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## Ontario Harmonized Sales Tax

**IS THE OHST GOING TO COST YOUR ORGANIZATION?** Maybe yes, maybe no but on balance it will probably cost you. Unfortunately the harmonization of the GST and PST is going to be messy. Some organizations may end up with an additional tax hit while others may be indifferent and yet others may end up with somewhat lower overall costs. The change starts July 1, 2010.

The key considerations will be:

1. What your organization's current rebate factor<sup>1</sup> is; in short, the higher your current GST rebate factor is the greater the likelihood that you will breakeven or have only a small increase in overall costs. If your organization is not currently eligible for any GST rebate (municipality, charity or qualifying NPO) then your overall taxable costs will increase by 2 to 6%.
2. What percentage of your current GST taxable costs are already subject to the Ontario Sales Tax; in short, if most of your current GST taxable costs are already subject to the Ontario PST then the impact will be small. However, if less than 50% of your GST taxable costs are currently subject to PST your taxable costs will increase.

Please refer to the "Un-recovered Sales Tax Tables" on the PYC Web page which set out some detailed rebate calculations which reflect: (1) assumed current rebate factors (i.e. 100%, 50%, 25% and 0%) and (2) assumption about the level of GST taxable costs that are currently subject to the PST. In summary:

- If your current GST rebate factor is 75% or above and 30% or less of your current GST costs are subject to the PST you can expect an increase in such costs any where from 0.5% to 2%.
- If your current GST rebate factor is between 50% to 25% and 30% or less your current GST costs are subject to the PST you can expect an increase in such costs any where from 2.4% to 4.8%.

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### ONTARIO HARMONIZED SALES TAX BULLETIN FOR NOT-FOR-PROFIT ORGANIZATIONS

The following table sets out in **bold type** those costs which will be directly impacted (increased) as a result of the harmonization of the GST and PST.

	GST	PST	Costs Before Tax	5% GST	6% PST	Costs Including Tax
Municipal taxes	x	x	136,580	-	-	136,580
Mortgage interest	x	x	386,400	-	-	386,400
Amortization	x	x	337,750	-	-	337,750
<b>Replacement Reserve Expenses</b>						
Labour	✓	x	<b>80,000</b>	<b>4,000</b>	<b>6,400</b>	90,400
Materials	✓	✓	20,000	1,000	1,600	22,600
			100,000	5,000	8,000	113,000
<b>Utilities</b>						
Gas	✓	x	<b>35,000</b>	<b>1,750</b>	<b>2,800</b>	39,550
Electricity	✓	x	<b>30,500</b>	<b>1,525</b>	<b>2,440</b>	34,465
Water and sewage	x	x	40,500	-	-	40,500
			106,000	3,275	5,240	114,515
<b>Materials and Services</b>						
Maintenance - goods/materials	✓	✓	60,000	3,000	4,800	67,800
<b>Maintenance - o/s services</b>	✓	x	<b>28,000</b>	<b>1,400</b>	<b>2,240</b>	31,640
Maintenance - salaries	x	x	20,000	-	-	20,000
Maintenance - service tangible property	✓	✓	12,000	600	960	13,560
			120,000	5,000	8,000	133,000
<b>Administrative Overhead</b>						
Administrative salaries	x	x	40,000	-	-	40,000
<b>Property Management Fees</b>	✓	x	<b>36,000</b>	<b>1,800</b>	<b>2,880</b>	40,680
<b>Audit Fees</b>	✓	x	<b>6,000</b>	<b>300</b>	<b>480</b>	6,780
<b>Legal Fees</b>	✓	x	<b>4,500</b>	<b>225</b>	<b>360</b>	5,085
Materials	✓	✓	1,450	73	116	1,639
Telephone	✓	✓	1,200	60	96	1,356
<b>Advertising</b>	✓	x	<b>1,100</b>	<b>55</b>	<b>88</b>	1,243
<b>Bookkeeping</b>	✓	x	<b>1,700</b>	<b>85</b>	<b>136</b>	1,921
Equipment maintenance	✓	✓	1,200	60	96	1,356
<b>Credit checks and bank charges</b>	✓	x	<b>450</b>	<b>23</b>	<b>36</b>	509
			93,600	2,680	4,288	100,568
			419,600	15,955	25,528	461,083
<b>Total Costs Including GST</b>	✓	x	<b>319,100</b>			
<b>Total Costs Including GST and PST</b>	✓	✓	<b>98,850</b>			

**30.04%** % of Preharmonization costs including both GST and PST

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# Keeping Your Business Insurance Up to Date

Changes to your business could change your risk profile. Failure to inform your insurer of such changes could result in denial of coverage.

**ALL TOO OFTEN SMALL BUSINESS OWNERS** renew their business insurance policies without giving much consideration to the adequacy of the coverage. Over time business risk changes with the growth of your business and the old policy may no longer provide the necessary coverage. Perhaps it is time to review your business policy and determine whether additional coverage is required.

Your insurance agent is the best person with whom to review your existing policy and determine the coverage your business should consider. After all, the agent only knows how your business has changed on the basis of the information you provide. A failure to communicate risk-related changes could cost you dearly if you have to make a claim. Yes, you may want to insure for unique risks associated with your type of business but most small business owners only need adequate coverage.

Typically your insurance representative should discuss the following:

## COMMERCIAL PROPERTY INSURANCE

This type of insurance covers buildings, inventory, contents, and equipment against fire, windstorm, falling objects, or burglary. Customer or employee assets may also be covered depending on the wording of the policy.

If you operate a business from your home, it is unlikely your basic house and contents policy will be adequate. In fact a homeowner's policy can sometimes be voided by the operation of a business on the premises. If your business is home based, consider a commercial policy in addition to your homeowner's policy.

If your business leases premises, you need to know whether your business insurance policy meets the requirements of the lease agreement.

## GENERAL LIABILITY INSURANCE

This type of insurance generally insures against liability for injury:

- to persons while on your property
- to a third party caused by use of your product
- to persons or property through the acts of an employee on company business offsite (vicarious liability).

In many instances the cost of defending a claim may be covered even if a settlement is not required.

## BUSINESS INTERRUPTION INSURANCE

A fire or other natural disaster can cause a business shutdown that results in lost customers, departing employees, and the reduction of cash flow. Business Interruption Insurance provides funds to offset the lost profits and additional expenses required to get back into production.

## CRIME INSURANCE

Losses from crime such as credit-card fraud, Internet scams, counterfeit money, employee theft as well as embezzlement and forgery are usually covered by this type of insurance.

## RECEIVABLES INSURANCE

The collection of receivables generates the cash that keeps your business going. Receivables insurance is not expensive (usually a small fraction of one percent of sales) and protects you against non-payment if a customer:

- goes into bankruptcy
- closes



- changes owners
- has cash-flow problems
- is having difficulties because of a downturn in the economy
- is located overseas and unable to pay because of government intervention
- refuses to pay because of a protracted dispute.

## COMMERCIAL AUTO INSURANCE

Given the widespread use of automobiles in business, commercial auto insurance is essential to protect your business against the risk of bodily injury or property damage. The policy should include provision for funds to cover repairs or purchase a new vehicle in case of damage or theft, and provide third-party liability should a company employee cause injury to property or person(s). If company vehicles cross an international border, special coverage may be required.

## CRITICAL ILLNESS INSURANCE

If the owner-manager is incapacitated through a critical illness, this insurance provides a tax-free lump-sum benefit.

## PARTNERSHIP INSURANCE

Partnership agreements usually contain a mechanism that prevents dissolution of the partnership if a partner dies or becomes insolvent. Partnership insurance provides the funds to satisfy the heir or creditor, thus allowing the partnership to continue in business without interruption. Such insurance can also help offset any tax liabilities arising from death or insolvency.

## KEY PERSON INSURANCE

The loss of the contribution of a key employee through death or illness can be devastating to a company. If the business is a family business, key person insurance provides money to meet estate tax obligations without affecting the company. It also provides money to pay company creditors and to find and train a replacement.

## LIFE INSURANCE

If you are a sole proprietor or a partner, your estate will be responsible for any debts incurred by the proprietorship and your portion of those incurred by the partnership. It is advantageous to have insurance sufficient to pay these obligations.

## PYC Briefs

PYC will be represented at the ONPHA conference in Toronto in November by Liza Gowe, JJ Pauze and David Robertson. They will be attending the AGM and participating in the Trade Show.

### COVERAGE, DEDUCTIBLES AND POLICY LIMITS

What is a significant loss to one organization may be a trivial loss to another. Therefore, choose your coverage, deductibles and policy limits carefully. Do not be penny wise and pound foolish.

### READ THE FINE PRINT

Most surprises to the insured come when the agent tells them the policy does not cover what is being claimed. Anything not included specifically in the policy or as a rider may not be insured. Read and review the policy with your representative. Although not comprehensive, the following are a few of the areas to check:

- Make sure all pages explaining riders or other sub sets of data are present within the contract. A completed contract is the only means you have of verifying your claim. Cross-reference the clauses in the main body of the policy to the subsets to ensure that they are correct and that you understand the subset explanations.
- Make sure the names and addresses of the insured and the insured premises are accurate.
- Check to ensure all areas to be insured are included.
- Determine continuity of pages to ensure that all pages are present.
- Double check that the limits and deductibles are correct.
- Ensure that the insurance company is properly identified by name.
- Check the date the policy comes into effect. Nothing could be more devastating than a major disaster occurring only to discover that your premises were not covered because the representative entered the wrong date.
- Note any compliance issues such as providing serial numbers of insured equipment, notification of new equipment purchases, monthly receivable or inventory listings, or police reports in the event of theft, embezzlement or break-ins.
- Understand any time frames required for filing claims.
- Understand any payment schedules and adhere to them. If payments are to be automatically withdrawn from the operating account, check that documentation specifies the payment process.

### AVOID DISAPPOINTMENT

Make sure your insurance agent has explained how the policy meets your needs. In addition to knowing what it covers, make sure you understand what it does not cover. Ask any question that comes to mind, no matter how absurd it may seem since, unfortunately, the "if a then b" logic that seems to be common sense to you may not be the way the insurer looks at the risk. For instance equipment used offsite and carried in personal or company vehicles may not be covered if stolen. Laptops may not specifically be insured against theft while transported or in the office (mysterious disappearance). And what about sewer backup, tornados, floods, falling trees, or damage created by vandalism?

You may have risks or hazards for which no insurance can be purchased such as war, acts of civil disobedience, or damage or injury created during the commission of an illegal act. There are, however, grey areas. For instance, does the policy cover the employee involved in an accident while intoxicated or driving at excessive speeds which results in a criminal charge?

Make sure you understand what is covered in your property policy. Have the representative explain the meaning of additional coverage provided without cost such as maximums for outdoor signs, fire department surcharges or property in transit. A careful review of additional "free" coverage may allow a business to reduce the coverage initially determined necessary.

Ask for an explanation of the deductibles for any riders on both the general property insured and special property policies. If riders cover offsite storage, laptops or other expensive portable equipment, for example, does the deductible apply per occurrence?

Determine the specific actions required in making a claim. For instance, do you need to contact police and submit a police report if equipment is stolen?

The relationship between insurer and insured is one of trust and requires both parties to act in good faith. Insurance contracts are based on the understanding that the insured has the information the insurer requires to draft the policy, calculate the premium and determine the claim value. It is assumed the information given is complete and accurate to the best of the insured's knowledge. Intentionally providing information that is incorrect, misleading or excludes important facts can result in denial of coverage through rejected claims or cancellation of policies.

Understanding what insurance is needed to compensate for loss helps a business to minimize the cost of insurance while providing the assurance that all foreseen business risks are covered. ♣



- If your current rebate factor is 25% or below and 30% or less of your current GST costs are subject to the PST you can expect an increase in such costs any where from 4% to 6%.

Another quick way to assess the effect on your organization is as follows (see Table of Cost Categories below):

- The impact on costs already subject to PST (materials, telecommunications, and taxable labour) will not increase and, in fact, will probably fall in value where the OHST rebate is available.
- The biggest impact will be on those costs not currently subject to PST (utilities such as gas and electricity, most labour services for professional fees, maintenance and administrative contracts).

### HOW TO CALCULATE YOUR REBATE FACTOR

If your organization is eligible for a GST Rebate either as a charity, qualifying non-profit organization or NPO with a municipal designation for housing then you will be able to claim a rebate for a portion of the Ontario portion of the harmonized sales tax. The following Table sets out the current GST and proposed PST rebate rates.

Public Service Body Type	OHST Rebate (at 8% tax)	GST Rebate (at 5% tax)
Municipalities	78%	100%
Qualifying NPO & Charities	82%	50%

The calculation of your rebate factor will depend on whether your organization is entitled to a municipal designation rebate, a qualifying non-profit organization rebate, charity rebate or combination.

The following calculation reflects the situation where the organization is eligible for both the Qualifying NPO 50% rebate and the Municipal Designation rebate on its RGI units.

Total Units	.....100				
RGI Units	.....25				
% of RGI Units	.....25%				
% of Market Units	.....75%				
	GST/ OHST	% of Units	Rebate Factor	Tax Paid	Rebate Factor
Qualifying NPO Rebate	GST	75%	50%	5	1.88
Municipal Designation	GST	25%	100%	5	1.25
<b>GST Rebate Factor</b>				<b>5</b>	<b>3.13</b>
Qualifying NPO Rebate	OHST	75%	82%	8	4.92
Municipal Designation	OHST	25%	78%	8	1.56
<b>OHST Rebate Factor</b>				<b>8</b>	<b>6.48</b>
Combined Rebate Factor				13	9.61
<b>Total Rebate Factor: [9.61/13] or 74%</b>					

As calculated above, with a rebate factor of 74%, your organization would claim a rebate of \$.74 of every dollar of GST and PST paid.

### BOOKKEEPING ISSUES

Your organization probably already has in place a methodology for tracking and recording GST rebates so the jump required to pick up the OHST rebate portion should not be a major leap.

It is our recommendation that effective with the introduction of the Ontario Harmonized Sales Tax a process be used that separates the amount of GST and OHST that is eligible for rebate so that it can be posted directly to a rebate receivable account and the non-recoverable portion is allocated to the related expense account.

One way to do this is to compute the organizations overall rebate factor as described above and apply this factor to the combined GST and OHST amount to determine the portion of tax properly allocated to the rebate receivable account.

It should be perfectly acceptable to compute your rebate factor annually and use it for the entire year. If there is a significant change dur-

ing the year then it would be reasonable to expect to see an adjustment to the rebate factor being used.

### TRANSITIONAL RULES-RELEASED OCTOBER 14, 2009


The HST will generally apply to all pre-payments that start on May 1, 2010 or after for goods or services that will be provided after July 1, 2010.

The general rule is if you purchase something before May 1, even if you're going to take delivery after July 1, there's no HST.

The transitional rules also provide for a rebate if the PST is paid on construction materials bought before July 1, 2010, but used in residential work after that date. †

For greater details on the transitional rules see the Ontario Government October 14, 2009 announcement at <http://www.rev.gov.on.ca/en/notices/bst/03.html>

† Reference to **Current Rebate Factor** means what percentage of GST paid you are able to claim as a rebate on your annual GST Rebate return. For example, with a 25% municipal designation and you also qualify for the 50% qualifying NPO rebate your rebate factor would be: 62.50% [(75% x 50% x 1) + (25% x 100% x 1)].



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