

HARMONIZED SALES TAX (HST)

BACKGROUND

As part of its spring 2009 Budget, the Provincial Government introduced a comprehensive package of changes to Ontario's tax system. This new package of tax reform includes a proposed single sales tax (provincial tax and federal GST harmonized), tax cuts for business, and significant tax relief, in the form of rebates, for Ontario's citizens. The Government believes that this harmonized sales tax will make the economy more competitive, resulting in job creation and economic growth. It acknowledges that under the proposed tax reform some items will increase in cost and therefore, is introducing tax relief for both individuals and business.

RTO/ERO is aware that the Government is in the process of making changes to the proposed legislation, as first introduced in the spring Budget, to address issues of transition from the current tax structure to the new Harmonized Sales Tax (HST).

It should be noted that the Federal Conservative Government provided \$3.4 billion to the Ontario Government to implement a harmonized sales tax system. In addition, this tax structure exists currently in New Brunswick, Nova Scotia, and Newfoundland and Labrador.

RTO/ERO's POSITION

RTO/ERO believes that the HST must not adversely affect seniors or the services available to seniors in any way; seniors, therefore, should not be disadvantaged by the implementation of the single sales tax proposed by the Provincial Government.

OVERVIEW OF PROPOSED TAX CHANGES AND TAX SAVINGS/RELIEF

Single or Harmonized Sales Tax (HST)

- A single sales tax of 13% will apply to most purchases and transactions starting July 1, 2010.
- Books, children's clothing and footwear, car seats and car booster seats and feminine hygiene products will be exempt from the 8% provincial portion of the single sales tax.

Housing Rebates

- **New housing rebates** will be available on the provincial part of the single sales tax for buyers of newly constructed homes.
- New homes purchased as primary residences in all price ranges would receive a **rebate of 75% of the provincial portion** of the single sales tax on the first \$400,000.
- For new homes under \$400,000, on average, this would mean no additional tax amount compared to the current system.
- A **rebate for rental housing** would be provided, similar to the proposed rebate for new homes.

- Transitional rules for new housing are proposed whereby sales of new homes under written agreements of purchase and sale entered into on or before June 18, 2009 would not be subject to the provincial portion of the single sales tax, even if both ownership and possession are transferred on or after July 1, 2010
- The tax would also **not apply to sales of new homes** under written agreements of purchase and sale entered into after June 18, 2009 where ownership or possession is transferred before July 1, 2010.

Personal Tax Savings

- Every eligible family that files a tax return in Ontario with an income below \$160,000 will receive **three cheques totaling \$1,000**.
- Single Ontarians who file a tax return in Ontario and earn less than \$80,000 a year will receive **three cheques totaling \$300**.
- There would be a 16.5% cut in the tax rate on the first \$36,848 of taxable income and a tax cut for 93% of all Ontario taxpayers.
- Other changes will mean 90,000 more people with low incomes will pay no Ontario personal income tax.
- Ontarians will receive a total of **\$10.6 billion in tax relief** over three years.

Sales Tax Credits

- For those with low and middle incomes, there will be **\$260 in ongoing sales tax credits** for each child or adult.
- For low and middle-income homeowners and tenants, there will be \$270 million more a year in **property tax relief**.
- The current combined sales and property tax credits would be replaced with two new tax credits: the Ontario Sales Tax Credit and the Ontario Property Tax Credit.
- The **Property Tax Credit would be based on occupancy cost** — that is, property tax paid or 20% of rent paid. A credit would be provided for occupancy cost of up to \$250 for non-seniors or \$625 for seniors, plus 10% of occupancy cost. The credit would not exceed occupancy cost and would be subject to a maximum of \$900 for non-seniors and \$1,025 for seniors.
- Eligible single seniors with \$500 or more in property taxes and income of up to \$35,000 a year will receive the **maximum \$500 grant in 2010**. Eligible single seniors with income between \$35,000 and \$50,000 will receive a proportionately smaller grant. Eligible senior couples with \$500 or more in property taxes and income of up to \$45,000 a year will receive the maximum grant. Eligible senior couples with income between \$45,000 and \$60,000 will receive a proportionately smaller grant.

Business Tax Savings

- \$4.5 billion in tax cuts over three years to encourage competitiveness and investment.
- **Corporate Income Tax will be lowered** from 14% to 12% in 2010, then 10% over three years.
- The rate on manufacturing and processing will be lowered from 12% to 10%.
- The small business rate will be **cut from 5.5% to 4.5%**.
- The 4.25% small business surtax will be eliminated.
- The **capital tax rate will be cut by 33%** on January 1, 2010 and then completely eliminated by July 2010.
- Ontario will have the **most competitive rates** among its major competitors and trading partners.
- Fewer small and medium-sized businesses will have to pay the Corporate Minimum Tax, and the rate will be cut from 4% to 2.7% as of July 1, 2010.
- A single sales tax would also **reduce paperwork costs for business** by more than \$500 million a year.
- To help small businesses make the transition to a single sales tax, the government would provide up to **\$400 million in one-time sales tax credits** to help make changes to point-of-sale and accounting systems.

RTO/ERO: CONTINUING TO ADVOCATE ON BEHALF OF ITS MEMBERS

During the past few years, RTO/ERO has increased its advocacy efforts on behalf of members. Though we have shared, over time, in a few lobbying victories – the original establishment of income trusts, pension income splitting and some movement on PSA testing and have even had the opportunity to meet with the Premier a few years ago, we, nonetheless, we have spent considerable time and efforts on letters on a variety of topics to the Prime Minister and Premier, as well as to Cabinet Ministers, with little by way of tangible results.

About a year ago the Provincial Executive recognized that RTO/ERO needed to be more strategic and focused about the efficacy of our approach to advocacy, and sought expert help through Len Domino and Associates, professional government relations specialists. After presenting to the Provincial Executive and senior staff last fall, Len Domino was the keynote speaker at a provincial workshop in March of this year, sponsored by the Political Action Committee and held for District political action representatives.

As a result, the Provincial Executive, in concert with the Political Action Committee, is in the midst of developing an advocacy plan to address key issues of importance to our members, including RTO/ERO's continuing number one priority of health care and emerging issues, such as the harmonization of sales tax. These issues, and others identified as part of the advocacy plan, must be well researched, with balanced perspectives and with an effort to engage with government on those aspects of any given issue that impact our members.

In addition to the HST issue, RTO/ERO continues to advocate on behalf of its members in the areas of PSA testing and for timely accessibility to health care.

RTO/ERO'S IMMEDIATE RESPONSE TO THE HARMONIZED SALES TAX

In March, after the provincial government announced its plan to introduce a Harmonized Sales Tax (HST), RTO/ERO commissioned a study by its auditors Grant, Thornton to determine the impact of the HST on seniors. A copy of this report was provided to the District Presidents at their workshop in mid-April.

In response to queries received from RTO/ERO members on its position on the HST, RTO/ERO sought the input and advice of Len Domino. As indicated by the government's announcement of comprehensive tax reform measures, it has become clear that the HST cannot be viewed in isolation from other tax measures within the Provincial Government's budget that are intended to make Ontario more competitive, offer more benefits to the poor, and mitigate the impact of increased taxes not only on most taxpayers, but specifically on seniors.

After reviewing the Grant, Thornton report, Len Domino and Associates added an Addendum to clarify their perception of the HST. This report, as well as a report from the Executive Director on the HST topic, was distributed at the Spring Senate at the end of May, with the Grant, Thornton/Domino report placed on the home page of RTO/ERO's provincial website for easy access by all members.

NEXT STEPS

The HST issue continues to be discussed by the Provincial Executive and the provincial Political Action Committee, with input and advice, as necessary by government relations specialist Len Domino. The Provincial Executive and senior staff are in the process of identifying areas where RTO/ERO believes it may be able to offer advice to the Provincial Government and influence the structure of the HST. These include exemptions on home energy costs, gasoline for cars, group insurance programs, and for not-for-profit organizations such as RTO/ERO.

Over the next few months, members of the Provincial Executive and senior staff plan to meet with staff in the Office of the Minister of Revenue, responsible for the implementation of the HST, to outline RTO/ERO's position and seek opportunities to continue dialoguing with the Provincial Government in a collegial, respectful atmosphere.