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**WHAT TO EXPECT WITH THE
HARMONIZATION
OF THE
ONTARIO PROVINCIAL SALES TAX
WITH THE
FEDERAL GST**

The Ontario budget proposes to harmonize the Ontario provincial retail sales tax (PST) with the federal Goods and Services Tax (GST) effective July 1, 2010. The new harmonized rate referred to hereafter as the HST will be at 13%.

The HST will generally be applied using the same value-added tax rules as the GST in that where you pay the 5% GST today with limited exceptions you will pay the 13% HST starting in July 2010.

At that time, the new HST will eliminate the Ontario PST charged to you today. Where both the GST and the Ontario PST was charged in the past, you will see little difference going forward in 2010 and expectations are that the price of some of these goods and services should go down in the long run.

Where the GST is recoverable by the business today, so will the HST the business pays going forward so that the tax would not become a cost embedded in the price you pay. Where the current Ontario PST applies to purchases, the PST is not a value-added tax like the GST and not recoverable to the business. As a result, the PST is ultimately passed on to you the consumer.

As not all businesses recover the GST, not all goods and services to consumers will go down with the new Ontario HST. We detail below how the new HST will specifically affect the goods and services you buy today.

The harmonization is also part of a more comprehensive budget package. To support the transition to a single sales tax, the federal government will provide the Ontario government with \$4.3 billion in cash transfer payments. The budget also provides for other compensating measures for both individuals and businesses affected by the harmonization. As part of this package the personal tax rate will go down and those measures are also noted below.

These proposals are not law and expectations are that further details may not be provided by the governments until later this summer or fall. The comments below may change as these details are announced. Transitional rules are expected to cover expenses that straddle the July 1, 2010 implementation date.

NOTE: *The discussion that follows is based on proposed tax changes that are not yet law. Each person's tax situation is unique and you should consult your tax advisor before undertaking any action on the basis of the following general information.*

Your daily life

Food: Most basic groceries at the supermarket are generally not taxable today for either federal or provincial sales tax and you should see no change under the new harmonization.

Today both taxes apply to certain snack foods or prepared foods and that will be the same with the new 13% Ontario HST; you will see no substantive change.

However, the price for picking up that quick coffee or tea will go up. Today the 8% Ontario PST did not apply to prepared foods priced at \$4.00 or less but the 5% GST is applicable. Starting in July 2010, the tax be at 13%.

Restaurant meals subject to the 8% PST and the 5% GST today will be subject to the 13% after harmonization so you will see no overall change.

Medicine: The taxation of prescription drugs will remain unchanged and tax free. Same as the dispensing fee you pay now; it will not be taxable with the new HST.

Home purchases and maintenance: You will see changes on your home costs. Buying a new home today will have the 5% GST and the Ontario PST was imbedded in the material cost.

Going forward the 13% Ontario HST will apply to the sale price. Purchasers of new homes for their primary residence priced under \$400,000 will be eligible for a rebate equal to 75% of the 8% provincial component; effectively 6% of the purchase price. For prices above \$400,000, the rebate is reduced and eliminated after \$500,000. Resale homes will generally not be subject to the new HST.

The GST you pay today on your home maintenance cost will increase from 5% to 13%. Expect to see an increase in tax for home repair and renovation, electricity, internet, fuel oil, and natural gas. Condo fees exempt of tax for GST will remain exempt with HST but those charges for use of guest suites in your condo will go up to the 13%.

Services: Most services such as haircuts, legal, accounting and other professional fees not subject to the Ontario PST today will be subject to the 13% HST starting in July 2010. Similarly, most extracurricular activities, dry cleaning, laundry service, computer assistance and car repairs if taxed today will be 13% going forward.

Other purchases: The tax on books, children's clothing, footwear, and car seats, diapers and feminine hygiene products will remain unchanged as these products will be eligible for an 8% point-of-sale exemption in Ontario. However, there are no exemptions for newspapers and magazines which will be taxed at 13%.

Your social life

Recreation: Your memberships to the health club, golf course, curling rinks and other recreational facilities will rise to the 13% HST. Other fees to use bowling alleys and driving ranges subject to 5% tax today will also be 13% starting in July 2010.

Admission: The price you pay for performances and entertainment are generally taxable today at a combined effective tax rate of 15%. You will see this go down to 13% where the price is more than \$4. Unfortunately, where the price is \$4 or less, today's tax rate of 5% GST will be increased to 13% after harmonization.

Alcohol and tobacco: Tax on alcoholic beverages is subject to the 5% GST and either the Ontario PST at 12% or 10% depending on where purchased. With the HST, the combined rate will be reduced to 13%. However, the provincial government has stated they will increase alcohol fee, levies and charges to maintain their current level of revenue. So, you will not see the cost go down. The overall cost for tobacco will also rise as you pay tax at 13% instead of the 5%.

Your travel

Local travel: Taxi service, trains and other transportation services in Ontario taxed today at 5% will increase to 13%. However, transit fares that were exempt of the GST before should remain exempt. Fuel to use your car will go up with the rise in the tax rate. Hotel accommodation or other short term rentals such as cottages will be taxed at 13%.

Travel abroad: International air fare will not have GST or the new HST although you will pay tax on certain airport fees. Return airfares from Ontario to mainland US will still be subject to tax.

Your estate planning

Fees: Consultation for estate planning will rise to the 13% HST in July 2010. Where the service fee was a financial service exempt of GST before, the fee will remain exempt after harmonization.

Insurance: Most insurance premiums today are subject to the Ontario PST at 8% with the exception of auto insurance. The Ontario government has stated that they will continue to tax insurance that is taxed today. Insurance premiums are exempt of GST so you should see no additional tax overall.

Financial institutions such as brokers, banks and insurance companies are limited in the amount of recovery of the GST and HST they pay. This recovery limitation may cause the financial services to go up in price as their costs increase with the new HST.

Funeral arrangement: Where subject to the 5% GST today, the tax will increase to 13% after harmonization. It is unknown what changes or transitional measures will be made for existing prepaid funeral arrangements with harmonization.

Personal tax measures

Sales tax transitional benefit: Eligible individuals aged 18 and over will receive maximum benefits totaling \$300 to single individuals and \$1,000 for single parents and couples to be paid in three instalments in June and December 2010 and in June 2011. Benefit will be phased out for single people whose prior year's income is over \$82,000 and for families whose prior year's income is over \$166,700.

Ontario lowest personal tax rate, non-refundable credits and surtax thresholds: Effective January 1, 2010, the budget proposes to reduce the lowest Ontario personal tax rate by 1% from 6.05% to 5.05% (applicable to the first

\$36,848 of taxable income based on 2009 tax bracket thresholds).

This change will also result in corresponding changes to the non-refundable tax credits such as the basic, spousal and age. Surtax thresholds will also be adjusted resulting in the potential for higher surtax in 2010.

Ontario sales tax and property tax credits: The current combined sales and property tax credits will be eliminated effective July 2010 and replaced with a new Ontario Sales Tax Credit (OSTC) and a new Ontario Property Tax Credit (OPTC). The new credits would provide for advance payments.

The OSTC will be paid quarterly providing for a maximum credit of \$260 for each adult and each child. The new OPTC will be equal to a maximum of \$900 for non-seniors and \$1,025 for seniors. Both will begin to be phased out for adjusted family net income of over \$20,000 for single individuals and over \$25,000 for families.

The Ontario senior homeowners' property tax grant for eligible seniors will continue for those in the low to middle-incomes and will be doubled from \$250 to \$500 in 2010.

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Addendum - Grant Thornton LLP paper on HST

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To mitigate the higher taxes on the goods and services described in the paper, the Ontario government will lower the lowest tax bracket by 16%. Nearly every taxpayer in the Province will save up to \$236 per year on their provincial income taxes.

The government is enhancing the existing property tax credit for low and moderate income families by an additional \$270 million per year. This arises because the current sales and property tax credit, as the name implies, combines sales and property tax relief. With the new sales tax credit being disaggregated, the government has decided to create a discrete property tax credit. This credit is particularly beneficial for seniors. Seniors will be eligible for up to \$1025 per year while non-seniors will be eligible for up to \$900. This is in addition to an increased Senior Homeowner's Property Tax Grant of up to \$500 beginning this year.

The Ontario government website has a "tax savings" calculator that figures the tax changes for various taxpayers. For a senior couple earning \$50000 per year, they will see \$1539 in tax savings in the first year (2010) to offset any increased outlays from the HST. Ongoing tax relief will be \$539 in subsequent years resulting mainly from the enriched property tax credit (\$407) and lower income taxes (\$211).^[1] In addition, these same seniors will be eligible for the senior homeowner's property tax grant (up to \$500) if they own their home and pay property taxes.

The overall tax savings for individuals and families on the personal tax side will be \$10.6 billion over 3 years according to government budget documents.

The overall package contains broad tax cuts for business. They total \$4.5 billion over 3 years. The government hopes that the tax cuts, lower compliance costs, and lower input costs that result from the elimination of the RST will encourage companies to lower prices, increase investment, and help with the transition.

^[1] This couple currently get \$79 from the existing Property Tax credit which explains why this couple is ahead by \$539. The total benefit of the new property tax credit and lower income taxes is \$618.