



Harmonized Sales Tax Planning

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The Harmonized Sales Tax (HST) is simply the Goods and Services Tax (GST) at a higher rate, implemented in the provinces of New Brunswick, Newfoundland and Labrador, and Nova Scotia in 1997, and announced for British Columbia and Ontario in 2010. Since the rules are fundamentally the same as the GST rules, all the GST planning issues apply equally to an HST regime. Additional planning is warranted due to the existence of both participating and non-participating provinces creating provincial tax borders. Also, as a province transitions from Provincial Sales Tax (PST) to an HST regime, as in 2010, special consideration should be given to the transition and any planning opportunities to save costs or minimize risk.

National Suppliers

With a mix of both participating and non-participating provinces, national suppliers need to consider GST, HST, and PST when considering many issues, such as pricing. If tax-inclusive pricing is an option, the higher buried

HST in respect of sales in a participating province should be considered. Once registered for GST, a taxpayer is also registered for HST, so to minimize risk, all national businesses should be aware of the compliance requirements, such as the collection of a higher rate of tax.

Transitioning from PST to HST

As a province moves from a retail sales tax structure to an HST structure, the repeal of one and introduction of the other will provide opportunities.

Increases to tax charges

Purchases subject to GST that were not subject to PST, such as many services, will have a higher tax charge to the business or consumer. Hence, where possible, customers may want to stock up on such purchases, or prepay in the case of services to be provided after implementation of the HST. There are, of course, transitional rules to consider that may prevent such planning, particularly in respect of supplies to be provided after implementation of the HST. However, where an opportunity does exist, for example, in the case of real property and other PST-exempt goods, a purchaser will consider the cash-flow cost of an earlier outlay of cash to take advantage of the pre-implementation savings.

Increases and decreases in market demand

Vendors of such consumer goods may wish to take advantage of the market demand before implementation, but will then need to consider the loss of sales after implementation. Similarly, but with the opposite result, many purchasers of business supplies

subject to PST may wish to defer the purchase until after implementation of HST, to take advantage of input tax credits, whereas the PST would have been non-recoverable. In this case, vendors will need to consider the loss in sales before implementation and the increased demand after implementation.

Pricing

Vendors may wish to take advantage of the market forces to offer sales or reduced price pre-payment options, for delivery after implementation. Vendors need to consider their customer market to make pricing decisions. For example, where customers of a particular industry sector expect PST savings to be passed along, there will be market pressure for the vendor to reduce prices. Alternatively, this pressure will not exist in cases where the removal of PST is replaced with the recoverable HST.

Acquisition of fixed assets

Capital acquisition plans will need to be reconsidered, both for any possible cash flow increase with the higher HST rate, as well as a possible increase in non-recoverable tax. Where fixed asset systems are established to capitalize the cost, including tax paid on the purchase of assets, this system will need to be adjusted so that only the actual cost is capitalized once the HST becomes a recoverable payment.

Other considerations

The following additional planning points also warrant consideration:

- (1) Where point of sale rebates are implemented with the new HST regime, customers may wish to defer purchases until the rebates are in effect.
- (2) In planning for HST implementation, legal departments need to consider where tax-inclusive pricing structures exist. Where possible, renegotiation will be desired by the vendor, but possibly not by the purchaser.
- (3) Budgeting for the new tax cost or cash flow cost will also be necessary. In respect of public sector bodies, for example, the rebates of the provincial components will need to be considered and factored into funding requirements.
- (4) Many business sectors, such as telecommunications and technology, will benefit from not paying a non-recoverable GST on many inputs. Customers, both individual and commercial, should consider and negotiate how suppliers' reduced costs will be passed along

to customers.

(5) The ongoing cash-flow cost should be factored into financing and capital requirements of businesses with high sales and purchase volumes.

When a province harmonizes, other measures are often implemented at the time of harmonization to mitigate the impact of the higher HST rate. Such mitigating measures, such as the removal of certain energy and vehicle taxes in the case of British Columbia, as well as income tax leniencies, should be reviewed and considered in all business decisions.

