

***Harmonization of ORST<sup>1</sup> and GST – Is it going to Cost Your Organization?***

Maybe yes, maybe no. 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 appear to be:

1. What **current rebate factor** your organization is eligible for; 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 eligible for any GST rebate currently then your overall 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 should be lower than if a less than 50% of your GST taxable costs are subject to PST as well.

Please refer to the attached Tables at the end of this document which set out some detailed rebate calculations which reflect (1) sample 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 Ontario Retail Sales Tax. In summary:-

- If your current GST rebate factor is 75% or above and less than 30% of your current GST costs are subject to the RST you can expect an increase in such costs anywhere between 0.5% to 2%.
- If your current GST rebate factor is between 50% to 25% and less than 30% of your current GST costs are subject to the RST you can expect an increase in such costs anywhere between 2.4% to 4.8%.
- If your current rebate factor is 25% or below and less than 30% of your current GST costs are subject to the RST you can expect an increase in such costs anywhere between 4% to 6%.

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<sup>1</sup> ORST stands for the Ontario Retail Sales Tax, also referred to as the Ontario Provincial Sales Tax or PST.

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).

**Cost Categories to Focus On**

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.

POST HARMONIZATION COST STRUCTURE-COSTS BOLDED WILL NOW HAVE OHST IN THEM				
		5.00%	8.00%	
	Costs Before Tax	GST	PST	Costs Including Tax
Municipal taxes	136,580	-	-	136,580
Mortgage interest	386,400	-	-	386,400
Amortization	337,750	-	-	337,750
<b>Replacement Reserve Expenses</b>				
<b>Labour</b>	<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>				
<b>Gas</b>	<b>35,000</b>	<b>1,750</b>	<b>2,800</b>	39,550
<b>Electricity</b>	<b>30,500</b>	<b>1,525</b>	<b>2,440</b>	34,465
Water and sewage	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>	<b>28,000</b>	<b>1,400</b>	<b>2,240</b>	31,640
Maintenance - salaries	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	40,000	-	-	40,000
<b>Property Management Fees</b>	<b>36,000</b>	<b>1,800</b>	<b>2,880</b>	40,680
<b>Audit Fees</b>	<b>6,000</b>	<b>300</b>	<b>480</b>	6,780
<b>Legal Fees</b>	<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>	<b>1,100</b>	<b>55</b>	<b>88</b>	1,243
<b>Bookkeeping</b>	<b>1,700</b>	<b>85</b>	<b>136</b>	1,921
Equipment maintenance	1,200	60	96	1,356
<b>Credit cheques and bank charges</b>	<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

TOTAL COSTS INCLUDING GST 319,100  
 TOTAL COSTS INCLUDING GST and PST 83,850

**26.28%** Percent of Preharmonization costs including both GST and PST

***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.

<b>Public Service Body Type</b>	<b>OHST Rebate (at 8% tax)</b>	<b>GST Rebate (at 5% tax)</b>
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 QNPO 50% rebate and the Municipal Designation rebate on its RGI units.

TOTAL UNITS	100
RGI UNITS	25
PERCENTAGE OF RGI UNITS	25%
PERCENTAGE OF MARKET UNITS	75%

	<b>GST/ OHST</b>	<b>%OF UNITS</b>	<b>REBATE FACTOR</b>	<b>TAX PAID</b>	<b>REBATE FACTOR</b>
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>
<b>COMBINED REBATE FACTOR</b>				<b>13</b>	<b>9.61</b>
<b>TOTAL REBATE FACTOR</b>			<b>[9.61 / 13]</b>	<b>74%</b>	

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

***How to Use The Tables***

Before the introduction of the OHST on July 1, 2010 only certain purchases (mostly tangible goods and some services on tangible property) are subject to the Ontario Provincial Sales Tax.

To use the Tables as a guide to estimate the impact of the proposed OHST on your organization you will need to:

1. Identify and quantify your expenses (including replacement reserve costs) which are currently subject to the GST (a simple spreadsheet summarizing such costs by category in the same manner as your annual budget is prepared – see above table “Cost Categories to Focus On” for an example of a useful layout);
2. Next, using this summary of costs attempt to isolate or estimate those costs that *currently* also include PST. In essence, what you are trying to do is estimate the percentage of your current total GST paid costs include PST as well. The above table “Cost Categories to Focus On” sets out this calculation which shows a percentage of approximately 26%.
3. Once you have this percentage simply choose the table below that best fits your current GST rebate percentage or factor (i.e. we receive a rebate on 46% of our GST paid purchases) and follow the left hand column down to the percentage of costs currently subject to PST (as calculated in 2 above). The forth column on that line will approximately the increase in your un-recovered tax.

For example, referring to the Municipal Rebate Tables below if your organization is eligible for a municipal designation rebate of 100% on 50% of your GST paid and your organization’s percent of costs currently subject to PST is 20% then you should expect an increase in your overall tax paid costs of 3.28% or \$328 dollars for every \$10,000 of taxable costs.

MUNICIPAL REBATE CHARTS

ELIGIBLE FOR 100% MUNICIPAL REBATE ON 100% of PURCHASES					
% of Costs Currently Subject to ORST	Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization	Effective Tax Rate (% Of Unrecovered Tax) After Harmonization	Increase (Decrease) in Unrecovered Tax	Pre-Tax Cost	Increase (Decrease) in Cost Per \$10,000 Taxable Purchases
0%	0.00%	1.76%	1.76%	10,000	176
10%	0.80%	1.76%	0.96%	10,000	96
20%	1.60%	1.76%	0.16%	10,000	16
30%	2.40%	1.76%	-0.64%	10,000	(64)
40%	3.20%	1.76%	-1.44%	10,000	(144)
50%	4.00%	1.76%	-2.24%	10,000	(224)
60%	4.80%	1.76%	-3.04%	10,000	(304)
70%	5.60%	1.76%	-3.84%	10,000	(384)
80%	6.40%	1.76%	-4.64%	10,000	(464)
90%	7.20%	1.76%	-5.44%	10,000	(544)
100%	8.00%	1.76%	-6.24%	10,000	(624)

ELIGIBLE FOR 100% MUNICIPAL REBATE ON 50% OF PURCHASES					
% of Costs Currently Subject to ORST	Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization	Effective Tax Rate (% Of Unrecovered Tax) After Harmonization	Increase (Decrease) in Unrecovered Tax	Pre-Tax Cost	Increase in Cost Per \$10,000 Taxable Purchases
0%	2.50%	7.38%	4.88%	10,000	488
10%	3.30%	7.38%	4.08%	10,000	408
20%	4.10%	7.38%	3.28%	10,000	328
30%	4.90%	7.38%	2.48%	10,000	248
40%	5.70%	7.38%	1.68%	10,000	168
50%	6.50%	7.38%	0.88%	10,000	88
60%	7.30%	7.38%	0.08%	10,000	8
70%	8.10%	7.38%	-0.72%	10,000	(72)
80%	8.90%	7.38%	-1.52%	10,000	(152)
90%	9.70%	7.38%	-2.32%	10,000	(232)
100%	10.50%	7.38%	-3.12%	10,000	(312)

**MUNICIPAL REBATE CHARTS – CONTINUED**

<b>ELIGIBLE FOR 100% MUNICIPAL REBATE ON 25 % OF PRUCHASES</b>					
<b>% of Costs Currently Subject to ORST</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) After Harmonization</b>	<b>Increase (Decrease) in Unrecovered Tax</b>	<b>Pre-Tax Cost</b>	<b>Increase in Cost Per \$10,000 Taxable Purchases</b>
0%	3.75%	10.19%	6.44%	10,000	644
10%	4.55%	10.19%	5.64%	10,000	564
20%	5.35%	10.19%	4.84%	10,000	484
30%	6.15%	10.19%	4.04%	10,000	404
40%	6.95%	10.19%	3.24%	10,000	324
50%	7.75%	10.19%	2.44%	10,000	244
60%	8.55%	10.19%	1.64%	10,000	164
70%	9.35%	10.19%	0.84%	10,000	84
80%	10.15%	10.19%	0.04%	10,000	4
90%	10.95%	10.19%	-0.76%	10,000	(76)
100%	11.75%	10.19%	-1.56%	10,000	(156)

<b>NOT ELIGIBLE FOR REBATES</b>					
<b>% of Costs Currently Subject to ORST</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) After Harmonization</b>	<b>Increase (Decrease) in Unrecovered Tax</b>	<b>Pre-Tax Cost</b>	<b>Increase in Cost Per \$10,000 Taxable Purchases</b>
0%	5.00%	13.00%	8.00%	10,000	800
10%	5.80%	13.00%	7.20%	10,000	720
20%	6.60%	13.00%	6.40%	10,000	640
30%	7.40%	13.00%	5.60%	10,000	560
40%	8.20%	13.00%	4.80%	10,000	480
50%	9.00%	13.00%	4.00%	10,000	400
60%	9.80%	13.00%	3.20%	10,000	320
70%	10.60%	13.00%	2.40%	10,000	240
80%	11.40%	13.00%	1.60%	10,000	160
90%	12.20%	13.00%	0.80%	10,000	80
100%	13.00%	13.00%	0.00%	10,000	-

**QUALIFYING NPO REBATE CHARTS**

<b>ELIGIBLE FOR 50% QUALIFYING NPO REBATE ON 100% OF PURCHASES</b>					
<b>% of Costs Currently Subject to ORST</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) After Harmonization</b>	<b>Increase (Decrease) in Unrecovered Tax</b>	<b>Pre-Tax Cost</b>	<b>Increase (Decrease) in Cost Per \$10,000 Taxable Purchases</b>
0%	2.50%	3.94%	1.44%	10,000	144
10%	3.30%	3.94%	0.64%	10,000	64
20%	4.10%	3.94%	-0.16%	10,000	(16)
30%	4.90%	3.94%	-0.96%	10,000	(96)
40%	5.70%	3.94%	-1.76%	10,000	(176)
50%	6.50%	3.94%	-2.56%	10,000	(256)
60%	7.30%	3.94%	-3.36%	10,000	(336)
70%	8.10%	3.94%	-4.16%	10,000	(416)
80%	8.90%	3.94%	-4.96%	10,000	(496)
90%	9.70%	3.94%	-5.76%	10,000	(576)
100%	10.50%	3.94%	-6.56%	10,000	(656)

<b>ELIGIBLE FOR 50% QUALIFYING NPO REBATE ON 50% OF PURCHASES</b>					
<b>% of Costs Currently Subject to ORST</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization</b>	<b>Effective Tax Rate (% Of Unrecovered Tax) After Harmonization</b>	<b>Increase (Decrease) in Unrecovered Tax</b>	<b>Pre-Tax Cost</b>	<b>Increase in Cost Per \$10,000 Taxable Purchases</b>
0%	3.75%	8.47%	4.72%	10,000	472
10%	4.55%	8.47%	3.92%	10,000	392
20%	5.35%	8.47%	3.12%	10,000	312
30%	6.15%	8.47%	2.32%	10,000	232
40%	6.95%	8.47%	1.52%	10,000	152
50%	7.75%	8.47%	0.72%	10,000	72
60%	8.55%	8.47%	-0.08%	10,000	(8)
70%	9.35%	8.47%	-0.88%	10,000	(88)
80%	10.15%	8.47%	-1.68%	10,000	(168)
90%	10.95%	8.47%	-2.48%	10,000	(248)
100%	11.75%	8.47%	-3.28%	10,000	(328)

QUALIFYING NPO REBATE CHARTS – CONTINUED

ELIGIBLE FOR 50% QUALIFYING NPO REBATE ON 25% OF PURCHASES					
% of Costs Currently Subject to ORST	Effective Tax Rate (% Of Unrecovered Tax) Before Harmonization	Effective Tax Rate (% Of Unrecovered Tax) After Harmonization	Increase (Decrease) in Unrecovered Tax	Pre-Tax Cost	Increase in Cost Per \$10,000 Taxable Purchases
0%	4.375%	10.74%	6.36%	10,000	636
10%	5.175%	10.74%	5.56%	10,000	556
20%	5.975%	10.74%	4.76%	10,000	476
30%	6.775%	10.74%	3.96%	10,000	396
40%	7.575%	10.74%	3.16%	10,000	316
50%	8.375%	10.74%	2.36%	10,000	236
60%	9.175%	10.74%	1.56%	10,000	156
70%	9.975%	10.74%	0.76%	10,000	76
80%	10.775%	10.74%	-0.04%	10,000	(4)
90%	11.575%	10.74%	-0.84%	10,000	(84)
100%	12.375%	10.74%	-1.64%	10,000	(164)