

## What you need to know:

**What is the harmonized sales tax (HST)?**

In the 2009 Ontario Budget, it was announced that the provincial Retail Sales Tax (RST) would be harmonized with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST) in Ontario. The goal of creating a harmonized sales tax is to reduce the cost of doing business in Ontario by lowering the amount of taxes paid on inputs by businesses. The new HST will come into effect on July 2010 and will apply a rate of 13% to goods and services.

**How will HST affect commercial real estate commissions?**

Real estate commissions will be subject to HST similar to the way they are currently subject to GST.

*If 90% of a service is completed before July 2010:*

GST applies to any amount that becomes due or is paid without having become due for the service.

*If 10% of a service is performed on or after July 1 2010:*






When more than 10% of a service is performed on or after July 1, 2010, GST applies to any amount that becomes due or is paid without having become due on or before October 14, 2009 and before May 2010.

*If an amount becomes due or is paid without having become due on or after May 2010:*

GST applies to any amount that relates to the portion of the service performed before July 2010 and HST applies to any amount that relates to the portion of service performed on or after July 1, 2010.

## Tax Systems Across Canada



 5% GST	 5% GST and 7.5% QST on GST-included price
 13% HST (5% federal component and 8% provincial component)	 12% HST (5% federal component and 7% provincial component)
 Manitoba – 5% GST and 7% PST Saskatchewan – 5% GST and 5% PST PEI – 5% GST and 10% PST on GST-included price	

(Map Source: KPMG)

## Why implement the HST?

- According to the federal and provincial governments, the new HST system is designed to further strengthen Ontario's economic growth and tax competitiveness.
- The current RST applies to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax can become embedded in the price of the finished good or service throughout the supply chain. This hidden RST is passed on to consumers. The new single tax would use a value-added tax structure, meaning that most businesses would be reimbursed for the tax they pay on most of their inputs.
- Businesses selling taxable or zero-rated goods and services would be able to claim input tax credits on their purchases, as under the federal GST, with limited exceptions. These credits would reimburse businesses for the tax they pay in the course of commercial activities. This approach is meant to reduce business costs and would support business investment in Ontario.

## Report Sources and Additional Information

Canada Revenue Agency GST/HST Info Sheet:

<http://www.cra-arc.gc.ca/E/pub/gi/qi-056/qi-056-e.pdf>

Ontario Ministry of Revenue:

<http://www.rev.gov.on.ca/en/notices/hst/03.html#overview>

Canada Revenue Agency Notice 244:

<http://www.cra-arc.gc.ca/E/pub/gi/notice244/notice244-e.pdf>

Ontario Ministry of Finance Ontario Budget 2009:

<http://www.fin.gov.on.ca/en/budget/ontariobudgets/2009/chpt3.html>

TD Economics Special Report:

[http://www.td.com/economics/special/dp0909\\_hst.pdf](http://www.td.com/economics/special/dp0909_hst.pdf)

BDO Dunwoody LLP Tax Bulletin

<http://www.bdo.ca/library/publications/tax/documents/the-transition-to-the-hst-in-ontario.pdf>

## How will HST affect commercial sales?

**Will the HST apply to the sale of commercial property?**

- Yes, HST will generally apply to the sale of commercial and other nonresidential property including retail and industrial properties as well as vacant land for future development..

**When does HST apply to the taxable sale of commercial property?**

- Generally, the HST would apply to a taxable sale of real property if both ownership and possession of the property are transferred to the purchaser on or after July 1, 2010. If either ownership or possession of the property is transferred before July 2010, the HST would not apply. However, the GST at 5% would apply to the sale

**When is the HST not applicable to a taxable sale of commercial property?**

- Where either ownership or possession of the real property transfers before July 2010, the HST would not apply to the sale. However, the GST at 5% would apply to the sale.

**A company develops and sells commercial property and currently claims a 5% ITC for its construction inputs. Is the company eligible to claim ITCs for the 13% HST payable on construction inputs?**

- Yes, the company would be entitled to claim ITCs to recover the 13% HST paid or payable on most purchases of construction inputs and operating expenses use to construct commercial properties. The company would claim ITCs for the 13% HST on its regular GST/HST return, but would not claim any ITCs for any RST paid or owing. Example of HST claims include building materials, plumbing and electrical subcontracts, inspection services, a lease of commercial property for use as an office.

## How will HST affect commercial leases?

**How does the HST apply to the lease of commercial property?**

- The HST at 13% would generally apply to the lease of non-residential property made by a GST/HST registrant. Leases of real property that are currently exempt under the GST rules would also be exempt under HST.

**When would HST apply to the taxable lease of commercial property?**

- The HST would apply to any lease payment that becomes due, or is paid without having become due, on or after July 1, 2010, the extent that the lease payment is attributable to a lease interval. The HST would not apply to a lease payment for a lease interval that begins before July 2010 and ends before July 31, 2010.

**What happens to lease payments due (or paid without becoming due) on or after May 1, 2010 and before July 2010?**

- HST would apply to any lease payment that becomes due or is paid without become due during the period after April 2010 and before July 2010, where the lease payment is attributable to a lease interval (or part of an interval) that begins on or after July 1, 2010.

**I work downtown and rent a parking space for \$150.00 a month. Does HST apply to these payments?**

- Yes, the HST would apply to the payment you make on July 1, 2010 and all subsequent payments for parking.

**I entered into a lease agreement in May 2009 to lease a commercial property. The term of the lease starts on July 1, 2010 and requires monthly lease payments, payable in advance, on the first month starting July 1, 2010. Is this lease subject to HST?**

- Yes, regardless of when a person entered into a lease and when possession is given. Since each lease payment becomes due on or after July 1, 2010, lease payments are subjected to HST.

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