

## Prepare for Ontario's HST: #5 – Public Service Bodies

This information will help public service bodies (PSBs) prepare for the Harmonized Sales Tax (HST) in Ontario that comes into effect on July 1, 2010. PSBs are charities, municipalities, universities, public colleges, school authorities, hospital authorities and non-profit organizations.

### Registration

The Canada Revenue Agency (CRA) requires PSBs that make taxable supplies of property and services in Canada to register for the federal Goods and Services Tax (GST)/HST. PSBs that are already registered for the GST will not be required to reregister for the HST. As under the GST, PSBs will not have to register if they qualify as "small suppliers". For more information on who qualifies as a small supplier see **Guide RC4022, General Information for GST/HST Registrants** available on the CRA website.

### Charging HST

Generally, the HST applies to the same base of goods and services as the GST, except for goods that qualify for Ontario's point-of-sale rebates. PSBs that are GST/HST registrants may be eligible to claim input tax credits (ITCs) for the GST/HST paid or payable on inputs into making taxable supplies.

### Self-assessment

PSBs will generally be required to self-assess the Ontario component of the HST on consideration paid or payable after October 14, 2010 and before May 1, 2010 for property or services to be provided after June 2010 if:

- ownership and possession of the property is transferred after June 30, 2010, or all or part of the services are performed after June 30, 2010; and
- the property or services are acquired to make exempt supplies or a combination of taxable/exempt supplies;

PSBs that use simplified procedures for calculating their net tax under the *Excise Tax Act* will also be required to self-assess the tax.

PSBs will be required to remit the Ontario component of the HST by the due date of their GST/HST return for the reporting period that includes July 1, 2010. In all cases, this must be done before November, 2010.

### Rebates

PSBs will be eligible to claim rebates for the provincial and federal components of the HST paid or payable on most inputs used to provide exempt supplies. The rebate rates are:

PSB Type	Ontario	Federal
Municipalities	78%	100%
Universities and Public Colleges established and operated on a non-profit basis	78%	67%
School Authorities established and operated on a non-profit basis	93%	68%
Hospital Authorities (only for activities of operating a public hospital) Hospitals (for eligible activities other than the operation of public hospitals) Facility operators and external suppliers (for eligible activities) <sup>1</sup>	87%	83%
Charities and Qualifying Non-Profit Organizations <sup>2</sup>	82%	50%

<sup>1</sup> External suppliers and facility operators in Ontario are entitled to the same rebate of the federal and provincial components of the HST as hospital authorities to the extent they carry on certain government funded activities similar to those traditionally provided in hospitals. For more information on these organizations and their entitlement to the PSB rebate, you may contact the CRA at 1-800-959-8287.

<sup>2</sup>Qualifying non-profit organizations receive at least 40% of their funding from the federal or provincial governments, municipalities or Indian bands or certain corporations controlled by a government or municipality or certain organizations established by a government or municipality, one of the main purposes of which is to fund charitable or non-profit endeavours.

### Example:

**XYZ qualifying non-profit organization is a GST registrant who pays total HST in its reporting period of \$10,000 of which \$4,000 relates to its commercial activity. XYZ may claim the following:**

<b>ITCs</b>	<b>\$4,000.00</b>
<b>PSB rebate for the federal component of the HST (\$6000 x 5/13 x 50%)</b>	<b>\$1,153.85</b>
<b>PSB rebate for the Ontario component of the HST (\$6000 x 8/13 x 82%)</b>	<b>\$3,027.69</b>
<b>Total ITC and rebates</b>	<b>\$8,181.54</b>

### Special Quick Method of Accounting (other than Charities)

Under the GST, registrants must generally track the tax they pay on inputs for taxable and exempt supplies separately. However, to reduce the compliance requirements, the Special Quick Method (SQM) of accounting is available to most PSBs other than charities, and will be available under the HST.

Public service bodies that qualify and elect to use the SQM do not separately track the tax paid on most inputs for taxable or exempt supplies. Instead, the specified PSB remittance rate will apply to these inputs. The SQM acts as a proxy for the value of ITCs and allows the PSB to retain a portion of HST collected on taxable sales in lieu of claiming ITCs.

When a PSB uses the SQM, the PSB will still collect the 13 per cent HST on its taxable supplies of goods or services. However, to calculate the amount of the HST to remit, the PSB will multiply the amount of HST-included supplies for the reporting period by the remittance rate(s) that apply. For more information, see **Guide RC4247, The Special Quick Method of Accounting for Public Service Bodies** available on the CRA website.

The remittance rates are less than the 13 per cent that a PSB collects. The component of the tax that the PSB keeps accounts for the approximate value of the ITCs it normally would have claimed since it cannot claim ITCs on most of its purchases when using this method. The following sets out the proposed Ontario Special Quick Method rates in percentages:

<b>PSB Type</b>	<b>Supply made in a Non-HST Province</b>	<b>Supply Made in Ontario</b>
Specified Facility Operator, Qualifying NPO, Designated Charity <sup>1</sup>	3.0	9.9
Municipalities	4.3	11.1
Universities and Public Colleges established and operated on a non-profit basis <sup>2</sup>	3.3	10.2
Universities and Public Colleges established and operated on a non-profit basis <sup>3</sup>	3.9	10.7
School Authorities established and operated on a non-profit basis	4.2	11.0
Hospital Authority, External Supplier, or Facility Operator	4.2	11.0

<sup>1</sup>"Designated charity" refers to a charity that provides employment assistance to individuals with disabilities, supplies services that are performed by such individuals to clients, and has been approved by the Minister of National Revenue to make its supplies of these services taxable when provided to a GST/HST registrant. The term, "Specified Facility Operator", as well as other terms, is explained in the **Guide RC4247, The Special Quick Method of Accounting for Public Service Bodies**.

<sup>2</sup>These rates must be used if vending-machine sales (and certain other retail sales) are at least 25% of an amount determined by a formula set out in the regulations.

<sup>3</sup>These rates must be used if vending-machine sales (and certain other retail sales) are less than 25% of an amount determined by a formula set out in the regulations

### Special Net Tax Calculation for Charities

The GST/HST framework provides a separate special net tax calculation for charities that are GST/HST registrants. Charities are generally required to use this method, but they may elect not to use it if they make supplies outside Canada or zero-rated supplies in the ordinary course of their business, or if 90 per cent or more of their supplies are taxable.

Ontario is adopting the 60 per cent special net tax calculation method that must be used by most charities.

Under the charity-specific net tax calculation, charities are not required to track the GST/HST paid or payable on inputs to most taxable supplies. In general, charities remit 60 per cent of the tax collected on their taxable supplies and keep the remaining 40 per cent in lieu of claiming ITCs (there are certain exceptions for real property and capital property, where ITCs may be claimed). A charity may be eligible to claim a PSB rebate of 50 per cent for the federal component of the HST and 82 per cent for the Ontario component of the HST on most purchases where the charity is not entitled to claim ITCs. For more information on the net tax calculation method for charities, see **Guide RC4082, GST/HST Information for Charities**, available on the CRA website.

#### **For More Information:**

- Call Ontario's Budget hotline at 1-800-337-7222 and Teletypewriter (TTY) 1-800-263-7776 or visit [ontario.ca/taxchange](http://ontario.ca/taxchange) for general information on introduction of the HST in Ontario and wind down of the RST.
- To obtain a written interpretation on a specific situation not addressed in this publication, please send your request in writing to:

Ministry of Revenue  
Tax Advisory Services Branch  
Retail Sales Tax Section  
33 King Street West, 3rd Floor  
Oshawa ON L1H 8H5

- Canada Revenue Agency is your source **for the latest** information on how the transitional rules apply and how to get ready for the HST. Visit the CRA's "Are You HST Ready" website at [cra.gc.ca/harmonization](http://cra.gc.ca/harmonization) or call 1 800 959-5525