



HST PLANNING FOR ONTARIO AND BRITISH COLUMBIA

Subject: HST

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Businesses that purchase equipment or other capital goods that bear RST in Ontario or British Columbia should consider strategies to reduce their RST.

Ontario has announced that it will join the Harmonized Sales Tax (HST) system as of July 2010, with an 8% provincial portion of a combined 13% tax, in place of the 5% GST. The existing Ontario retail sales tax (RST) will be eliminated.

Similarly, British Columbia has announced that it will join the HST system as of July 2010, with a 7% provincial portion of a combined 12% tax. The existing British Columbia RST (called the social service tax) will be eliminated.

Businesses that purchase equipment or other capital goods that bear RST in Ontario or British Columbia should consider strategies to reduce their RST in advance of implementation of the HST in those provinces effective July 2010. Such strategies are available to any business whose sales are taxable under the GST/HST.

One simple way to reduce the RST is to lease property until July 1, 2010 rather than purchasing it, and then purchase it in July 2010 or later.

The lease payments will be subject to RST on a price that is much lower than the purchase of the property. Effective July 2010, HST will be payable on the purchase, but will be fully recoverable by way of input tax credit.

Example: a company in Ontario is ready to purchase a \$100,000 computer system in January 2010. If it buys the system, it will pay \$8,000 in Ontario RST. Instead, it arranges with the vendor to lease the system for \$5,000 for six months, and then to purchase it in July 2010 for \$97,000. The company will pay only \$400 in RST on the \$5,000 lease. When it purchases the system in July 2010, it will pay 13% HST on the \$97,000, but all of this HST is recoverable as an input tax credit.

Thus, even though it has paid \$2,000 more to the vendor, the company has saved \$7,600 in RST, which more than makes up for the extra cost.

Care should be taken, however, not to make the lease and purchase part of the same document or the same transaction. Otherwise, the Ontario Ministry of Revenue may take the view that the lease is really part of a purchase that takes place in January 2010, so that the entire \$102,000 is subject to 8% RST.

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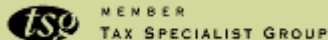
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