

Ontario sales tax harmonization

The variables facing insurers

The recent Ontario Budget announced a bold move to modernize sales taxes in the province on July 1, 2010, by harmonizing the outmoded provincial sales tax with the federal GST. Ontario will then join Nova Scotia, New Brunswick and Newfoundland as the only provinces having achieved the objective of a single harmonized tax. Only when the rest of Canada has progressed to this model will the economic benefits of the GST be fully realized.

Progress towards this goal has been painfully slow. Ontario's move is the third milestone. The first milestone was in 1992, when Quebec replaced its goods-based PST with a provincial near-copy of the GST. However, this was not true harmonization, not only is Quebec tax the function of a provincial statute, financial services are zero-rated¹ for QST purposes, with the result that all QST borne on the cost of supplying a financial instrument service is recoverable. To preserve the tax revenues borne by the financial industry under the previous QST, Quebec cobbled on capital, salary and premium taxes that apply specifically to financial institutions. Presumably Quebec could not countenance the prospect of a Quebec-based financial institution bearing a high QST cost on goods and services trying to compete with one based in Ontario having a significantly lower PST cost (borne only on goods).

The second milestone was passed in 1997, when the Atlantic provinces were the first to truly harmonize, with the HST in those provinces being a chapter of the federal statute for financial services. 1997 was a critical point—would the Atlantic provinces follow the Quebec model of zero-rating, or exemption? In harmony with the GST treatment, exemption was the choice. This did create a divide between a Halifax-based insurer, paying (then) 15% GST/HST on all goods and services and a Toronto-based insurer paying only 7%. To level the playing field, all financial institutions that attributed income to both the harmonized and non-harmonized zone are obliged to calculate a theoretical HST cost, deduct from it the HST actually paid and either remit or claim a refund. Essentially the formula deems the geographical cost footprint to mirror the geographical income footprint, leaving all insurers bearing a like HST cost for issuing a policy in the harmonized zone.

1 Exempt from paying a value-added tax.



The announcement that Ontario will harmonize on July 1, 2010, opens up the real possibility that we will see harmonization spread rapidly westwards, leaving only the ticklish problem of what to do with Alberta, which has no provincial sales tax. The fifteen month interval certainly allows the other PST provinces time to reflect and join co-incident with Ontario.

In the period between now and July 1, 2010, insurers face a number of unknowns. Known is the Ontario, date, rate and base. Unknown? Will Quebec now fully harmonize and exempt financial services, increasing costs for insurers in that province to match those borne by Ontario-based insurers? Will the four remaining PST provinces come on board, further increasing business costs for insurers? When will we see the transitional rules and the very critical place of supply rules for Ontario? The purpose of the place of supply rules is to remove any incentive for business or consumers to either source, or relocate outside of the harmonized zone, and it seems very likely that a more complex set of rules will be needed for Ontario than those used for the Atlantic provinces. Will Ontario bow to pressure to mitigate the incremental tax load upon financial services? Finally, if all other provinces harmonize, what will be done in Alberta?

Clearly, these are many moving pieces that influence the ultimate outcome for insurers. Consequently, there are very few specific actions that can be triggered at this point, beyond establishing a team to monitor events as they unfold, to identify what lobbying efforts the insurer wishes to track, what system changes need to be planned and which specific items need to be raised in a dialogue with suppliers and policyholders.

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