HARMONIZED SALES TAX (HST)
Implications for the Health Industry

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Agenda

• Overview
• Impact
• Advantages
• Disadvantages
• Rebates and Rate Differentials
• Transitional Rules
• Getting Ready – Planning Points
Harmonization Overview

- Effective July 1, 2010
  - Ontario: 13% HST (5% federal component and 8% provincial component)

- Same general rules and tax base as GST
  - With some differences (tax rates, point-of-sale rebates, ITC restrictions for large businesses, public service body rebate rates, new housing rebates, commercial imports)
  - Province of Ontario will pay HST

- Federally administered
  - One return, one administration, one audit
Harmonization Overview

TIMELINES:
- Canada/Ontario MOA Announcement - March 10, 2009
- CITCA
- Legislation expected no later than March 31, 2010
- Harmonization - July 1, 2010
- Prepayments - May 1, 2010
- PST wind-down – November 1, 2010
Impact

- Tax rate differentials (by province)
- Place of supply rules
- Self-assessment requirements
- Transitional rules
- Removal of PST rebates and exemptions
- New rebates and rate differentials
- Allocation methods
- Taxable services and real property
- Cash flow, budgeting and funding issues
- Systems implications
- Staff training
- Contract structuring
Advantages

• Purchases currently subject to Ontario Retail Sales Tax will be subject to HST - partial rebate available for public service bodies
  – Computer software and related services
  – Telecommunication services
  – Carpetsing and furniture (non-patient care areas)
  – Housekeeping equipment
  – Kitchen and dietary supplies (food service)
  – Maintenance equipment
  – Motor vehicles (e.g., ambulances)
  – Office and administrative equipment and supplies
  – Recreational equipment (e.g., games, tvs, etc.)
Advantages

• Most health care services provided to individuals are not subject to GST or Ontario Retail Sales Tax

• Under HST, these services will remain exempt, with no direct impact to the consumer/end user
Disadvantages

• Purchases currently not subject to Ontario Retail Sales Tax will be subject to HST – partial rebate available for public service bodies
  – Medical and surgical supplies
  – Patient care equipment and research equipment
  – Laboratory and diagnostic equipment
  – Medical records for patient care and patient menus
  – Uniforms, gowns and linens
  – Cleaning supplies
  – Furniture (patient-care areas)
  – Membership, professional association fees
  – Accounting, legal and consulting fees
  – Electricity costs
  – Most services provided to the health care industry
  – Real property purchases or leases
Disadvantages

- GST-taxable health care services that are not currently subject to Ontario Retail Sales Tax will be subject to HST @ 13% (Ontario)

- Examples:
  - massage therapy
  - cosmetic procedures
  - naturopathic services
Rebates and Rate Differentials

Public service body rebates:

• Under the proposed HST, municipalities, colleges, universities, school boards, hospitals, registered charities and qualifying non-profit organizations will be entitled to a partial rebate for the provincial component of the HST in addition to the current rebate for the federal portion of the tax.

• These rebates are intended to ensure that the impact of the HST is fiscally neutral for the public sector.
# Rebates and Rate Differentials

- **Rebate rates:**

<table>
<thead>
<tr>
<th>Public Service Body</th>
<th>OHST (8%)</th>
<th>GST (5%)</th>
<th>Effective Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>87%</td>
<td>83%</td>
<td>1.89%</td>
</tr>
<tr>
<td>Charities &amp; Qualifying NFPs</td>
<td>82%</td>
<td>50%</td>
<td>3.94%</td>
</tr>
<tr>
<td>Municipalities</td>
<td>78%</td>
<td>100%</td>
<td>1.76%</td>
</tr>
<tr>
<td>Universities &amp; Colleges</td>
<td>78%</td>
<td>67%</td>
<td>3.41%</td>
</tr>
<tr>
<td>School boards</td>
<td>93%</td>
<td>68%</td>
<td>2.16%</td>
</tr>
</tbody>
</table>
Rebates and Rate Differentials

• Allocation methods
  – different rebate rates for federal and provincial component (and between provinces)
  – ITCs vs. rebates (commercial vs. exempt use)
Transitional Rules

- **Sales of Tangible Personal Property**
  - HST applies where consideration paid or payable after June 30, 2010
  - no HST where consideration due and paid before October 15, 2009, even if supply made after June 30, 2010
  - non-consumers may be required to self-assess provincial component (8%) on consideration paid or payable after October 14, 2009 and before May 1, 2010 where supply made after June 30, 2010 → possible RST rebate
  - HST applies on most prepayments made between May 1, 2010 and June 30, 2010, where supply made after June 30, 2010
  - special rules for subscriptions to newspapers, magazines or other periodicals.
Transitional Rules

• Sales of intangible personal property
  – HST applies to consideration due or paid on or after July 1, 2010
  – special rules for membership (clubs, organizations and associations), admissions to places of amusement, seminars, events and activities, passenger transportation passes
Transitional Rules

• Sales of non-residential real property
  – HST applies if both ownership and possession of property are transferred to the purchaser on or after July 1, 2010
  – Special rules for residential real property
Transitional Rules

• Provision of Services
  – HST where service provided after June 30, 2010
  – no HST where service is all or substantially all (interpreted by CRA to mean 90% or more) supplied before July 1, 2010 or invoiced after October 14, 2009 and before May 1, 2010 (self-assessment may be required)
  – determine % of services supplied and pro-rate where services begin before July 1, 2010 and are completed after June 30, 2010
  – special rules for prepaid funeral and cemetery services, passenger and freight transportation services
Transitional Rules

- Leases, licenses and similar arrangements
  - HST generally applies to a supply of property by way of lease, license, etc. for the part of a lease interval that occurs on or after July 1, 2010
  - no HST where lease interval begins before July 1, 2010 and ends before July 31, 2010
  - HST applies to consideration due or paid on or after July 1, 2010 (unless lease interval begins before July 1, 2010 and ends before July 31, 2010)
  - HST applies to consideration due or paid on or after May 1, 2010 and before July 1, 2010 to the extent that the consideration is for part of a lease interval that occurs on or after July 1, 2010 (unless lease interval begins before July 1, 2010 and ends before July 31, 2010)
  - non-consumers may be required to self-assess Ontario component (8%) where consideration due or paid after October 14, 2001 and before May 1, 2010, to the extent that the consideration is for the part of a lease interval that occurs on or after July 1, 2010 (unless lease interval begins before July 1, 2010 and ends before July 31, 2010)
Transitional Rules

• Self-assessment
  – may be required to self-assess provincial component (8%) on consideration paid or payable after October 14, 2009 and before May 1, 2010 where supply of goods or services made after June 30, 2010
  – self-assessment obligation will not apply to consumers or businesses entitled to full ITCs
Getting Ready

• Cash flow projections
  – review RST-exempt purchases vs. purchases to which HST will apply, taking into account available rebates to determine additional tax

• Timing of purchases
  – be strategic, minimize impact on cash flow
    • purchase RST-exempt goods now that will be subject to HST as of July 1, 2010
    • delay purchase of RST-taxable goods until after July 1, 2010 or, if you can’t wait, consider leasing
    • consider purchasing real property prior to July 1, 2010
    • don’t wait to obtain professional (legal, accounting, consulting) advice and other RST non-taxable services!
Getting Ready

• Systems changes and staff training
  – accounting systems and compliance processes
  – software upgrades
  – electronic filing requirements

• Input tax credit allocation
  – allocate and track ITCs to minimize taxes

• Contract structuring
  – review existing contracts to determine how the additional tax will impact cost (e.g., tax-included vs. tax-plus pricing)
  – room for negotiation?
About Presenters

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