

Tax Memo

Harmonization – Forestry

After 18 years of maintaining a retail sales tax alongside the federal GST, Ontario is making a bold move to modernize sales taxes in the province. In his budget, Finance Minister Dwight Duncan announced that Ontario will be “harmonizing” its sales tax system with the GST, effective July 1, 2010. Instead of a 5% federal GST and 8% Ontario Retail Sales Tax (RST), there will be a single 13% Harmonized Sales Tax (HST) in Ontario. This system has been in operation in Newfoundland and Labrador, Nova Scotia and New Brunswick since 1997.

This decision will be applauded by most economists as a step toward improving the productivity and competitiveness of Ontario’s economy. The forestry industry is permitted to buy certain equipment, such as off-highway tractors and logging wagons, exempt from RST. However, numerous purchases the industry makes are subject to RST – a significant cost.

Under the HST, the Ontario forestry industry will pay more tax on their purchases, but like the GST, businesses will be able to recover the HST by claiming input tax credits on their GST/HST returns. Therefore, the removal of the non-recoverable RST will lower costs and improve the competitiveness of the Ontario forestry industry. Exporters, in particular, will benefit from the removal of the RST.

What should the forestry industry do before the new HST system is introduced?

Although business systems currently used for the GST can also be used to comply with the HST, some modifications may be required. In addition, the transition to the HST in Ontario will give rise to many of the same issues that arose with the GST rate reductions on July 1, 2006, and on January 1, 2008.

The HST in Ontario will substantially mirror the GST, but there are certain differences which will require systems modifications. In particular, during the first 8 years of the tax, large businesses (annual taxable sales in excess of \$10 million) will face restrictions in claiming input tax credits for certain categories of expenditures, such as energy (other than for producing goods for sale), telecommunications, food, beverages and entertainment, and road vehicles weighing under 3,000 kg (including repairs, parts and fuel).

Apart from systems issues, Ontario forestry-related businesses should plan for the removal of the RST from prices and make purchase decisions accordingly. In particular, it may be desirable to postpone certain major RST-taxable purchases until after the implementation of the new tax. In some instances, however, the tax savings may be less obvious. For example, although RST does not apply directly on construction projects, RST on the building materials is incorporated into the contractor’s price. Therefore, businesses should review these contracts carefully to ensure that savings from the removal of the RST are passed on to them.

Experience suggests that transitional rules will apply to transactions straddling the implementation date – such as long-term leases, equipment rentals and fixed-price contracts.

Forestry industry entities outside Ontario may also have to modify their systems to apply HST, rather than GST, on sales to Ontario customers.

For more information on the implications of Ontario sales tax harmonization on your business and what you should be doing now to prepare for it, contact the following or your local PricewaterhouseCoopers Indirect Tax representative.

Toronto	
Mike Firth ¹	
416 869 8718	michael.p.firth@ca.pwc.com
Brian Wurts	
416 869 2345	brian.d.wurts@ca.pwc.com
Ottawa	
Joanne Heffernan	
613 755 4344	joanne.heffernan@ca.pwc.com
Lloyd McMaster	
613 755 4337	lloyd.w.mcmaster@ca.pwc.com
Windsor/Waterloo/ London	
Zen Nimeck	
519 985 8917	zen.nimeck@ca.pwc.com

1. Member of PricewaterhouseCoopers' Canadian National Tax Services (CNTS). CNTS comprises a multi-disciplinary group of tax accountants, lawyers and other specialists from a variety of professional backgrounds in taxation, including government, with the mandate to enhance the overall value and scope of tax services PricewaterhouseCoopers provides to its clients.

Tax News Network (TNN) provides subscribers with Canadian and international information, insight and analysis to support well informed tax and business decisions. Try it today at www.ca.taxnews.com.

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers LLP has been recognized by World Finance as Canada's "Best Transfer Pricing Team" for 2009.



© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

This publication is intended to inform readers of developments as of the date of publication, and is neither a definitive analysis of the law nor a substitute for professional advice. Readers should discuss with professional advisers how the information may apply to their specific situations.

This publication may be displayed or printed only if for personal non-commercial use and unchanged (with all copyright and other proprietary notices retained). Unauthorized reproduction is expressly prohibited.