

COLLECTING AND CLAIMING HST

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In the previous newsletter, we went through Canada Revenue Agency's Publication [RC4049 - GST/HST Information for Municipalities](#), and discussed how this will change to reflect the implementation of HST in Ontario. As a municipality, you are legally obligated to collect and remit HST to CRA in a timely manner. Your municipality may claim back the HST and GST that you pay on the goods and services that you acquire, subject to certain conditions, **and** if you elect to do so.

Collection of HST

The basic premise is that the purchaser or client is to be charged HST at 13% by the vendor, supplier or service provider, unless the [Canada Excise Tax Act](#) and associated regulations, and Provincial legislation and regulations governing the Provincial portion of HST, specify otherwise. In cases where there is a non-monetary exchange, such as a barter, there is a deemed disposition by each party at fair market value, both of which deemed dispositions are subject to HST.

CRA will deem the applicable HST to have been collected on a transaction, whether you actually collected the amount from the other party or not. If you do not collect HST when you should, your municipality will have to absorb the amount payable as an expense.

You will be **charging HST at 13%** on all transactions and exchanges of goods and/or services, except:

1) Charge HST at 13%, and give a point-of-sale rebate of 8/13ths of the HST (net HST rate equals 5%) for sales of:

- (a) books;
- (b) children's clothing, footwear and diapers;
- (c) children's car seats and car booster seats;
- (d) feminine hygiene products;
- (e) newspapers; and
- (f) prepared food and beverages purchased in prescribed circumstances for not more than \$4.00.

2) Charge HST at 5% (the Federal Portion only) for sales **and** delivery of goods and services to parties located in:

- (a) Prince Edward Island
- (b) Manitoba
- (c) Saskatchewan
- (d) Alberta
- (e) Yukon
- (f) Northwest Territories, and
- (g) Nunavut.

Note that there are proposed new “place of supply” rules in CRA Technical Information Bulletin B-103 which will determine whether HST applies to any services or certain other transactions provided to parties outside Ontario. In some cases, 13% HST may apply.

3) Zero-rated goods and services for which the HST rate is 0%, and is not levied, include:

- (a) medical devices
- (b) basic groceries
- (c) agricultural and fish products
- (d) prescription drugs
- (e) exports to outside of Canada.

Note that (a), (b), (c) and (d) are zero-rated when sold for human use or consumption, otherwise they are fully taxable at 13%, such as when sold for use or consumption by pets or livestock. Basic groceries are generally assumed to be for human consumption, unless specifically sold for animal consumption.

4) Sales of taxable goods and services to the Province of Ontario will be subject to 13% HST. Sales to other Provincial Governments are zero-rated when a certification clause is included in the documentation provided to a supplier, except

- (a) GST is charged on sales to PEI and to Nunavut, and
- (b) HST is charged to provincial governments in participating provinces (NL, NS, NB, QC, and shortly, ON and BC)

Note that this is a major change with respect to the treatment for transactions with the Ontario Provincial Government. Currently, the Ontario Government is exempted from paying GST on the acquisition of goods and services, whereas, by contrast, the Federal Government, including the Canada Revenue Agency, is not.

5) Tax-exempt supplies are exempted from HST, so that there is no sales tax levied on services or supplies such as:

- (a) rentals of residential housing for a term of longer than one calendar month
- (b) most educational services
- (c) most health care services
- (d) day care services
- (e) legal aid services
- (f) some supplies by charities and public sector bodies (see Item 6)
- (g) most financial services, such as insurance, but not bank safety deposit boxes
- (h) resale of residential real estate units

Note that providers of tax-exempt supplies cannot claim any Input Tax Credits or public sector bodies’ (PSB) rebates for GST/HST paid on goods and services acquired in order to provide those tax-exempt supplies, unless

6) Tax-exempt supplies made or provided by municipalities are exempt from HST, such as:

- (a) inter and intra municipal supplies
- (b) library services
- (c) law enforcement and fire protection services
- (d) non-optional services provided to a property owner, e.g. street lighting
- (e) municipal water and sewer systems and services
- (f) garbage collection, including recyclables
- (g) municipal transit, including special needs transit services
- (h) homemaker services

- (i) property registration
- (j) court registration
- (k) licenses and permits
- (l) provision of information or documents under the Privacy Act or Municipal Freedom of Information and Protection of Privacy Act (MFIPPA)
- (m) unbottled water
- (n) ferry, road and bridge tolls
- (o) admission tickets to amateur performances and events
- (p) recreational programs for children under 14, or to under-privileged or disabled individuals
- (q) relief of poverty suffering or distress
- (r) charitable events organized by a municipal agency, board or commission
- (s) work on street lights, signs, barriers, traffic lights or similar property
- (t) removal of snow, ice or water
- (u) managing vegetation
- (v) repairing and maintaining streets, sidewalks, or similar or adjacent property
- (w) installing accesses and egresses, such as curb cuts, and
- (x) variations and permutations of the above, unless specifically taxable.

If a provider of any of the above supplies is deemed to be “associated” with a municipality, is legally a part of the municipal corporation, then the provider will be eligible to claim the PSB rebates, Federal and Provincial, for HST paid on all supplies purchased to provide the service.

Assume that your sale will require HST to be levied at 13%, unless it is covered by one or more of the six special situations detailed in this section. In such a case, charge the lower tax rate, perhaps noting why. Once you have issued an invoice, bill of sale, ticket or other such transaction document, and/or provided the goods or services, HST becomes collectible and remittable at that point in time.

Reclaiming of HST

Commercial operations can claim an Input Tax Credit for the full amount of HST paid on goods and services, including capital expenditures, purchased as inputs into the supplies being sold. A municipality and its associated activities, even if tax-exempt, can claim the respective Public Sector Bodies’ Rebate on the Federal and Provincial portions of all HST paid to suppliers. For many municipalities, this will mean dusting off the old GST allocation methods you used when the municipal rebate for GST was 57.14%.

Commission for collecting and remitting HST

This has never been a feature or a registrant benefit of Federal GST since it was implemented in 1991. It will not be for HST, going forward, another example of harmonization. Retail sales tax vendor commissions end with the March 31, 2010 retail sales tax return.

Summary

HST requires you to collect the tax on the sales of supplies, and allows you to claim all or part of the HST that you pay to suppliers on the goods and services that your municipality requires for its operations and capital program. We have looked at how collection of HST and the reclaiming of HST paid should be approached.

Our next newsletter will look at the issues you will face in reporting for HST – on HST tax returns and your financial statements.

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For more information and resources regarding Harmonized Sales Tax, please go to [MFOA's HST webpages](#), or contact:

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NOTE: This Newsletter is published to assist you in preparing for the changeover to HST in Ontario as of July 1, 2010, based on information believed to be current up to a week before posting on the web. While every endeavour has been made to be as complete and accurate as possible, MFOA and the author accept no responsibility for any differences of opinion that the Canada Revenue Agency and the Ontario Ministry of Revenue may adopt with respect to the ideas and concepts presented, nor for any outcomes of those differences. The ultimate authority in these matters is the respective Federal and Provincial legislation.

