$1,000 as follows:

Small Business Transition Support	
Total Quarterly Taxable Revenues	Amount of Transition Support Payment
Up to and Including \$15,000	\$300
Over \$15,000 and Up to and Including \$50,000	2% of Taxable Revenue for the Quarter
Over \$50,000 and Up to and Including \$500,00	\$1,000

Ontario will automatically generate and send cheques to all eligible businesses using key information that will be obtained from CRA. The issuance of cheques is expected to commence in late fall of 2010.

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**1. HST IMPLEMENTATION COMMENTARY - JULY 1, 2010** *(continued)*

**1.9 HST New Housing Rebate**

There is an HST "new housing rebate" available if an individual purchases new or substantially renovated housing to be used as the primary residence.

There is no threshold on the cost of the property (but there is a threshold for the GST new housing rebate)

The amount of the rebate is 75% of the provincial (8%) portion of the HST, up to a maximum rebate of \$24,000 (therefore the rebate is purchase price X 8% X 75%)

The maximum rebate is attained when the housing purchase price exceeds \$400,000.

For owner-built housing:

- If HST was paid on the purchase of the land, the rebate is calculated as above on the combined total of the land cost and construction costs
- If no HST was paid on the land (purchased prior to July 1, 2010), the maximum rebate is \$16,080, and is calculated as above on the construction costs only.

**1.10 Other Reference Sources**

[www.rznaccountants.com](http://www.rznaccountants.com)

**CRA HST website**

[www.cra-arc.gc.ca/gncy/hrmnztn/menu-eng.html](http://www.cra-arc.gc.ca/gncy/hrmnztn/menu-eng.html)

**CRA information on HST mandatory electronic filing**

[www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrms/rqrmnts/menu-eng.html](http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/bspsbch/rtrms/rqrmnts/menu-eng.html)

**CRA HST transitional rules website**

[www.cra-arc.gc.ca/tx/pstr/trnstrn/menu-eng.html](http://www.cra-arc.gc.ca/tx/pstr/trnstrn/menu-eng.html)

**CRA listing of HST publications**

[www.cra-arc.gc.ca/gncy/hrmnztn/pblctns-eng.html](http://www.cra-arc.gc.ca/gncy/hrmnztn/pblctns-eng.html)

**CRA HST rebates website**

[www.cra-arc.gc.ca/tx/pstr/rbts/menu-eng.html](http://www.cra-arc.gc.ca/tx/pstr/rbts/menu-eng.html)

**Ontario HST website**

[www.rev.gov.on.ca/en/taxchange/hst.html](http://www.rev.gov.on.ca/en/taxchange/hst.html)

**Ontario HST publications**

[www.rev.gov.on.ca/en/taxchange/publications.html](http://www.rev.gov.on.ca/en/taxchange/publications.html)

**HARMONIZED SALES TAX ("HST")**

Page 1

**2. SUMMARY OF ITEMS SUBJECT TO HST**

<i>CLOTHING AND FOOTWEAR</i>	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under HST?
Adult Clothing	5%	8%	No (remains 13%)
Children's Clothing	5%	No RST	No (remains 5%)
Shoe Repair Service	5%	8%	No (remains 13%)
Children's Footwear	5%	No RST if \$30 or less	No for footwear up to size 6 (remains 5%)
Tailoring Services	5%	8%	No (remains 13%)
Dry Cleaning Service	5%	No RST	Yes (changes to 13%)

<i>FOOD AND BEVERAGES</i>	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Basic Groceries (e.g. Dairy, Meat, Vegetables, Canned goods)	No GST	No RST	No HST
Snack Foods (e.g. Chips, Pop)	5%	8%	No (remains 13%)
Qualifying Prepared Food and Beverages Sold for \$4.00 or Less	5%	No RST	No (remains 5%)
Restaurant Meals for more than \$4.00	5%	8%	No (remains 13%)
Alcoholic Beverages	5%	10 - 12%	HST 13%

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<i>HOME SERVICES</i>	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Cable Television Services	5%	8%	No (remains 13%)
Cell Phone Services	5%	8%	No (remains 13%)
Municipal Water	No GST	No RST	No HST
Home Maintenance Equipment	5%	8%	No (remains 13%)
Home Phone Services	5%	8%	No (remains 13%)
Home Service Calls to Repair Free-Standing Appliances such as Stoves, Refrigerators, Washers, Dryers and Televisions	5%	8%	No (remains 13%)
Home Insurance	No GST	8%	No (remains 8%)
Electricity and Heating (e.g. Natural Gas/Oil for Home)	5%	No RST	Yes (changes to 13%)
Internet Access Services	5%	No RST	Yes (changes to 13%)
Home Service Calls by Electrician/Plumber/Carpenter to maintain or repair furnace, leaky faucets, bathtub, toilet, electrical wiring, etc.	5%	No RST	Yes (changes to 13%)
Landscaping, Lawn-Care and Private Snow Removal	5%	No RST	Yes (changes to 13%)
Property taxes	No GST	No RST	No HST

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

ACCOMMODATION AND TRAVEL	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Luggage, Briefcases, Bags, etc.	5%	8%	No (remains 13%)
Municipal Public Transit	No GST	No RST	No HST
GO Transit	No GST	No RST	No HST
Domestic Air, Rail and Bus Travel originating in Ontario	5%	No RST	Yes (changes to 13%)
Air Travel Originating in Ontario and Terminating <u>in</u> the U.S.	5%	No RST	No (remains 5%)
Air Travel originating in Ontario and Terminating <u>Outside</u> of Canada and the U.S.	No GST	No RST	No HST
Rail, Boat and Bus Travel Originating in Ontario and Terminating <u>Outside</u> of Canada	No GST	No RST	No HST
Hotel Rooms	5%	5%	Yes (changes to 13%)
Taxis	5%	No RST	Yes (changes to 13%)
Camping Sites	5%	No RST	Yes (changes to 13%)

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

HOUSEHOLD ITEMS	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Cleaning Products	5%	8%	No (remains 13%)
Laundry Detergent, Fabric Softeners	5%	8%	No (remains 13%)
Household Furniture	5%	8%	No (remains 13%)
Refrigerators and Freezers	5%	8%	No (remains 13%)
Pre-packaged Computer Software	5%	8%	No (remains 13%)
Books (including Audio Books)	5%	No RST	No (remains 5%)
Newspapers	5%	No RST	No (remains 5%)
Magazines Purchased at Retail	5%	8%	No (remains 13%)
Office Supplies, Stationery	5%	8%	No (remains 13%)
Landscaping Materials including Sod, Seeds, Plants	5%	8%	No (remains 13%)
Linens (e.g., Blankets, Towels, Sheets)	5%	8%	No (remains 13%)
Tents, Sleeping Bags, Camping Supplies	5%	8%	No (remains 13%)
Tools	5%	8%	No (remains 13%)
Patio Furniture	5%	8%	No (remains 13%)
Barbeques, Lawnmowers, Snowblowers, Sprinklers	5%	8%	No (remains 13%)
Toys (e.g., Puzzles, Games, Action Figures, Dolls, Playsets)	5%	8%	No (remains 13%)
Outdoor Play Equipment (e.g. Swing Set, Sandbox, Slides)	5%	8%	No (remains 13%)
Crafting Supplies	5%	8%	No (remains 13%)
Building Materials (e.g., Lumber, Concrete Mix)	5%	8%	No (remains 13%)
Magazines Purchases by Subscription	5%	No RST	Yes (changes to 13%)
Home Renovations	5%	No RST	Yes (changes to 13%)

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<i>MOTORIZED VEHICLES</i>	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Vehicle Parts	5%	8%	No (remains 13%)
Short-Term Auto Rentals	5%	8%	No (remains 13%)
Lease of a Vehicle	5%	8%	No (remains 13%)
Child Car Seats and Booster Seats	5%	No RST	No (remains 13%)
Auto Insurance	No GST	No RST	No HST
Labour Charges to Repair Vehicle	5%	8%	No (remains 13%)
Oil Change	5%	8%	No (remains 13%)
Tires	5%	8%	No (remains 13%)
Window Repair	5%	8%	No (remains 13%)
Purchase of Vehicle from Dealer	5%	8%	No (remains 13%)
Boats	5%	8%	No (remains 13%)
Snowmobiles	5%	8%	No (remains 13%)
Recreational Vehicles	5%	8%	No (remains 13%)
Private Resale of Vehicles	No GST	8%	Yes (changes to 13%)
Gasoline / Diesel	5%	No RST	Yes (changes to 13%)

<i>HOME PURCHASES</i>	GST - taxable before July 1, 2010	RST - taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
New Homes up to \$400,000	5%	No RST	No change
New Homes over \$400,000	5%	No RST	Yes
Resale Homes	No GST	No RST	No HST
Real Estate Commissions	5%	No RST	Yes (changes to 13%)

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<b>HEALTH PRODUCTS AND SERVICES</b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Audiologist Services	No GST	No RST	No HST if offered by a practitioner of the service
Chiropractor Services	No GST	No RST	No HST if offered by a practitioner of the service
Physiotherapist Services	No GST	No RST	No HST if offered by a practitioner of the service
Pharmacist Dispensing Fees	No GST	No RST	No HST
Over-the-Counter Medications	5%	8%	No (remains 13%)
Prescription Drugs	No GST	No RST	No HST
Some Medical Devices, includes Walkers, Hearing Aids	No GST	No RST	No HST
Prescription Glasses/Contact Lenses	No GST	No RST	No HST
Feminine Hygiene Products	5%	No RST	No (remains 5%)
Adult Incontinence Products	No GST	No RST	No HST
Diapers	5%	No RST	No (remains 5%)
Cosmetics	5%	8%	No (remains 13%)
Hair Care Products (e.g. Shampoo, Conditioner, Styling Products)	5%	8%	No (remains 13%)
Dental Hygiene Products (e.g., Toothpaste, Toothbrushes)	5%	8%	No (remains 13%)
Massage Therapy Services	5%	No RST	Yes (changes to 13%)
Vitamins	5%	No RST	Yes (changes to 13%)

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<b>MEMBERSHIPS, ENTERTAINMENT AND SPORTS EQUIPMENT</b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a changes to the amount of tax payable under the HST?</b>
Admissions to Professional Sporting Events	5%	10%	Combined rate reduced to 13% from current 15%
Movie Tickets	5%	10%	Combined rate reduced to 13% from current 15%
Music Lessons	No GST	No RST	No HST
Skis and Snowboards	5%	8%	No (remains 13%)
Hockey Equipment	5%	8%	No (remains 13%)
Golf Clubs	5%	8%	No (remains 13%)
Green Fees for Golf	5%	No RST	Yes (changes to 13%)
Gym and Athletic Membership Fees	5%	No RST	Yes (changes to 13%)
Ballet, Karate, Trampoline, Hockey, Soccer Lessons, etc.	5%	No RST	Yes (changes to 13%)
Tickets for Live Theatre with 3,200 Seats or Less	5%	No RST	Yes (changes to 13%)

<b>LEASES AND RENTALS</b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Condo Fees	No GST	No RST	No HST
Residential Rents	No GST	No RST	No HST
Hockey Rink and Hall Rental Fees	5%	No RST	Yes (changes to 13%)
Residential Property Taxes	No GST	No RST	No HST
Commercial Property Taxes - Tenant	5% GST if paid by tenant to Municipality and / or landlord	No RST	HST (changes to 13% if paid by tenant to Municipality and / or landlord
Comercial Property Taxes - Landlord	No GST	No RST	No GST

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<b><i>ELECTRONICS</i></b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Television sets	5%	8%	No (remains 13%)
DVD and Blu-ray Players and Accessories	5%	8%	No (remains 13%)
MP3 Players	5%	8%	No (remains 13%)
Cell Phones, Smart Phones	5%	8%	No (remains 13%)
Cell Phone Service	5%	8%	No (remains 13%)
Cds, DVDs and Blu-ray discs	5%	8%	No (remains 13%)
Computers and monitors	5%	8%	No (remains 13%)

<b><i>PROFESSIONAL AND PERSONAL SERVICES</i></b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Child Care Services	No GST	No RST	No HST
Legal Aid	No GST	No RST	No HST
Coffins and Urns Purchases Separately from a Package of Funeral Services	5%	8%	No (remains 13%)
Fitness Trainer	5%	No RST	Yes (changes to 13%)
Hair Stylist/Barber	5%	No RST	Yes (changes to 13%)
Esthetician Services (e.g. Manicures, Pedicures, Facials)	5%	No RST	Yes (changes to 13%)
Funeral Services	5%	No RST	Yes (changes to 13%)
Legal Fees	5%	No RST	Yes (changes to 13%)
Accounting, Audit and Taxation Services	5%	No RST	Yes (changes to 13%)
Investment Consulting or Counseling Fees	5%	No RST	Yes (changes to 13%)

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**HARMONIZED SALES TAX ("HST")**

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**2. SUMMARY OF ITEMS SUBJECT TO HST (continued)**

<b>BANKING AND INVESTMENTS</b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Mortgage Interest Costs	No GST	No RST	No HST
Most Financial Services	No GST	No RST	No HST

<b>TOBACCO</b>	<b>GST - taxable before July 1, 2010</b>	<b>RST - taxable before July 1, 2010</b>	<b>Is there a change to the amount of tax payable under the HST?</b>
Cigarettes and Other Tobacco Purchases	5%	No RST	Yes (changes to 13%)
Nicotine Replacement Products	5%	No RST	Yes (changes to 13%)

### 3. HST FREQUENTLY ASKED QUESTIONS

**Q: What is the Harmonized Sales Tax (HST)?**

**A:** Starting July 1, 2010, subject to legislative approval, the provincial sales taxes in Ontario and British Columbia would be replaced by a value-added tax structure and combined with the federal Goods and Services Tax (GST) to create a single, federally administered Harmonized Sales Tax (HST). The HST would be applied on most supplies of property and services made in those provinces at a blended rate of 13% in Ontario and 12% in British Columbia. With some exceptions, the HST would apply to the same base of property and services as the GST.

**Q: Do any provinces participate in the HST?**

**A:** Ontario and British Columbia would join three other provinces - Nova Scotia, New Brunswick and Newfoundland and Labrador - which harmonized their provincial sales taxes in 1997.

**Q: Who would pay the HST?**

**A:** Almost everyone would have to pay the HST on purchases of taxable property and services (other than zero-rated supplies) supplied in those provinces. Business can recover the GST or the HST by claiming input tax credits (ITCs) for the tax that they pay or owe on purchases and expenses used in their commercial activities. Usually, commercial activities are those undertaken to provide taxable (including zero-rated) property and services.

**Q: Who would charge the HST?**

**A:** Business in Ontario and British Columbia that are registered for the GST would be required to collect the HST on supplies made in a participating province and would report their HST according to their current GST filing frequency. Generally, GST/HST registrants would have to collect the HST on all taxable (other than zero-rated) supplies of property and services they provide to their customers in Ontario and British Columbia beginning July 1, 2010. However, there are some exceptions for sales of taxable real property. As well, purchases would effectively only pay the 5% GST on sales of property and services that would be subject to a provincial point-of-sale rebate.

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### **3. HST FREQUENTLY ASKED QUESTIONS *(continued)***

**Q. What do you mean by "zero-rated" property and services?**

**A:** Zero-rated property and services are those that would be taxable at 0%. Although tax is not collected, business can still claim ITCs for the GST/HST they pay or owe on purchases used to provide them. Examples of zero-rated property and services include:

- basic groceries such as milk, bread and vegetables;
- many agricultural products such as hops, barley, flax, grain and raw wool;
- most farm livestock;
- most fishery products such as fish for human consumption;
- prescription drugs and prescription drug-dispensing services;
- medical devices such as hearing aids and artificial teeth;
- exports;
- many transportation services where the origin or destination is outside Canada.

**Q: What property and services are exempt for the HST?**

**A:** Customers are not charged the HST on supplies that are HST exempt. Suppliers of exempt property and services are not eligible to claim input tax credits but may be entitled to claim rebates for the HST on related purchases in certain circumstances. Examples of exempt property and services include:

- used residential housing;
- long term residential accommodation (of one month or more), and residential condominium fees;
- most medical and dental services performed by licensed physicians or dentists or medical reasons;
- child care services (day care services provided usually for less than 24 hours a day) provided to children 14 years old and younger;
- most domestic ferry services;
- legal aid services;
- many educational services such as courses supplied by a vocational school leading to a certificate or a diploma which allows the practice of a trade or a vocation, or tutoring services made to an individual in a course that follows a curriculum designated by a school authority;
- music lessons;
- most services provided by financial institutions such as lending money or operating deposit accounts;
- arranging for and issuing insurance policies by insurance companies, agents and brokers;
- most property and services provided by charities; and
- certain property and services provided by non profit organizations, governments and other public service bodies such as municipal transit services and standard residential services such as water distribution.

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### 3. **HST FREQUENTLY ASKED QUESTIONS** *(continued)*

**Q: How does the HST apply to transactions that straddle the implementation date?**

**A:** Generally, the HST would be charged on a purchase where payment is made or becomes due after April 2010 but delivery of the goods and service is made on or after July 1, 2010.

Special transitional rules would apply for freight and passenger transportation services, lease payments, prepaid services, realty property sales and other transactions that occur during a period that includes the implementation date of July 1, 2010.

**Q: How does May 1, 2010 apply to HST?**

**A:** Beginning in May 2010, any contract signed that is for a period on or after July 1, 2010 must have HST added to the portion of work to be done on or after July 1. So, if you sign the contract on May 15, 2010 and perform all the work by June 30, 2010 there is no HST.

**Q: Currently, your GST number must be on invoices sent to clients. What happens with HST?**

**A:** The invoicing requirements for HST are the same rules as exist for GST (as it is the same tax, just a different rate). This applies to the GST number, the name of the business, as well as the other requirements, which are dependant on the amount of the invoice.

Your GST business account number continues to be the HST business account number.

**Q: Does GST or HST apply to real estate commissions on a house sold prior to July 1, 2010 but for which the closing date is after July 1, 2010?**

**A:** It is not entirely clear if HST will apply to the real estate commission if the sale closes on or after July 1, 2010. The Ontario Real Estate Association has stated that the GST would apply based on the number of days from the date of sale to June 30 and the HST would apply based on the number of days from July 1 to the date of closing. However, the Canadian Tax Foundation has indicated that whether GST or HST would apply is to be based on the amount of "work" performed to July 1 (GST) and after June 30 (HST).

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### **3. HST FREQUENTLY ASKED QUESTIONS *(continued)***

**Q: I currently recover the GST I pay on my commercial rent expense, as it is claimed as an ITC when I file my GST return. What happens with the HST?**

**A:** The HST on commercial rent expense, as well as most other expenses, can be claimed as an ITC just as the GST is recovered. As a result, you will now see a reduction in expenses that previously included Ontario RST charged, such as supplies, computers, furniture as well as car repairs, meals, and telephone expenses. There are ITC recapture rules for specific types of expenses for large businesses.

**Q: I am not currently registered for the GST because I am a small supplier (revenues less than \$30,000 per year). What is the affect on my business?**

**A:** Since you are not registered for GST, you are not registered for HST either (however, since you are a small supplier, you may voluntarily register for the GST / HST). Therefore, expenses that are subject to HST, that were previously not subject to PST, will increase by 8% and therefore your expenses will increase. These expenses include rent, accounting fees, bookkeeping fees, legal fees, consulting fees, utilities, as well as any other services, such as commissions you pay to self-employed agents. Some expenses will not change, such as salaries and wages, CPP, EI, as well as any expenses that were previously subject to PST (such as office supplies)

**Q: I am not currently registered for the GST because my services are exempt (doctor, dentist, optometrist, chiropractor physiotherapist, chiropodist, podiatrist, osteopath, audiologist, speech therapist, occupational therapist, psychologist, etc.). What is the affect on my business?**

**A:** Since you are not registered for GST, you are not registered for HST either. Therefore, expenses that are subject to HST, that were previously not subject to PST, will increase by 8% and therefore your expenses will increase. These expenses include rent, accounting fees, bookkeeping fees, legal fees, consulting fees, utilities, as well as any other services, such as commissions you pay to self-employed agents. Some expenses will not change, such as salaries and wages, CPP, EI, as well as any expenses that were previously subject to PST (such as office supplies)

However, certain medical professions are rate-regulated, such as doctors billing OHIP, and you may not be in a position to increase your billing rates.

**Q: Are there any tax credits resulting from the HST?**

**A:** For individuals, there is an Ontario Sales Tax Transition Benefit, to be paid to individuals with net income less than \$80,000 (\$160,000 for a family). The benefit will be paid in June 2010, December 2010 and June 2011, with the payments of \$100 each for individuals or \$330, \$335 and \$335 for families.

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### 3. **HST FREQUENTLY ASKED QUESTIONS** *(continued)*

**Q: How are utilities affected?**

**A:** Any utility that currently has GST charged, will now have HST charged, so that the cost will increase by 8% (of the amount before GST). Therefore, for example, your Hydro bill will increase as a result of the HST. Again, if you are an HST registrant, you are eligible to recover the HST, although you may be subject to the recapture rules for large businesses.

**Q: What will be the net rise in the cost of living?**

**A:** This is difficult to determine at this point in time. Based on studies done since the HST was implemented in the Maritime provinces in 1997, the cost of goods decreased as a result of the cost of expenses being reduced. However, this change will be fairly slow and would be difficult to identify as a direct result of the HST, as there are too many variables.

**Q: With respect to purchase and sale of homes, what is the impact of the HST?**

**A:** There is no HST on the sale of used residential housing, which is the same as the GST. However, there are other costs which currently only have GST (no Ontario RST) charged, which will now be subject to HST, such that they will increase. These include legal fees (purchase and sale), commission on sale, inspection fees, appraisal fees and moving expenses. HST will apply to the sale of new residential housing, although there are GST and HST rebates available. HST will apply to all commercial real estate amounts, including the purchase itself as well as all the other costs (legal, commission, inspection, appraisal and moving).

**Q: I currently charge GST but do not charge Ontario RST on amounts for goods I sell that are installed, that are built-in, or that become part of the property (such as home renovations, landscaping, wall units, windows, air conditioners, furnaces, etc). How does the HST affect me?**

**A:** Previously, you would have paid the Ontario RST as part of your cost of materials, and would not have recovered the RST, but would have recovered the GST. Now, when you purchase your materials, you will recover the entire HST, such that your costs will be reduced. However, now you will charge HST on all the services you provide to your customers including the installation and the result is that your customers will now pay the full HST of 13%. Presumably your fees will decrease to reflect the fact that you are not paying for the RST any longer, and if this is passed on to the customer, the total amount that they pay could, in theory actually decrease, or at least not increase by the full amount.

As an example, if you purchase a furnace for \$500 and install it for your customer for a total fee of \$1,000, here is what happens with RST and with HST.

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### 3. HST FREQUENTLY ASKED QUESTIONS (continued)

Old GST System - Cost of furnace is \$500 plus \$40 RST (GST of \$25 is ignored as it is recovered). Revenue is \$1,000 and therefore profit is \$460. Customer pays \$1,000 plus GST for a total of \$1,050.

New HST System - Charge \$1,000 plus HST of \$130. Cost of furnace is \$500 (HST of \$65 is ignored as it is recovered). Revenue is \$1,000 and therefore profit is now \$500. Customer pays \$1,000 plus HST for a total of \$1,130.

New HST System - Charge \$960 (vs. \$1,000 plus HST of \$125). Cost of furnace is \$500. Revenue is \$960 and therefore profit is still \$460. Customer pays \$960 plus HST for a total of \$1,085.

If you 'play' with the above examples using your actual cost and revenue amounts for your business (based on the cost of your inputs and the profit margin), you can determine what the affect is for your customers and also determine if you should be changing your pricing.