

# Tax Memo

## Harmonization – MUSH Sector

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. However, many of the supplies made by the MUSH (Municipalities, Universities/Colleges, School Authorities, and Hospital Authorities) sector are exempt under the GST/HST. As a result, the sector cannot claim input tax credits on most of their purchases. Because the HST base is broader than that for the RST, harmonization substantially increases the costs borne by the sector, unless offsetting measures are implemented with the HST.

Ontario will provide rebates of the provincial component of the HST to charities, qualifying non-profit organizations (“NPOs”), municipalities, universities, colleges, school boards, and hospitals. The intention of the rebates is to be fiscally neutral relative to the amount of RST currently paid by these entities. The rebate rates will be as follows:

- Municipalities 78%
- Universities and Colleges 78%
- School Boards 93%
- Hospitals 87%
- Charities and Qualifying NPOs 82%

### **What should the MUSH sector do prior to the introduction of the new HST system?**

The MUSH sector may wish to review carefully the above rebate rates to determine the impact on their budgets.

In addition, MUSH entities should review their upcoming purchases, and accelerate major acquisitions that are not subject to RST, such as custom software, research equipment (universities), and patient care equipment (hospitals), to reduce the cost of sales tax harmonization.

Although accounting 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.

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

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.

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