

Tax Memo

Harmonization – Not-For-Profit and Charity 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 not-for-profit/charity sector are exempt under the GST/HST. As a result, not-for-profit and charitable entities 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 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 not-for-profit/charity sector do before the new HST system is introduced?

The not-for-profit/charity sector may wish to review carefully the above rebate rates to determine the impact on their budgets. In addition, not-for-profit and charitable entities should review their upcoming purchases, and accelerate major acquisitions that are not subject to RST, such as custom software and bulk purchases of printed matter (e.g., newsletters and bulletins) to reduce the cost of sales tax harmonization.

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.

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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