



To: Divisional Financial Officers
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Date: March 26, 2010

HST Bulletin #2 – Impact of Harmonized Sales Tax (HST) on University Budgets

This Bulletin examines the impact of HST on University purchases made after June 30, 2010 and provides advice on planning opportunities with respect to the timing of these purchases. A separate Bulletin is being prepared which will address the HST implications on the sale of goods and services by the University to external parties.

Introduction

Effective July 1, 2010 the Ontario Retail Sales Tax (PST) will be replaced with a value added tax (OVAT) and combined with the federal goods & services tax (GST) to create a federally administered Harmonized Sales Tax (HST). The new Ontario HST will be encompassing a provincial component (OVAT) at 8% and a federal component (GST) at 5%, for a combined HST rate of 13%.

Basic changes in tax application

- The primary difference between the current 8% PST and the new 8% OVAT is the base on which the taxes are applied. The current Ontario PST generally taxes only goods, while the new OVAT taxes both goods and services (which is the same basis as the GST). Therefore, more products and services will be taxed.
- A secondary difference is that the University will recover a rebate equal to 78% of the provincial component of HST (OVAT) and will continue to recover 67% of the federal component of HST (GST).
- Finally, the PST exemption for research equipment will no longer exist.

Overall, the new HST will impact the cost of goods and services in different ways, depending on the category of goods or services purchased.

Purchasing cost impact on your 2010/11 budget

There are three purchasing categories of goods and services that are considered below:

- Category 1:** Furniture, Equipment and Supplies
- Category 2:** Consulting Fees (i.e. legal, accounting, etc.) and Service Contracts (i.e. office rental agreements, energy-gas, fuels, electricity, etc.)

Category 3: Equipment used exclusively for Research Activities

The following information provides a detailed analysis of how the HST will affect purchases in each category.

Category 1: Equipment, Furniture and Supplies

Currently furniture, equipment and supplies that are purchased and delivered to the University before July 1, 2010 are subject to the 8% PST and 5% GST. Similar purchases and deliveries after June 30, 2010 will be subject to the 13% HST, but will now be eligible for the 78% rebate on the 8% OVAT. **Therefore, furniture, equipment and supplies purchased and delivered to the University after June 30, 2010 will result in a net savings of 6.24%.** This is illustrated, below:

Furniture, Equipment & Supplies	GST & PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100.00	\$100.00
GST	5.00	-
PST	8.00	-
HST (GST& OVAT)	-	13.00
GST Rebate at 67%	(3.35)	(3.35)
OVAT Rebate at 78%	n/a	(6.24)
Net Cost	\$109.65	\$103.41
Net Savings		\$6.24

University administrators and researchers should be aware of the following:

- 1 A delay in the purchase of furniture, equipment and supplies with delivery after June 30, 2010 will result in a savings, as illustrated above, of approximately 6.24% of the pre-tax cost of the purchase.

Category 2: Consulting Fees (i.e. legal, accounting, etc.) and Service Contracts (i.e. office rental agreements, energy-gas, fuels, electricity, etc.)

Currently, agreements for consulting fees and service contracts are generally not subject to PST. Under HST, consulting fees and service contracts will be subject to the 13% HST, with a corresponding rebate of 78% on the 8% OVAT. Consulting fees and services contracts will generally include services such as legal, engineering, and accounting services as well as office rental agreements and energy (gas, fuels, electricity, etc.) contracts. **Therefore, any of these services performed after July 1, 2010 will incur an increased cost of 1.76%.** A brief example below, will illustrate the differential cost.

Consulting & Service Contracts	GST & PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100.00	\$100.00
GST	5.00	-
PST	Exempt	-
HST (GST & OVAT)	-	13.00
GST Rebate at 67%	(3.35)	(3.35)
OVAT Rebate at 78%	n/a	(6.24)
Net Cost	\$101.65	\$103.41
Net Increase in cost		\$1.76

University administrators and researchers should be aware of the following:

- 1 Consulting services performed after June 30, 2010 will be subject to the HST, resulting in a net increase in cost to the University of 1.76% (after application of the OVAT rebate). Consideration should be given to accelerating performance under such contracts, so that services performed after June 30, 2010 is minimized.
- 2 Researchers that currently pay for research services that are performed outside of Canada should have been self assessing GST on that service and will now be required to self assess the HST for services performed after July 1, 2010.
- 3 Departments and researchers should be aware of the impact these increased costs will have on 2010/11 budgets.

Category 3: Equipment used exclusively for Research Activities

Currently, equipment used exclusively in research **is not** subject to the 8% PST but is subject to the 5% GST. Beginning July 1, 2010 it will be subject to the 13% HST (which includes the 8% OVAT and the corresponding OVAT rebate of 78%). **As a consequence, research equipment purchased and delivered to the University after June 30, 2010 will cost 1.76% more.** The following example illustrates the differential cost of research equipment:

Research Equipment	GST & PST ENVIRONMENT Delivery Before July 1, 2010	HST ENVIRONMENT Delivery After June 30, 2010
Cost	\$100.00	\$100.00
GST	5.00	-
PST	Exempt	-
HST (GST & OVAT)	-	13.00
GST Rebate at 67%	(3.35)	(3.35)
OVAT Rebate at 78%	n/a	(6.24)
Net Cost	\$101.65	\$103.41
Net Increase in cost		\$1.76

The above example illustrates that equipment purchased and delivered after June 30, 2010 is subject to HST, net of the OVAT and GST rebates, and will cost approximately 1.76% more.

Researchers should be aware of the following:

- 1 Equipment purchased and delivered to the University prior to July 1, 2010 will save 1.76% in OVAT. If possible, researchers should consider accelerating the purchase and delivery of equipment.
- 2 Research related grants should anticipate the increased tax costs for HST and their impact on budgets for any equipment delivered after June 30, 2010. This increased tax cost is directly attributable to the elimination of the PST exemption for research equipment.

Recommended Timing of Purchases

In order to maximize departmental and research funding resources, the following table provides guidance towards the timing of future purchases:

Goods or Service	Delivery of Goods/Service Prior to July 1, 2010 Effective Tax Rate (GST & PST)	Delivery of Goods/Service After June 30, 2010 Effective Tax Rate (HST)	Cost/Savings of Purchases After June 30, 2010
Purchases to Accelerate			
Research Equipment	1.65%	3.41%	Increase cost of 1.76%
Consulting/Professional Services			
Training Seminars			
Purchases to Delay			
Equipment (not used for Research)	9.65%	3.41%	Savings of 6.24%
Furniture and Supplies			
Computer and Accessories			
Software			
No Change			
Books	0%	0%	No Impact
Other purchases that cannot be accelerated or delayed			
Energy (Gas, fuels, electricity)	1.65%	3.41%	Increase cost of 1.76%
Office Rents			
Construction & Renovation contracts	May increase or decrease		See note #2

Note 1: This table should only be used in evaluating goods and services for academic or research purposes, and not for goods or services used in certain commercial operations.

Note 2: It is uncertain what impact the HST will have on the pricing for construction and renovation contracts after June 30, 2010. Overall pricing will depend on the relative composition of the labour and material components comprising the work.

In the Coming Weeks

- A separate Bulletin will be issued to address the HST implications on the sale of goods and services by the University to external parties.
- An HST transition website is being created and will be updated with more current information as it is released from the Ontario Ministry of Finance and the Canada Revenue Agency.
- FIS training courses will be forthcoming to assist departments with the implementation of the HST.