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Ease HST transition with preparedness

Proposed tax system presents pros and cons, depending on industry

HST: Hated Sales Tax. Should it be so hated?

Picket signs, angry business owners and frustrated shopaholics are all products of the newly proposed Harmonized Sales Tax. Is HST really so bad?

Since government announced HST, there has been little follow-up information released about it. Here's a detailed look.

What can we expect in terms of the transition to HST?

Fall 2009 heralds an agreement with the federal government. If reached, this agreement will result in new legislation on March 31, 2010. By July 1, 2010, the new HST system will be in effect. The tax will consist of five per cent for the feds and seven for the province, for a grand (or not so grand) total of 12 per cent.

Transitioning to the new system may be a challenge for some companies. To ensure your transition process is smooth:

- Have a person or group in charge of keeping up to date with policies that will affect your industry.
- Allow time for the transition.
- Consider the impact on your business's cash flow, budgets, customers and vendors.
- If you are a contract-based company, pay attention to the key dates and terms of the contract.

What are the benefits of HST?

- Easier compliance: there will be only one return for HST. Before, GST and PST were filed differently. Now, one return, one audit process.
- Reduced costs: businesses were paying unrecoverable PST on expenses which they will receive back.
- PST complexities will disappear.
- Cash flow for most companies will remain relatively the same. They will charge 12 percent on

products and pay 12 percent on expenses, versus the previous five percent.

- Some exemptions will be granted on the provincial component of HST. However, dealing with the exemptions and the reporting may be a challenge.
- Construction costs will be lower. Builders will be eligible to claim back the PST portion – not the case currently.
- For the public sector, including charities, policies will effectively make the new system similar to the old via a change in rate, exemptions or additional grants.

What are HST's possible issues and drawbacks?

- Increase in costs to consumers on products and services previously exempt from PST.
- Cost increase for companies once producing PST-exempt products.
- Large impact for medical offices exempt from PST on medical supplies and equipment. They won't be entitled to claim the returns.
- Restaurants will now have to charge customers 12 percent and remit that 12 percent.
- If an error is made, and interest and penalties are assessed on the amount owing, there may be an increase in the interest and penalties. This is because the rate is 12 percent versus the five or seven before.
- New home builders will have to collect the full 12 percent. However, there will be a rebate for the first \$400,000 on both GST and PST.
- Financial institutions and mutual funds will have to pay the 12 percent and are not eligible to claim it.
- Large companies with gross sales over \$10 million will lose out on some of the exemptions.
- IT systems will have to be reformatted to implement the new rates.
- Consumers may decide to purchase products in other provinces or countries that do not have HST, which could impact the retail sector.

What can we do to plan effectively for HST?

If you are considering making a large capital purchase for your company, you may want to wait until HST is in effect, as you will get back 12 percent of your purchase. Currently, you would only receive the GST portion of five percent.

On the flip side, if you are considering purchasing items that are currently exempt from PST, you may want to move up the timing on that purchase to ensure that you pay only the current five percent GST.

If you are in the market to purchase a new home, now is definitely the time to make decisions.

The above is for informational purposes only, and therefore prior to making any decisions, please contact your accountant for advice.