

FINANCIAL INFORMATION SYSTEM

Updates to HST

April 2010



UNIVERSITY OF
TORONTO

Topics



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What is HST?

- **HST = Harmonized Sales Tax comprised of two tax components:**

GST (Federal Goods & Services Tax)	5%
OVAT (Ontario Value Added Tax)	<u>8%</u>
	13%

- **HST will be applied to all goods/services *delivered* on or after July 1, 2010**
- **GST and PST will no longer be applied to goods or services *delivered* on or after July 1, 2010**
- **As a general rule, the current rules governing the application of the 5% GST tax will apply to the new 13% HST tax**
 - Notable exceptions are “Point of Sale” (POS) items which will attract a 5% HST tax, such as:
 - ✓ sales of books
 - ✓ prepared meals costing \$4.00 or less



What is HST?

As a general rule, the current rules governing the application of the 5% GST tax will apply to the new 13% HST tax

This statement is key in making the transition from the current GST/PST tax world to the new HST tax world... why?

In the current GST/PST tax world, there are purchases that attract a 5% tax rate because PST does not apply, and are coded with the “I6” (GST only) tax code...

In the new HST tax world, most of these same purchases will now attract a 13% tax rate (i.e. same tax status as the transactions currently being coded with the “IX” (GST/PST) tax code)...

Impact on the University



New (simplified) tax codes have been created to reflect the new HST tax/rebates...

→ during the transition periods, both the current tax codes and the new HST tax codes will be available for use to appropriately code transactions.

The **really good news**...the University's rebate portion of the 13% HST increases to approximately 73% due to the following rebate components of the HST:

- **GST rebate** will continue to be **67%**
- **new OVAT rebate** will be **78%**



Impact on the University

What does that mean to departments? → Items that previously attracted GST/PST will cost less:

- **GST tax factor of 1.65%**, plus an
- **Ontario tax factor of 1.76%**

Equals a **new effective HST tax impact → 3.41%**

Compared to the **previous GST/PST effective tax impact of 9.65%**, results in a **savings of 6.24 %!**

However, some items will now attract more tax...

Impact on the University



Since HST generally follows GST rules, **many previously PST exempt items will now incur HST**; such as:

- Research equipment
- Services (i.e. Consulting, Professional Fees)
- Utilities (i.e. gas and fuel)
- Lab Manuals
- Advertising

What does that mean to departments? → Items that previously attracted only the 5% GST will cost 1.76% more, due to the OVAT component of the HST.

For your reference, some sample tables have been included as follows ...

Impact on the University



Tax status example:

Purchase Activity	PST=8%	GST=5%	HST=13%
Research equipment	No	Yes	Yes
Services (i.e. Consulting, etc.)	No	Yes	Yes
Utilities	No	Yes	Yes
Lab Manuals	No	Yes	Yes
Advertising	No	Yes	Yes
Furniture	Yes	Yes	Yes

Impact on the University



Dollar Impact of Change using \$100,000 as a base:

Purchase Activity	PST effective rate= 8% or 0%	GST effective rate= 1.65%	Total effective tax = 9.65% or 1.65%	HST effective rate = 3.41%
Research equipment	\$0	\$1,650	\$1,650	\$3,410
Services (i.e. Consulting, etc.)	\$0	\$1,650	\$1,650	\$3,410
Utilities	\$0	\$1,650	\$1,650	\$3,410
Lab Manuals	\$0	\$1,650	\$1,650	\$3,410
Advertising	\$0	\$1,650	\$1,650	\$3,410
Furniture	\$8,000	\$1,650	\$9,650	\$3,410

Transition Rules and Period of Application: Overview



General:

- If delivery of the goods/services occurs on or after July 1st, 2010, then HST will apply to all or part of the transaction
- There are 3 interval of dates for which Ontario has identified transitional rules:
 - October 14, 2009 through April 30, 2010
 - May 1, 2010 through June 30, 2010
 - July 1, 2010 and onward



Transition Rules and Period of Application: Overview

October 14, 2009 through April 30, 2010:

- Transition rule applies to ***purchase*** transactions only
- Purchase transactions processed during this period for goods/services to be delivered after June 30, 2010 (i.e. prepayments) are deemed to attract HST
- The transactions will need to be identified by the UofT departments and copies of the invoices submitted to the Central Finance department (FSD) so that UofT can self-assess for the HST and claim back any PST paid
- **Due date for the submission of invoices to FSD is June 15, 2010**; scanned invoices can be sent to hst.help@utoronto.ca
- FAST will be developing some documentation on how to identify the impacted transactions

Transition Rules and Period of Application: Overview



May 1, 2010 through June 30, 2010:

- Transition rule applies to ***both sales and purchase*** transactions
- **Transactions for goods** processed during this period are deemed to attract HST on the portion **delivered after June 30, 2010**
- **For services**, the post June 30, 2010 delivered portion must be >10% of the total to attract HST (HST will apply on a pro-rated basis)
- **Primary areas of impact for sales:** summer non-credit courses, camps, conferences, etc.
- **Primary areas of impact for purchases:** leases, maintenance contracts, consulting fees, etc.

Transition Rules and Period of Application: Overview



July 1, 2010 and onward:

- HST will apply to all ***sales and purchase*** transactions delivered during this time period
- Guiding rule is similar to previous transition period:
 - When were the goods/services delivered; before or after June 30, 2010?
 - Was the portion of deliverable after June 30, 2010 >10% of the total service?

Transition Periods and Rules: Recap



The following is a summary table listing the 3 transition periods that have been identified as requiring some consideration in regards to if, and to what extent, the HST tax should be applied:

Transition Periods	Transactions Impacted	
	Sales	Purchases
<p>October 14, 2009 – April 30, 2010: Will require review of historical <i>prepayment</i> transactions and copies of invoices sent to central FSD for proper tax filing adjustments: Central will process any required retroactive HST self-assessments and PST rebates to departmental accounts.</p>	No	Yes
<p>May 1, 2010 – June 30, 2010: Primary areas of impact: sales (i.e. summer courses) and purchases (i.e. services) made where deliverables received after June 30th account for >10% of the total.</p>	Yes	Yes
<p>July 1, 2010 and onward: Similar to May 1st period, the guiding rule to apply to sales and purchase transactions of services is whether >10% of the deliverable was received after June 30th.</p>	Yes	Yes

Transition Rule & Decision Processes: Sales



	GST	PST*	HST
Sales: Invoiced before May 1, 2010 <ul style="list-style-type: none"> Does not depend on when goods/services are delivered/performed 	5%	8%	n/a
Sales: Invoiced May 1 – June 30, 2010 <ul style="list-style-type: none"> Delivery before July 1, 2010 of Good/Services 	5%	8%	n/a
<ul style="list-style-type: none"> Delivery on or after July 1, 2010 of Goods/Services 	n/a	n/a	13%
<ul style="list-style-type: none"> Services where 90% or more have been performed before July 1, 2010 	5%	8%	n/a
<ul style="list-style-type: none"> Services where >10% will be performed on or after July 1, 2010 (need to prorate); may have 3 different tax codes on invoice 	5%	8%	13%
Sales: on or after July 1, 2010	n/a	n/a	13%

*if applicable

Transition Rule & Decision Processes: *Purchases-Services*



<i>Primarily service/maintenance contracts</i>	GST	PST*	HST
Prepayments: Invoice date Oct. 14, 2009 – April 30, 2010 <ul style="list-style-type: none"> • Services that span past June 30, 2010 and are not 90% complete by June 30th → Retroactive HST self-assessment and PST rebates of post June 30th portion of invoice (central FSD will process) 	5%	8%	13%
Payments: May 1 – June 30, 2010 and later <ul style="list-style-type: none"> • Delivery of Services before July 1, 2010 	5%	8%	n/a
<ul style="list-style-type: none"> • Delivery of Services on or after July 1, 2010 	n/a	n/a	13%
<ul style="list-style-type: none"> • Services that span past June 30, 2010 and are 90% or more complete by June 30th 	5%	8%	n/a
<ul style="list-style-type: none"> • Services that span past June 30, 2010 and >10% will be delivered/performed on or after July 1, 2010 (need to prorate); may have 3 different tax codes on invoice 	5%	8%	13%
Payments after October 31, 2010	n/a	n/a	13%

*if applicable

Transition Rule & Decision Processes: *Purchases-Goods*



<i>Primarily goods, including leases</i>	GST	PST *	HST
Prepayments: Invoice date Oct. 14, 2009 – April 30, 2010 <ul style="list-style-type: none"> • Goods that span past June 30, 2010 → Retroactive HST self-assessment and PST rebate of post June 30th portion of invoice (central FSD will process) 	5%	8%	13%
Payments: May 1 – June 30, 2010 and later <ul style="list-style-type: none"> • Delivery of Goods before July 1, 2010 	5%	8%	n/a
<ul style="list-style-type: none"> • Delivery of Goods on or after July 1, 2010 	n/a	n/a	13%
<ul style="list-style-type: none"> • Delivery of goods that span past June 30, 2010 will need to have HST applied to the portion delivered on or after July 1, 2010; may have 3 different tax codes on invoice 	5%	8%	13%
Payments after October 31, 2010	n/a	n/a	13%

*if applicable

Transition Rules and Impact on Documentation and Processes: *Sales*



- **Any customized UofT A/R invoice will need to be modified to include:**
 - all 3 taxes (GST, PST & HST) during the transition periods
 - HST number (which is the same as the current GST number)
 - If the invoice includes a mix of items that attract GST, PST and HST, the invoice will need to be coded appropriately to indicate which items attract which rate
- **Cash registers, Web sites** (including e-commerce) need to be updated to correctly reflect the impact of the HST
- Any **other forms** that may be available and reference tax collection will also need to be updated

Transition Rules and Impact on Documentation and Processes: *Sales*



- Processing in FIS may necessitate the use of old and new tax codes as part of the same posting transaction
- FAST is in the process of developing some documentation to assist with transitional
 - ➔ decision making, as to which tax(es) should apply
 - ➔ processing of FIS transactions

The information will be available on the HST webpage at:

<http://www.finance.utoronto.ca/services/tax/hsttransition.htm>

Transition Rules and Impact on Documentation and Processes: *Purchases*



Although our **vendors are regulated by the same transition rules as UofT** and should provide invoices with the correct tax allocations, if they don't, **it is still our responsibility to ensure that we pay the correct taxes:**

- If the vendor invoice is deemed incorrect, request a corrected one
- If getting a corrected invoice is not possible (i.e. item was purchased online) then we must self assess for the correct tax
- Processing in FIS may necessitate the use of old and new tax codes as part of the same posting transaction
- FAST is in the process of developing some documentation to assist with transitional document processing



New Tax Codes

Effective May 1, 2010, new HST tax codes will be added to the standard FIS tax code list.

The opportunity has been taken to simplify the HST tax codes, as follows:

- **Expense** tax codes start with an "E"
- **Revenue** tax codes start with an "R"
- **J9** will continue to be available, but only for *internal* expense/purchase reallocations between departments
- **S9** has been added as an internal sales tax code to be used for *internal* sales/recoveries between departments



New Tax Codes

A listing of the new tax codes can be found at the following url:

<http://www.finance.utoronto.ca/services/tax/hsttransition.htm>

Important things to keep in mind:

- Although the current tax codes will be available for use during the transition period, they will, eventually, be disabled/blocked for use.
- Any entries posted using automated processing will need to be updated for the new tax codes, not only to ensure that the proper taxes are recorded, but to ensure that entries do not reject due to “blocked” tax codes.
 - Examples include, recurring entries, batch interface entries, etc.



On-line Resources

A variety of on-line resources will be available at the new HST website:

<http://www.finance.utoronto.ca/services/tax/hsttransition.htm>

Some of the items that will be available include:

- Tax code table detailing the old and the new codes
- HST Tax Status (Table for Sales to External Parties)
- Dedicated HST Help mailbox: hst.help@utoronto.ca
- Tips on processing FIS transactions during the transition periods



NEED HELP?

<http://www.utoronto.ca/ams/help.htm>

Help is a facility for all four AMS subsystems: FIS, HRIS, DIS and RIS; as well as general AMS questions.

- Use the WEB form found at the above address
- Complete all the information required on the form
- Select the appropriate AMS module (i.e. FIS)
- Click on the “Send it” button

The FIS mail box is monitored during the following hours:
Monday through Friday from 9:00 a.m. to 5:00 p.m.

FAST Team Contacts



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FIS Standard Curriculum Evaluation:

<http://www.finance.utoronto.ca/fast/training/fissceval.htm>

FAST website:

<http://www.finance.utoronto.ca/fast.htm>