

HST

— Harmonized Sales Tax

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CHENG-CHUNG YU
PROFESSIONAL CORPORATION
Chartered Accountant & Business Advisor

Introduction of Our Firm

- Started since 2002
- Major services
 - Accounting, taxation, financial planning and business advisory
- Owner with 20+ years of multinational work experience
 - Expertise: public accounting, commercial banking, corporate finance and strategic planning
 - Credentials: MBA, CA, CFA, CFP
- www.yupc.ca

Sales Taxes by Province



5% GST

5% GST and 7.5% QST on GST-included price

13% HST (5% federal component and 8% provincial component)

12% HST (5% federal component and 7% provincial component)

Manitoba - 5% GST and 7% PST
Saskatchewan - 5% GST and 5% PST
PEI - 5% GST and 10% PST on GST-included price

Why HST?

- Value-added tax
 - Eliminate multiple sales taxes throughout the supply chain layers
 - Improve business competitiveness and create jobs
 - Improve export competitiveness
 - Already implemented in 140+ countries
- Broaden tax base on services and real property
- Simplify and reduce tax administration and cost

Effectively shifting some taxes from businesses to consumers, and from production to consumption.

Impact on Businesses

- Tax savings from PST that has been absorbed
 - Claim back full ITC (input tax credits)
 - Can presumably reinvest back to business or pass on to consumers
- Less administration and accounting work
 - File only one HST return
 - No PST vendor compensation after Mar/31/2010
- Service businesses will be charging 8% more sales taxes

Impact on Individuals

- Pay more sales taxes on items that otherwise were not taxed PST previously
- Some short-run tax refunds to ease the pain
- May still pay more taxes longer run, unless government reduces its size and spendings

Transitional Measures

- HST starting July 1, 2010 for both Ontario and B.C.
- For individuals: \$10.6 billion tax relief over three years
 - Transitional direct payments up to \$1,000 for each family
 - Permanent personal tax cuts
 - Effective Jan/01/10, 1% income tax reduction on the first tax bracket of \$37,106
- For businesses: \$4.5 billion tax relief over three years
 - \$400 million one-time transition support for Small Business (sales < \$2M) Transition Credit up to \$1,000
- New housing and rental housing rebates
 - 2% provincial portion on first \$400K (rebate of up to \$24K)
 - 8% provincial portion on \$400+K

HST Zero-rated Items

- Basic groceries
- Agriculture and fishing
- Prescription drugs, some medical devices
- Exports of goods and services, including
 - Services to non-resident other than in respect of real property situated in Canada
 - Foreign travel and transportation services

HST Exempt Items

- Most financial services
- Residential rents, condo fees
- Ferry, road and bridge tolls
- Municipal public transit
- Child care, disability care, tutoring, music lessons
- Health care and education services
- Legal aid services
- Supplies by charities
- Public sector bodies

Items Taxed at 5% HST

- Prepared food and beverages sold for \$4.00 or less
- Children's clothing, footwear, car seats, diapers
- Feminine hygiene products
- Books, print newspapers

Restricted ITC

— Large Businesses and Financial Institutions

- Energy costs
 - Except where purchased by farms or used to produce goods for sale
- Telecom services
 - Other than internet access or toll-free numbers
- Vehicles < 3K kgs and their fuel usage
- Meals and entertainment

Ontario HST Oddities

- Continue to retain 8% PST on insurance premiums and used vehicle private transfers
 - Other than auto insurance that continues to be exempt
- 13% HST on alcoholic beverages
 - PST reduced from 10% (through licensed establishments) and 12% (through retail stores)
 - However, Ontario to introduce other fees to maintain the existing revenue yield

Actions by Business

- Accounting software to reflect HST
- Consider impact on pricing, costing and cash flows
 - Impact on long-term contracts
- Consider tax planning opportunities before HST kicks in
 - Capital acquisitions
 - Lease vs. buy
 - Imports
 - Central purchasing and inter-provincial movement of goods