



Business Information
Session
August 8, 2012

Harmonized Sales Tax (HST)



Finance, Energy and
Municipal Affairs
Wesley J. Sheridan
Minister



Budget 2012

Fiscal Context

- Fiscal situation of PEI deteriorated during 2011/12
- Deficit rising on lower revenues and higher expenditures
 - Liquor revenues, golf and other fees were down
 - Pension, health care, social services, agriculture support cost increased
 - Rising deficit risks social and health care programs
 - Continued restraint on transfers
- Fiscal course needed correction



Preparations for Budget 2012

Pre Budget Consultations (main themes expressed by the public)

- Take steps to reduce the deficit – its too high
- Strike balance between increasing revenues and reducing program spending
- Look for better efficiency, reduce waste, duplication inside departments
- Reduce red tape and competitive disadvantage that the private sector faces, allowing the economy to grow further



Key Budget Policy Objectives

Three-year Budget Plan

- To foster private sector economic growth
- Educational focus on student achievement
- Modernize health system to focus on patient needs and sustainability
- Fiscal balance will be restored by 2015



Balancing Expenditure Restraint and Revenue Increases

- Broadly restrain growth in expenditures
 - Health to increase by 4.1% this year then capped at 3.5%
 - Education to increase by 1.8% and zero after that.
 - Other Depts. to see reductions of 3% - 5%
- Government streamlining and consolidation of
 - Treasury Board, IT and accounting services
 - Communications
 - Human Resources



Balancing Expenditure Restraint and Revenue Increases

- Expenditure restraint alone is not enough
- Need to increase revenues by \$25 million annually
- General fee and sundry tax increases to regional averages are not enough



Revenue Policy

Government set three revenue policy objectives

- To balance the Budget while protecting public services
- To focus government policy to improve economic growth in the private sector
- To protect low and modest income families



Revenue Options

Several options were considered

- Raising income taxes
 - already high and under pressure to reduce them when/where possible
- Raising PST by 1%
 - would fail 2 of 3 policy objectives
 - ✓ Raise required revenue
 - X Improve economic growth
 - X Protect low and modest income families



Harmonization of Provincial and Federal Sales Taxes

Harmonization achieves all three revenue objectives

- Raises the required revenue
- Improves economic growth
 - ✓ Levels playing field for business
 - ✓ Reduces “Red Tape”
- Protects low and modest income families
 - ✓ Point-of-Sale rebates
 - Heating Oil
 - Children’s footwear and children’s clothing
 - ✓ Refundable credit targeting low and modest income households



HST Announcement Budget Day

- Effective April 1st, 2013 (*)
- HST rate - 14% applied to same base as GST
 - Federal component - 5%
 - Provincial component – 9%
- Point of sale exemptions
 - Heating oil, children's clothing, children's footwear
- Rebate program for low and modest income households
- Administered by the federal government
- In general, GST rules will apply to HST



Impact on Business Investment

- Improved economy and investment will create more opportunities for Island business and jobs

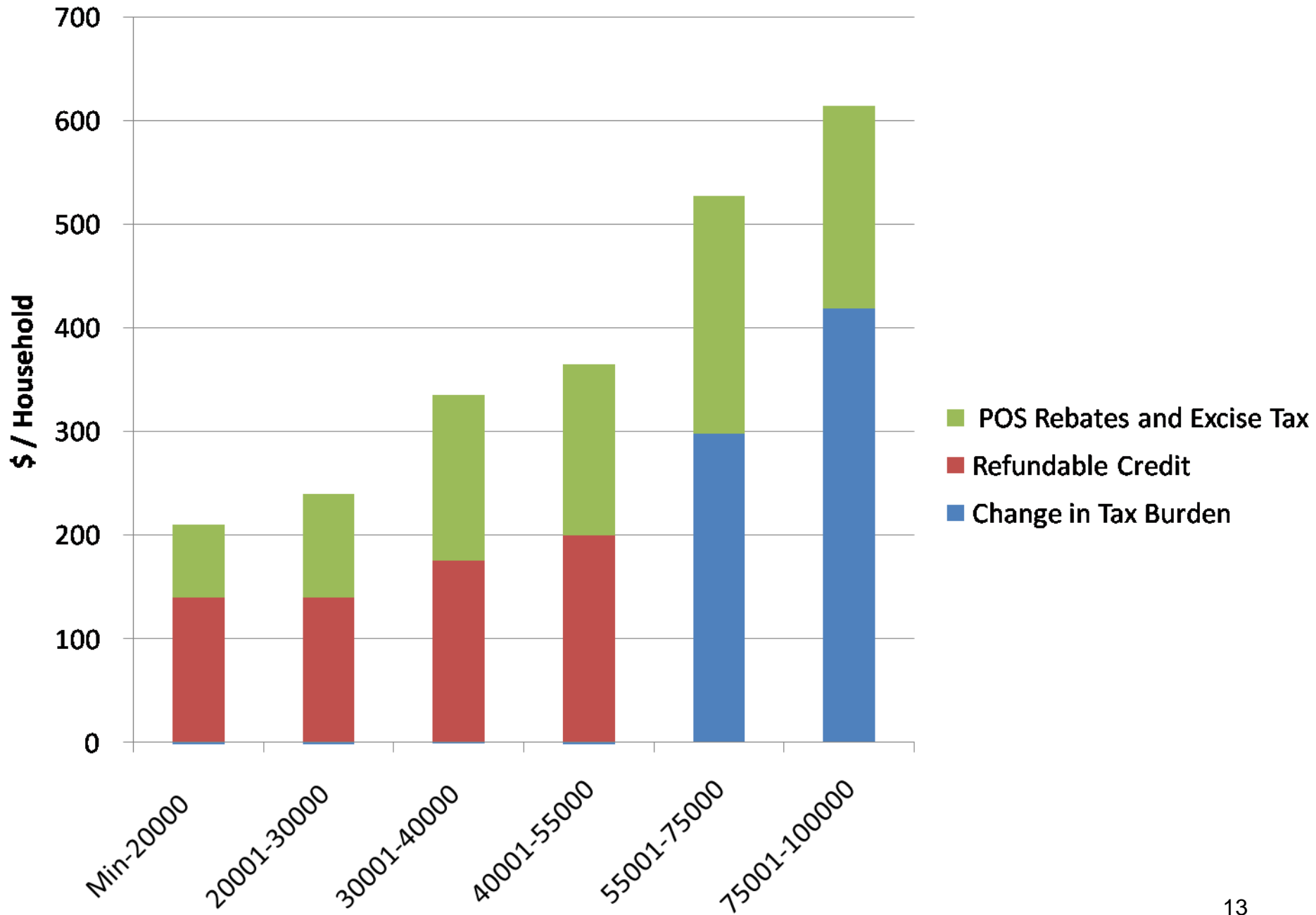


Impact on Household

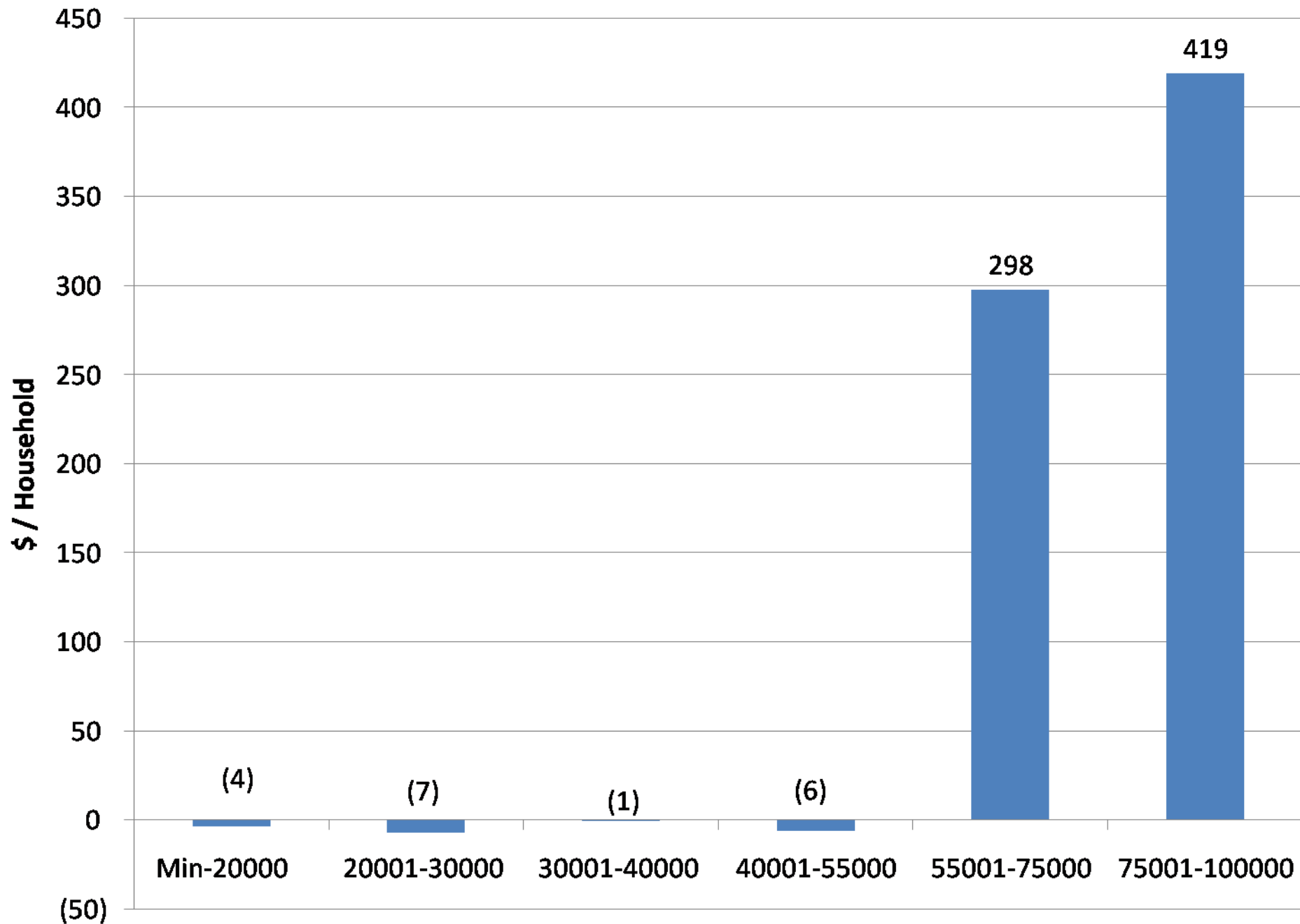
Low income households are protected from an increase in tax through a combination of:

- Point-of-sale rebates
 - Heating oil
 - Children's footwear and children's clothing
- Refundable tax credit
 - Households with income under \$55k to receive up to a maximum of between \$150 to \$200
 - Similar structure to federal GST credit – integrated with Income Tax

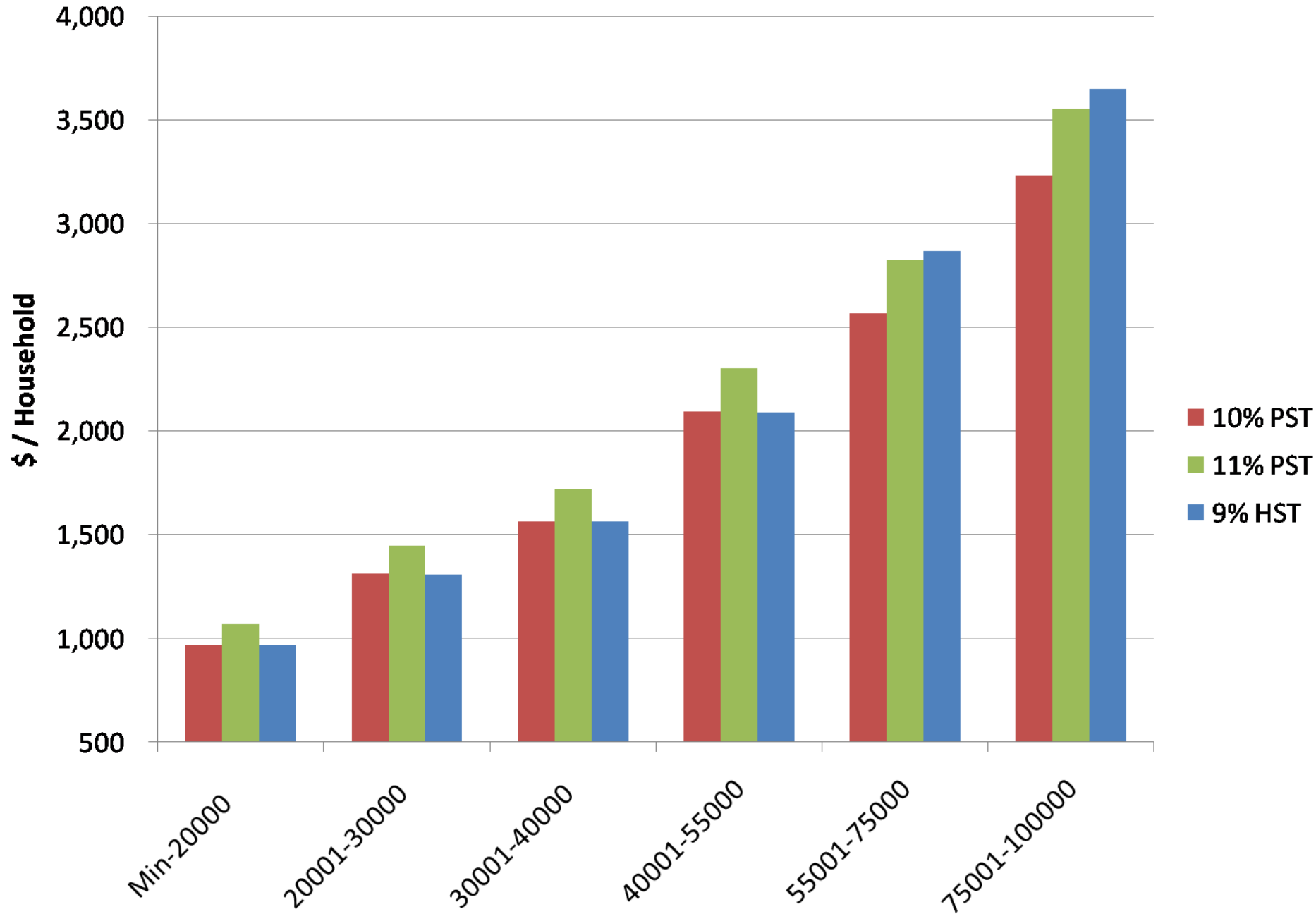
Impact of Credit and Point-of-Sale Rebates



9% HST Compared to 10% PST



Comparison of Sales Taxes: 10%-11% PST and 9% HST





HST – Right Direction for Both Economy and Society of PEI

- To ensure Islanders are not burdened by the new tax model, the Province will:
 - ✓ Exempt home heating oil, children's clothing and children's footwear
 - ✓ Create a rebate program for low and modest income Islanders
 - ✓ Reduce the provincial tax by 1.5% - the first time a reduction in provincial sales tax has ever been implemented on the Island



Technical Presentation

- Tax System Comparison
- HST Facts
- GST/PST – Current System and HST – After April 1, 2013
 - Registrants
 - Non-Registrants, Small Supplier
 - Supplier of Exempt Supplies
- GST/PST to HST Transition
- Benefits of HST for Business
- Additional Information
- One-on-One Industry Sector Information Sessions



Tax System Comparison

Provincial Sales Tax (Cascading Tax) – Example

- Tourist accommodation operator pays PST on items such as construction materials, repairs and maintenance, computer equipment and systems, accounting fees, office supplies and accommodation supplies used in providing guest accommodations
- Operator embeds the PST paid into the cost of accommodations
- Customer pays GST and PST on cost of accommodations
- Customer pays tax on tax
 - GST and PST on the tax embedded into the cost of accommodations
 - PST on top of GST on cost of accommodations



Tax System Comparison

Harmonized Sales Tax (Value Added Tax) – Example

- Tourist accommodation operator pays HST on items such as construction materials, repairs and maintenance, computer equipment and systems, accounting fees, office supplies and accommodation supplies used in providing guest accommodations
- Operator receives an input tax credit for all HST paid
- Operator does not embed tax into the cost of accommodations
- Customer pays HST on cost of accommodations
- Customer does not pay tax on tax



HST Facts

Application of HST

Supplies

- “Supplies” or “Supply” refers to a businesses revenue generating activity
- Taxable, zero-rated or exempt

Taxable Supplies

- Taxable at the HST rate for the participating province (PEI - 14%)
- Businesses who make taxable supplies can claim “input tax credits” for tax paid on inputs acquired to make those supplies



HST Facts

Application of HST

Zero-rated Supplies

- Taxable at the rate of 0%
- Businesses who make zero-rated supplies are permitted to claim “input tax credits” for the tax paid on inputs acquired to make those supplies.
- Zero-rated supplies are effectively tax free



HST Facts

Application of HST

Exempt Supplies

- Exempt supplies are not subject to the HST
- Businesses making exempt supplies are not permitted to claim “input tax credits” for the tax paid on inputs acquired to make those supplies
- Tax paid on inputs is an additional cost of doing business and becomes embedded in the amount charged by the supplier for the exempt supplies



HST Facts Registration

Supplier Registration

- If already registered for GST a business will be automatically registered for HST
- Suppliers, who are required to register to collect HST, referred to as Registrants
 - Suppliers who make taxable or zero rated supplies are required to register
- Small suppliers, except taxi operators, do not have to register to collect HST
 - Small suppliers are those businesses with worldwide taxable revenues not exceeding \$30,000
 - Referred to as non-registrants
- Suppliers making exempt supplies do not register to collect the HST
 - Referred to as non-registrants



HST Facts

Input Tax Credits (ITCs)

Input Tax Credits (ITCs)

- Input tax credits (ITCs) are credits for the GST/HST paid or payable on goods and services acquired for consumption, use or supply in a commercial activity
- ITCs are based on extent of use in commercial operations
- To claim an ITC, a business must be a GST/HST registrant
- ITCs are recorded on a GST/HST return



GST/PST – Current System GST/PST on Expenses (Registrant)

Subject to GST at 5% or 0%

- Purchase of goods and services used by businesses in their operations
- Purchase of building materials used by real property contractors in completing their real property contracts
- Purchase of goods for resale



GST/PST – Current System

GST/PST on Expenses (Registrant)

Subject to PST at 10.5%

- Purchase of goods and services used by businesses in their operations
- Purchase of building materials used by real property contractors in completing their real property contracts

Exempt from PST

- Purchase of goods for resale or raw materials used in manufacturing/production
- Purchase of certain goods and goods by specific industries such as farming and fishing



GST/PST – Current System Input Tax Credits (Registrant)

Input Tax Credits at 5%

- Purchase of goods and services used by businesses in their operations
- Purchase of building materials used by real property contractors in completing their real property contracts
- Purchase of goods for resale



HST – After April 1, 2013

HST on Expenses (Registrant)

Subject to HST at 14% or 0%

- Purchase of goods and services used by businesses in their operations
- Purchase of goods for resale



HST – After April 1, 2013

HST on Expenses (Registrant)

Input Tax Credits at 14%

- Purchase of goods and services used by businesses in their operations
- Purchase of goods for resale



HST – After April 1, 2013

HST on Expenses (Registrant)

Example

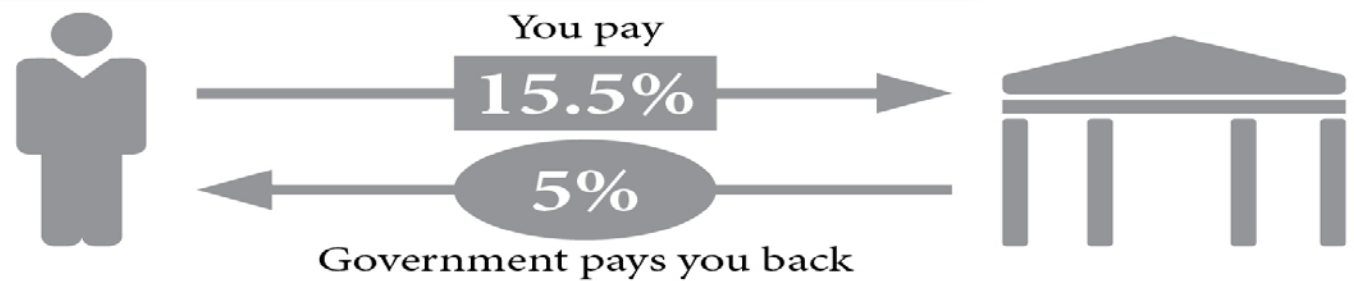
Expense: Equipment repairs & maintenance

Under GST/PST	
Cost	\$7,500
GST – 5%	375
PST – 10%	<u>788</u>
	8,663
Input tax credit	<u>375</u>
Net Cost	<u>\$ 8,288</u>

Under HST	
Cost	\$7,500
HST – 14%	1,050
PST	<u>0</u>
	8,550
Input tax credit	<u>1,050</u>
Net Cost	<u>\$7,500</u>
Savings	<u>\$ 788</u>

GST/PST and HST Summary (Registrant)

Under GST/PST System



Under HST System





GST/PST – Current System

GST/PST on Sales (Registrant)

GST

- Taxable - 5% of the selling price
- Zero-rated - 0% of the selling price
- Exempt – not subject to tax

PST

- Taxable at 10% of the GST included selling price
- Exempt



HST – After April 1, 2013

HST on Sales (Registrant)

HST

- Taxable - 14% of the selling price
- Zero-rated - 0% of the selling price
- Exempt – not subject to tax



HST – After April 1, 2013

HST on Sales (Registrant)

Example

Sale: Motor Vehicle

Under GST/PST	
Cost	\$17,500
GST – 5%	875
PST – 10%	<u>1,838</u>
Total selling price	<u>\$20,213</u>

Under HST	
Cost	\$17,500
HST – 14%	2,450
PST	<u>0</u>
Total selling price	<u>\$19,950</u>
Price reduction	<u>\$ 263</u>
Impact of new ITCs	
Net price reduction	≥ \$263



HST – After April 1, 2013

HST on Sales (Registrant)

Example

Sale: Adult Clothing (or any PST exempt good or service)

Under GST/PST	
Cost	\$50.00
GST – 5%	2.50
PST – 10%	<u>0</u>
Total selling price	<u>\$ 52.50</u>

Under HST	
Cost	\$50.00
HST – 14%	7.00
PST	<u>0</u>
Total selling price	<u>\$ 57.00</u>
Price increase	<u>\$ 4.50</u>
Impact of ITCs	
Net price increase	≤ \$ 4.50



HST – After April 1, 2013

HST on Sales (Registrant)

Example

Sale: Milk

Under GST/PST	
Cost	\$ 6
GST – 5%	0
PST – 10%	<u>0</u>
Total selling price	<u>\$ 6</u>

Under HST	
Cost	\$ 6
HST – 14%	0
PST	<u>0</u>
Total selling price	<u>\$ 6</u>
Impact of new ITCs	
Total selling price	≤ \$ 6



GST/PST – Current System

GST on Expenses

(Non-Registrant)

Subject to GST at 5% or 0%

- Purchase of goods and services used by businesses in their operations
- Purchase of building materials used by real property contractors in completing their real property contracts
- Purchase of goods for resale



GST/PST – Current System

PST on Expenses (Non-Registrant)

Subject to PST at 10.5%

- Purchase of goods and services used by businesses in their operations
- Purchase of building materials used by real property contractors in completing their real property contracts

Exempt from PST

- Purchase of goods for resale or raw materials used in manufacturing/production
- Purchase of certain goods or certain goods by specific industries such as farming and fishing



GST/PST – Current System Input Tax Credits (Non-Registrant)

Input Tax Credits

- Not eligible for input tax credits



HST – After April 1, 2013

HST on Expenses (Non-Registrant)

Subject to HST at 14% or 0%

- Purchase of goods and services used by businesses in their operations
- Purchase of goods for resale



HST – After April 1, 2013

Input Tax Credits (Non-Registrant)

Input Tax Credits

- Not eligible for input tax credits



HST – After April 1, 2013 (Non-Registrant)

Example

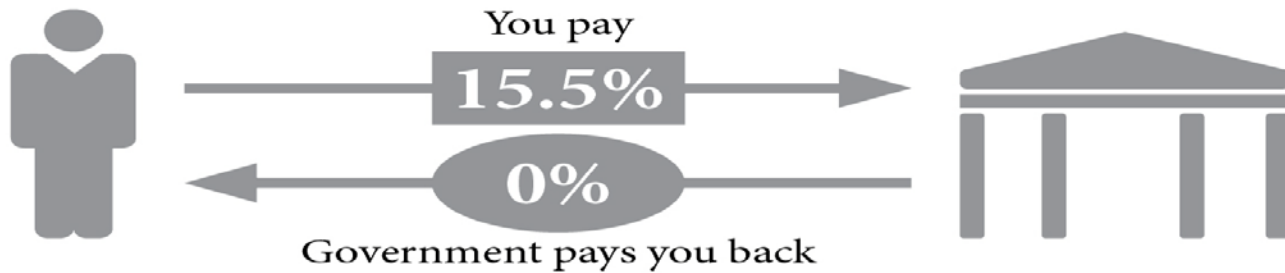
Expense: Bedding, linens and mattresses

Under GST/PST	
Cost	\$1,750
GST – 5%	88
PST – 10%	<u>184</u>
	2,022
Input tax credit	<u>0</u>
Net Cost	<u>\$2,022</u>

Under HST	
Cost	\$1,750
HST – 14%	245
PST	<u>0</u>
	1,995
Input tax credit	<u>0</u>
Net Cost	<u>\$1,995</u>
Savings	\$ 27

GST/PST and HST Summary (Non-Registrant)

Under GST/PST System



Under HST System





HST – After April 1, 2013

Small Supplier (Optional Registrant)

Example

Expense: Bedding, linens and mattresses

Non-Registrant	
Cost	\$1,750
HST – 14%	245
PST	<u>0</u>
	1,995
Input tax credit	<u>0</u>
Net Cost	<u>\$1,995</u>

Registrant	
Cost	\$1,750
HST – 14%	245
PST	<u>0</u>
	1,995
Input tax credit	<u>245</u>
Net Cost	<u>\$1,750</u>
Savings	<u>\$ 245</u>



GST/PST – Current System

GST/PST on Sales (Non-Registrant)

GST

- Exempt

PST

- Taxable at 10%
- Exempt



HST – After April 1, 2013

HST on Sales (Non-Registrant)

HST

- Exempt



HST – After April 1, 2013

HST on Sales (Non-Registrant)

Example

Sale: Cottage Rental (1 week)

Under GST/PST	
Cost	\$1,200
GST – 5%	0
PST – 10%	<u>120</u>
Total selling price	<u>\$1,320</u>

Under HST	
Cost	\$1,200
HST – 14%	0
PST	<u>0</u>
Total selling price	<u>\$1,200</u>
Price reduction	<u>\$ 120</u>



HST – After April 1, 2013

HST on Sales

(Optional Registrant)

Example

Sale: Cottage Rental (1 week)

Not Registered	
Price	\$1,200
HST – 14%	0
PST	<u>0</u>
Total selling price	<u>\$1,200</u>

Registered	
Price	\$1,200
HST – 14%	168
PST	<u>0</u>
Total selling price	<u>\$1,368</u>
Price Increase	<u>\$ 168</u>
Impact of new ITCs	
Total increase	≤ \$168



GST/PST – Current Status Supplier of Exempt Supplies

Subject to GST at 5% and PST at 10.5%

- Purchase of goods and services used by businesses in their operations
- Purchase of goods for resale

Input Tax Credits

- No input tax credits available



HST – After April 1, 2013 Supplier of Exempt Supplies

Subject to HST at 14%

- Purchase of goods and services used by businesses in their operations
- Purchase of goods for resale

Input Tax Credits

- No input tax credits available



HST – After April 1, 2013 Supplier of Exempt Supplies

Example

Expense : Electricity

Under GST/PST	
Cost	\$3,000
GST – 5%	150
PST – 10%	<u>0</u>
	3,150
Input tax credit	<u>0</u>
Net Cost	<u>\$3,150</u>

Under HST	
Cost	\$3,000
HST – 14%	420
PST	<u>0</u>
	3,420
Input tax credit	<u>0</u>
Net Cost	<u>\$3,420</u>
Increase	<u>\$ 270</u>



HST – After April 1, 2013 Supplier of Exempt Supplies

Example

Expense: Equipment Repairs and Maintenance

Under GST/PST	
Cost	\$15,000
GST – 5%	750
PST – 10%	<u>1,575</u>
	\$17,325
Input tax credit	<u>0</u>
Net Cost	<u>\$17,325</u>

Under HST	
Cost	\$15,000
HST – 14%	2,100
PST	<u>0</u>
	\$17,100
Input tax credit	<u>0</u>
Net Cost	<u>\$17,100</u>
Savings	<u>\$ 225</u>



GST/PST to HST Transition Rules

Transition rules

- Prevent double taxation
- Prevent gaps in the application of tax



GST/PST to HST Transition Rules

- Business Information Sessions
- One-one-one industry sector meetings
- Research
- Collaboration with federal government
- Announcement
- Finalization in Comprehensive Integrated Tax Co-ordination Agreement (CITCA)



GST/PST to HST Transition Rebate Programs

Rebate Programs

- Point of sale rebates on the following items:
 - Heating oil
 - Children's clothing
 - Children's foot wear
- Rebate program for low and modest income Islanders
- Other



Benefits of HST for Business

Reduces red tape

- Limits reporting (one sales tax return)
- Provides single taxing authority
- Administered under one set of rules
- Increases monthly return threshold



Benefits of HST for Business

Reduces complexity

- Less complex rules regarding the required application of tax
 - Under PST many exemptions were based on the status of the purchaser. Vendor error was costly.
 - Under HST most exemptions are based on the particular good or service being sold. Easier for registrants to comply.



Benefits of HST for Business

Enhances competitiveness and economic growth

- Input Tax Credits put Island businesses on a level playing field in the region
- Protects customer base and tax base
 - On-line/out-of province shopping
- Provides opportunity for business to:
 - Increase bottom line
 - Re-invest in business and enhance economy
 - Increase competitiveness

(*) Reference:

The Impact of Sales Tax Reform on Ontario Consumers: A First Look at the Evidence

Michael Smart (<http://www.fin.gov.on.ca/en/publications/2011/smart.html>)

Business Information Session



HST

One-on-One Industry Sector Information Sessions

- Terms of reference
- Contact information



HST

Additional Information

- Department of Finance, Energy and Municipal Affairs
 - hst@gov.pe.ca - Email
 - www.gov.pe.ca/hst - Website
- Canada Revenue Agency (CRA)
 - www.cra-arc.gc.ca