

# Sales Tax Reform in Ontario

DIN0723-0906

The 2009 Ontario Budget announced a federal-provincial agreement to combine Ontario's Retail Sales Tax (RST) with the Goods and Services Tax (GST) to create a federally-administered single sales tax. Taking effect July 1, 2010, the tax would be harmonized on the GST value-added method. The single sales tax rate would be 13 per cent, with 8 per cent going to the province and 5 per cent to the federal government.

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## The Ins & Outs of Single Sales Tax

The governments say they are following the lead of 130 nations as well as provinces east of Ontario, and that reform is part of a tax relief package to make our system more competitive.

Currently, RST is embedded in costs and prices throughout the supply chain. The new single sales tax will use a value-added tax structure with input tax credits (ITCs), meaning that most businesses would be reimbursed for the Sales Tax they pay on most of their inputs, including for example:

- Vehicles
- Office furniture, equipment and supplies
- Telephone equipment and computers
- Packaged computer software
- Advertising and promotional goods
- Building materials
- Materials handling equipment

Studies of provinces which previously harmonized their sales taxes, show that removing embedded sales taxes from business costs results in the savings being passed on to consumers. Exports become more competitive too, being free of embedded sales tax.

The government estimates \$500 million in administrative/compliance savings. The single sales tax would use most of the same rules and tax base as the federal GST. The combined tax will be collected by the Canada Revenue Agency, and businesses will have to deal with just one set of auditors.

The tax base will be considerably wider than the current RST system. Some products and most services will see total tax go from 5 per cent to 13 percent, including:

- Professional services, such as accounting, legal, consulting, etc.
- Membership and conference fees
- Taxi fares
- Personal services (e.g. dry cleaning, hair cutting, veterinary visits)
- Labour (e.g. home repair, real estate commissions, snow removal)
- Energy
- Magazine subscriptions
- Prepared food under \$4

A wider tax base doesn't mean total government tax revenues will increase, because the ITCs will reimburse money back into the supply chain. While the government says it loses revenue at first, some believe that the broader sales tax base could help recover some of this lost revenue over time.

## Adjustment measures

For businesses, to help compensate for the cost of adjustment to point-of-sale and accounting systems, there is a proposed one-time credit of between \$300 and \$1,000 per business, depending on the amount of tax remitted. For individuals, there are proposed temporary transitional rebates of \$300 for eligible singles and \$1000 for eligible families, paid by three

instalments through June 2011. In addition, the current Ontario Sales Tax Credit will be restructured to provide ongoing quarterly rebates to low income families and individuals.

## Items still to be determined

Although Ontario's Finance Ministry has announced the key principles, there are many details that still have to be worked out. Most important among these are what to do with sales or production processes that straddle the July 1, 2010 implementation date. Businesses need to know what to do regarding long-term leases, rental agreements, contracts.

Rebate methods must be worked out to ensure that RST amounts embedded in pre-implementation input prices do not also get taxed at the higher combined rate on final product prices after implementation. This will be particularly important on big-ticket items such

as vehicles, equipment and buildings. Businesses selling any of the newly 'exempted' products will also need to know how to administer the point-of-sale rebates to customers.

## Opportunities for changes

There are still opportunities for CFIB members to influence how the new combined tax is structured and administered. We will aim to have input on the priorities our members identify, including:

- Transition measures
- Possible new tax on alcohol sales
- New Housing treatment
- Compensation for tax collection work
- ITC restrictions for large firms
- Visibility of the tax
- Appropriate small supplier threshold
- Tax mix—sales vs. income

## Ontario RST and Proposed 13% Single Sales Tax Comparisons

	<i>GST 5%</i>	<i>Current Provincial RST 8%</i>	<i>Ontario portion of new Single Sales Tax 8%</i>
Investment tax credits (ITCs)	Yes <i>(on taxable and zero-rated products)</i>	No	Yes <i>(on taxable and zero-rated products)</i>
Vendor compensation	No	Yes	No
Small supplier threshold	\$30,000	NA	\$30,000
Tax exemptions	Basic groceries, resale homes, prescription drugs, health and educational services, municipal public transportation, child care services	Basic groceries, children's clothing, footwear under \$30, children's car seats, booster seats, feminine hygiene, books	Same as GST
Point of sale rebates	NA	NA	Ontario portion only: Point-of-sale rebates on children's clothing and footwear, child car seats and car booster seats, diapers, feminine hygiene products and books. Vendors administer the rebates, but also can claim full ITCs.
Housing rebates	GST portion only: 36% tax rebate on new homes under \$350,000, with proportional rebate on new homes between \$350,000 and \$450,000.	NA	Ontario portion only: 75% tax rebate on new homes under \$400,000, proportional rebate on new homes between \$400,000 and \$500,000
Large business temporary ITC restrictions	NA	NA	Ontario portion only: For 5 years and phased out over next 3 years, limited or no ITCs for spending on energy (except where purchased by farms or used to produce goods for sale), small vehicles, telecom, meals and entertainment for firms with taxable sales above \$10m
Hotel room taxes	5%	5%	8% - Approximately \$40 million of annual net revenue associated with the difference in rates would be allocated to destination marketing in Ontario tourism regions, once these are established.
Private motor vehicle sales, group insurance premiums	NA	8%	Ontario would retain a sales tax on private transfers of used motor vehicles. Ontario would retain a tax on insurance at eight per cent after the transition to the single sales tax, on the same types of insurance currently taxed under the RST.
Alcoholic beverages	5%	10% / 12%	8%, although other alcohol charges will be adjusted upward to keep Ontario government revenue the same
Admissions	5%	10%	8%

Note: All information contained above is for illustrative purposes only. Please refer to federal and Ontario legislation where appropriate