



# THE HARMONIZED SALES TAX

FALL/WINTER 2009

## HST AND BUSINESS

On July 1, 2010 the province of BC intends on stopping the current PST system and implement the HST.

The Harmonized Sales Tax will benefit most businesses because HST, unlike the PST, will be refunded to the business so most businesses will effectively not pay any HST just like they do not effectively pay GST.

Whether a business buys office supplies, a vehicle, or a new computer, that business would have paid the 7% PST and had it included in the expense, but will, under the HST

system, get that 7% back for a savings of 7%.

Furthermore, many businesses that now collect GST and PST will only have to collect HST and understand the rules for HST rather than for both GST and PST.

This will save businesses time and money as the GST and PST systems converge into the HST.

Of course, the HST is not all good news for businesses. Restaurants, accountants, new home builders and real estate agents, for example, will start



*For many businesses the switch to the HST is good news. But not all will be jumping for joy.*

charging 12% rather than the 5% in GST.

The concern is that less people will (please see page 2)

### SPECIAL POINTS OF INTEREST:

- *For business, the HST is mostly a good news story—but not all is good in the business world.*
- *Not For Profits and consumers will bear the cost of this tax change*
- *What you will pay more for, less for, and see no difference on at the cash register*
- *Minimize the HST you pay on new housing with the HST rebate*

## HST - CHARITIES AND NOT FOR PROFITS

Currently, qualified Not for Profit's and Charities receive 50% of any GST paid back as a rebate.

Any PST that is paid is a cost to this sector.

A NFP buying a computer for \$1,000 would

pay \$50 in GST, \$70 in PST and get \$25 in GST back—net cash outflow of \$1,095.

Under the HST that same \$1,000 computer would cost \$120 in HST but the NFP will get about 54% of it back for a net cash

cost of \$1,055—a savings of \$40!

The 54% is broken down between the federal portion (50% of 5%) and the provincial portion of 57% of the 7%. (please see page 2)

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**CONTINUED — HST — CHARITIES AND NOT FOR PROFITS**

This averages out to approximately 54%.

The bad news for Charities and NFP's, however, is that, there are going to be many new services and goods that were previously PST exempt but will now be subject to the HST (see page 3 for listing).

Unlike those businesses that get the full HST back, NFP's and charities will be out of pocket.

For example, a NFP uses a contractor to provide services.

That contractor may have charged \$100 plus \$5 of GST for which the NFP would get a refund of \$2.50. Net cost is \$102.50.

After July 1, 2010 that contractor will charge \$12 of HST and the NFP will get a refund of \$6.48.

The net cost is now \$105.52—an increase of

\$3.02 or 3%!

Charities and NFP's will have to carefully consider the impact of HST on their budgets. Contractors, rent, and telephone and utilities are some areas that will see a net increase in cost.

For some NFP's the impact may be minimal but for many others it will mean an increase in costs and the difference between operating surpluses and deficits.



*Under the HST charities may need a helping hand*

**CONTINUED — HST AND BUSINESS**

demand these services or products since the prices will increase by 7%.

Large businesses may welcome the HST over the long run, but in the short run they are going to face some complications.

Businesses with revenues over \$10 million will see certain restrictions on their claim on the provincial portion of HST paid on meals & entertainment, some telephone charges, energy (with some exceptions) and certain vehicles (weighing less than 3,000 kg).

Strange list, but there it is!

The HST will also effect tax exempt businesses. These businesses (banks, insurance agents, child care providers, for example) will end up paying the HST on an expanded list of items (see page 3) which will increase their costs since, as tax exempt businesses, they do not get any HST refunded (they are tax exempt in that they do not collect HST and do not get any HST they pay back).

Zero rated businesses (examples are basic groceries, fishing, farm-

ing) are fortunate in that they do not charge HST but they will get any HST they pay back.

In some instances (fishing and farming, for example) the benefit will largely come from the simplification and relief of no longer having to file paperwork for specific exemptions for specific items that were PST exempt.

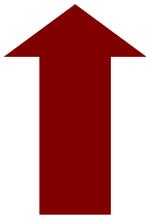
While not all businesses are treated the same under HST, clearly the majority will benefit when they no longer have to pay the PST and no longer need comply with the PST system.



*HST is not all good news for big business.*

*There are going to be some restrictions on their input tax credits.*

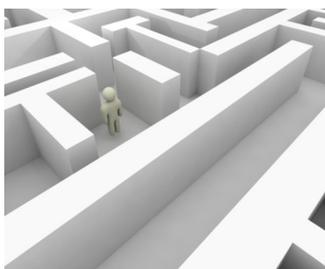
## THE IMPACT — INCREASES, DECREASES AND STATUS QUO



The 7% provincial portion of HST will increase the cost of these goods and

services:

- Accounting fees
- New homes
- Real estate commissions
- Restaurant meals
- Energy efficient equipment
- Basic cable and basic telephone
- Ticket prices (movies, theatre, concerts)
- Bicycles
- Hair cuts, spa treatments
- Tobacco products
- Most school supplies
- Used vehicles/boats/aircraft



*The change from PST to HST will prove to be confusing at first, but we will all find our way through the changes.*

Many consumers will notice no effective change to many goods and services that they are currently already paying GST and PST on and will pay the same amount of HST on:



- Legal fees
- New vehicles (except for automobiles over \$55,000)
- Cell phone service
- Electronics, clothing/shoes (adults), furniture

Other services and goods will see no change in tax because the province will exempt the 7% portion of the HST so as to continue the existing PST exemption to the HST:

- Gasoline, ethanol, diesel and biodiesel for motor vehicles
- Books
- Children sized clothing/shoes
- Children's car seats
- Diapers
- Feminine hygiene products
- Residential energy

Some PST exempt services and goods will continue to not be taxable under the HST because they are not taxable under the GST. Expect no changes to these items:

- Used residential home sales
- Residential rent
- Basic groceries
- Medical devices
- Drugs and dispensing fees
- Health care services and child care services
- Ferry/toll charges

Yes, there are some decreases thanks to the switch over to the HST!

Currently the PST on hotel rooms is 8% and this will drop to 7% under the HST.

If you purchase fine automobiles that cost more than \$55,000 then you will see a decrease from 10% to 7%.

You may also notice a decrease in tax on that bottle of wine you have at a restaurant. The tax rate will decrease from 10% to 7%, too.

However, don't expect to see much savings since the government will be raising the wholesale prices of liquor to ensure that they still charge the same at the liquor store. As such, the price of wine at the restaurant may not change at all.





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**McIntosh Norton Williams, CGA's** is a full service accounting firm providing accounting, taxation, auditing and consulting services for our clients.



For more information about HST and its impact on you as a Consumer, Not For Profit, or Business, please contact Cory, Jason, Jay or Mike.

**IT'S NOT WHAT YOU EARN,  
IT'S WHAT YOU KEEP!**



## HST ON NEW HOMES — THE BC HST REBATE

Price of New Home	Current 2 per cent Embedded PST	After Harmonization	
\$200,000	\$4,000	HST (7% BC portion)	\$14,000
		BC New Housing Rebate	<u>(\$10,000)</u>
		Net BC HST	\$4,000
		Previous 2% embedded PST	<u>(\$4,000)</u>
		Net impact on home buyer	<u>\$0</u>
\$400,000	\$8,000	HST (7% BC portion)	\$28,000
		BC New Housing Rebate	<u>(\$20,000)</u>
		Net BC HST	\$8,000
		Previous 2% embedded PST	<u>(\$8,000)</u>
		Net impact on home buyer	<u>\$0</u>
\$800,000	\$16,000	HST (7% BC portion)	\$56,000
		BC New Housing Rebate	<u>(\$26,250)</u>
		Net BC HST	\$29,750
		Previous 2% embedded PST	<u>(\$16,000)</u>
		Net impact on home buyer	<u>\$13,750</u>

According to the BC Government, the additional 7% tax on new homes will only effectively be paid on homes that cost more than \$525,000 thanks to the provincial rebate.

This assumes that 2% of the cost of a house includes the PST that home builders pay for the construction material used for the house, which is a reasonable estimate.

The concern to future new home buyers is to see if the \$26,250 rebate (5% of \$525,000) will increase as the median urban house price increases from the \$525,000 base.