

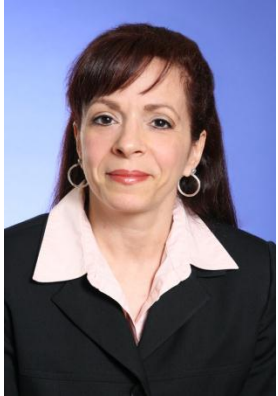


cutting through complexity

Indirect Tax Changes and the Public Sector

December 6, 2012

Today's Speakers



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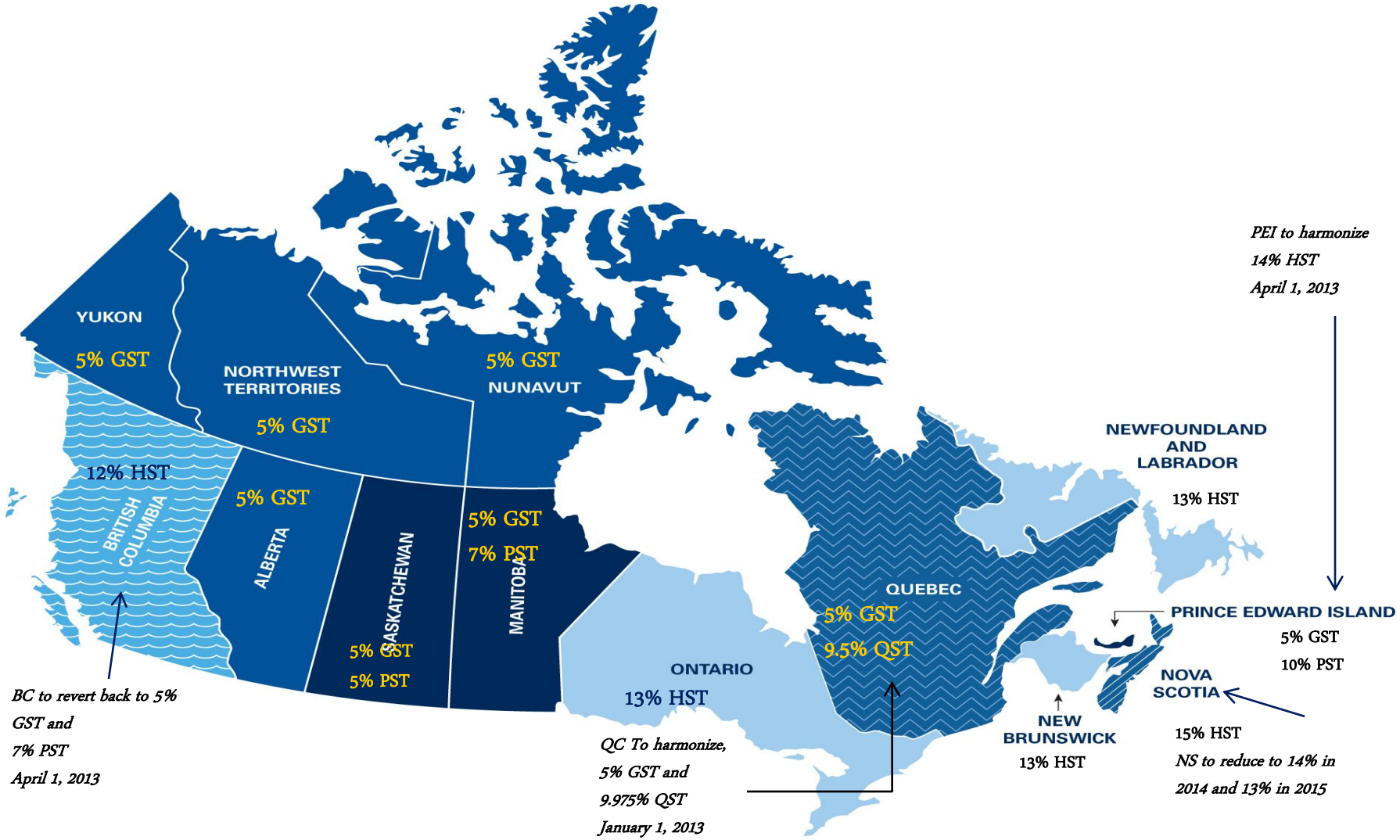


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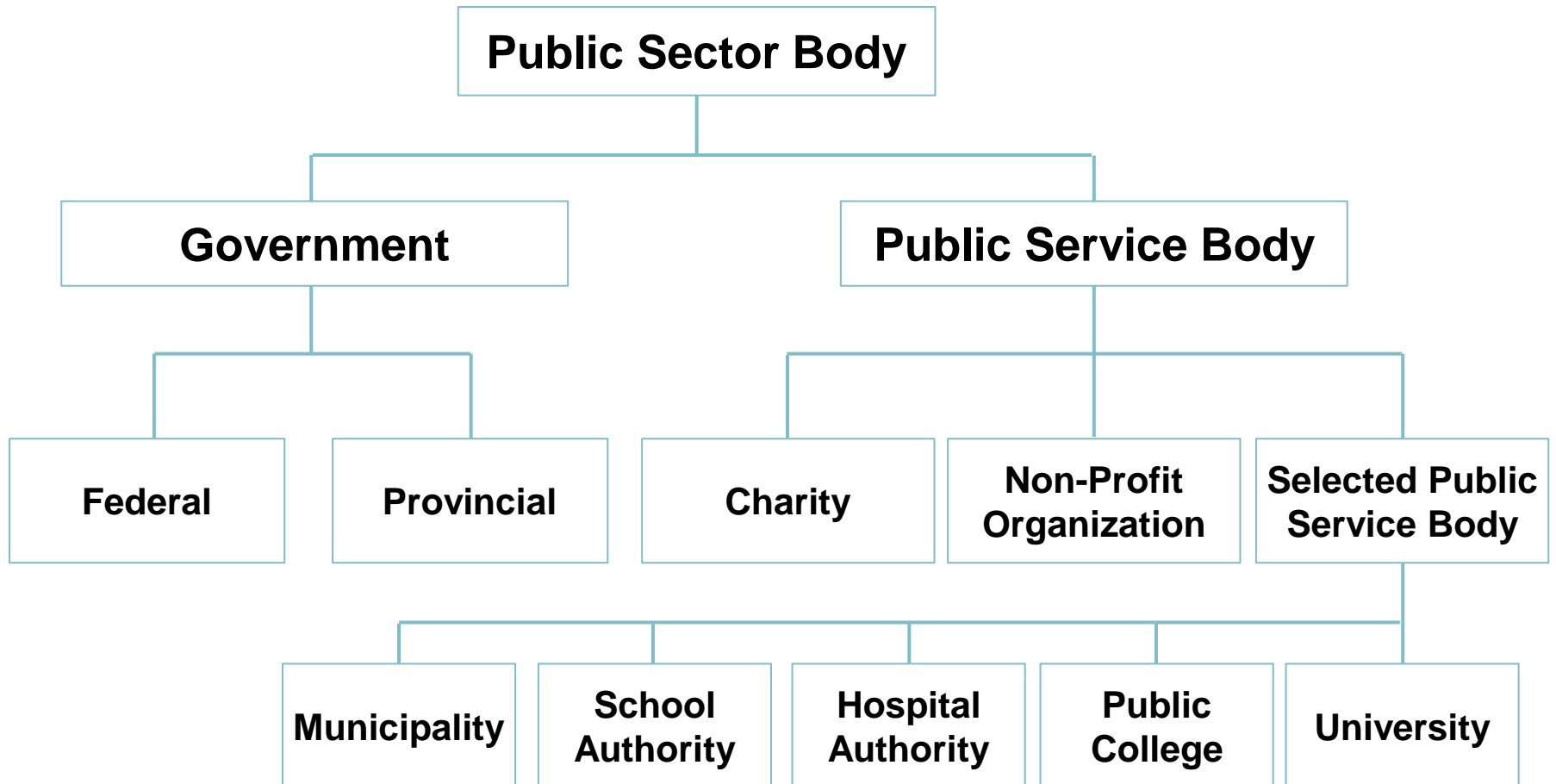
Agenda

- Current Canadian Sales Tax Landscape
- Overview – Public Service Bodies
- Wave of Changes and their Impact
- Planning for CRA Audits
- Tips and Traps
- Summary

Current Canadian Sales Tax Landscape



Overview – Public Service Bodies



Overview – GST/HST and QST Treatment of Revenues

- Charities – Generally revenues exempt unless specific exception applies

Examples:

- Sale of new goods (not donated) on regular basis are taxable
- Admission to a place of amusement > \$1

- NPOs – Generally revenues taxable unless specific exemption applies

Examples:

- Sales of goods at or below direct cost are exempt
- Supplies for no consideration/charge are exempt

- Selected Public Service Bodies or the “MUSH “ Sector – Municipalities, universities, schools and hospitals – Broad range of exemptions

Examples:

- Municipal services are exempt
- Educational services are exempt
- Health care services are exempt

Overview – GST/HST and QST Accounting and Treatment of Costs

- Input tax credits (ITCs) or input tax refunds (ITRs) in the case of the QST, to recover the tax paid on costs incurred in commercial (i.e., taxable) activities
- Alternatively, the public service body may generally claim a rebate if the cost relates to an exempt activity
- Simplified accounting methods
- Charities - must use net tax calculation method unless they qualify to opt out

Overview - PSB Rebate Rates

	Federal	ON	BC	QC	NL	NB	NS
Municipality	100%	78%	75%	0%	0%	57.14%	57.14%
Public College	67%	78%	75%	47%	0%	0%	67%
University	67%	78%	75%	47%	0%	0%	67%
School Authority	68%	93%	87%	47%	0%	0%	68%
Hospital	83%	87%	58%	51.5%	0%	0%	83%
Facility Operator	83%	87%	58%	51.5%	0%	50%	50%
External Operator	83%	87%	58%	51.5%	0%	50%	50%
Charity	50%	82%	57%	50%	50%	50%	50%
Qualifying NPO	50%	82%	57%	50%	50%	50%	50%

Wave of Changes

Significant Structural Changes

- Quebec Harmonization – January 1, 2013
- BC-De Harmonization – April 1, 2012
- PEI Harmonization – April 1, 2012

Other Changes

- Ontario's December 31, 2012 deadline for PST claims
- Manitoba PST on Insurance – July 15, 2012
- Rate reductions in Nova Scotia – July 1, 2014 and July 1, 2015

Quebec Harmonization

Further QST Harmonization

- January 1, 2013 implementation date for a more harmonized QST

QST Rate at Present (since January 1, 2012)

- 9.5% of the GST-included consideration

QST Rate - January 1, 2013

- 9.975% of the GST-excluded consideration
- QST no longer on GST

Other Significant Harmonization Changes

- Financial services in Quebec become exempt rather than zero-rated
- Sales to the federal and provincial governments become taxable
- Obligations/entitlements to register for the QST
- Introduction of municipal rebate in 2014
- ITR restrictions will remain for the next five (5) years and will gradually be eliminated in the following three (3) years
- Pension plans

No Modifications To

- Quebec Insurance Premium Tax

Quebec Harmonization

Impact

- Most significant changes are in respect to financial services
- Rate change for QST registered organizations selling in Quebec
- Government purchases subject to GST/QST
- Purchasing in Quebec
- Reporting periods will be harmonized

BC De-Harmonization

BC Votes to Abolish HST

- In an historic vote on August 26, 2011 almost 55% of voters elected to return to PST

April 1, 2013 – Return to PST and GST

- GST will apply at 5%
- PST to be reinstated at 7%
- Previous PST base not to change significantly

PST Will Apply to:

- Tangible personal property (TPP), subject to various exemptions
- Related services, subject to various exclusions/exemptions
- Software, subject to various exclusions/exemptions
- Telecommunications services
- Legal services rendered in BC or in relation to matters in BC
- Accommodation
- Passenger vehicles short term rentals (additional tax)
- Energy products (additional levy)

Rates

- 7% general rate
- 8% - 10% rates on passenger vehicles with price of \$55,000 or more
- 12% on private vehicle, boat or aircraft purchases
- 10% on alcohol
- 8% or 10% on accommodation
- \$1.50 per day on short term rentals
- .4% on energy products

BC De-Harmonization

Transitional Rules

Basic GST/HST Transition Rules

- If tax payable before April 2013 – HST applies
- If tax payable after March 2013 – GST applies

Generally PST Rules to Mirror GST/HST

- If HST applies – no PST should apply
- If GST applies – PST applies if taxable tangible personal property or taxable service

Imports

- Into Canada and between provinces

Special GST/HST Transition Rules for Real Estate

BC De-Harmonization

Generally Vendors of TPP or Taxable Services in BC Must Register as Vendors

- “Small sellers” (not exceeding \$10,000 per annum) not required to register
- Vendors outside BC but in Canada must register if soliciting sales in BC
- Direct sellers selling to independent sales contractors must register

PST Registration Number

- On line registration commences January 2, 2013
- 11 Digit PST Number – PST 1234 5678

Monthly Reporting

- Returns and remittances due end of month following
- E-filing and remittance available

Planning Points

- Consider advancing purchases of PST taxable items (e.g., computer hardware)
- Consider modifying normal terms of certain contracts (e.g., change annual software license fee to prepaid multi-years license)
- Consider exercising purchase option on existing equipment leases prior to April 2013
- Where engaged in exempt activities, consider deferring expenditures that are currently subject to HST but which will not be subject to PST
- Consider impact on 2013 budgets, your systems and clients; and plan for implementation

Impact

- May be relatively neutral to positive for public sector in view of:
 - Narrower base and PST exemptions
- Reduced cost for businesses in other exempt activities (financial institutions, residential rental, medical professionals)
- Increased cost for construction/transportation sector
- Relatively neutral for manufacturers/producers in view of broad-based PST exemptions
- Increased compliance costs for all

PEI Harmonization

April 1, 2013 – Introduction of PEI HST

- HST rate will be 14% with a provincial component of 9%
- Repeal of 10% PST
- CRA will administer the HST

Same Base as GST with some Exceptions

- PEI will designate point of sale rebates (children's clothing and footwear, books and heating oil)
- PEI will set PEI provincial rebate rates for certain public service bodies
- PEI will temporarily recapture ITC's for large businesses on specified property and services

PEI Harmonization

Transitional Rules

- Similar approach when Ontario and BC harmonized
- Key transitional dates:
 - November 8, 2012; and
 - February 1, 2013
- Reference *PEI Guide Implementation of the Harmonized Sales Tax in Prince Edward Island*, dated November 8, 2012

Registration and Reporting

- If registered for GST, registered for PEI HST
- Supplies made into PEI (e.g., memberships, services, subscriptions, etc)
- Same GST/HST return; separate fields on rebates forms for provincial rebates

Planning

- Consider deferring purchases of PST taxable items (e.g., computer hardware)
- Consider accelerating purchases of PST exempt/non-taxable items
- Review pricing in contracts that straddle April 1, 2013
- Consider modifying normal terms of certain contracts (e.g., consider altering purchase to lease with option to purchase later)
- Understand the implications of the change on your organization's cost structure and systems and impact on your customers
- Prepare an implementation plan

PEI Harmonization

Impact

- Reduction in rate but expanded base (e.g., services, commercial real estate leases)
- Introduction of provincial rebates will reduce costs
- Implementation costs, but should reduce compliance costs going forward

Ontario PST Refund Period

Ontario Shortens PST Refund Period

- The Ontario 2012 Budget introduced legislation to shorten the PST refund and rebate period to December 31, 2012
- Previously, a taxpayer could apply for refunds and rebates of PST until the time limits for claiming them have expired or June 30, 2014, whichever is earlier.
- The current refund and rebate application periods will continue for PST paid in respect of insurance premiums or private transfers of used vehicles.

Overpayments of PST may Include

- Exempt items acquired prior to the introduction of the Ontario HST
- PST charged in error after the introduction of the Ontario HST
- Pre-payments for goods and services to be provided after introduction of the HST

Manitoba Insurance Tax

Manitoba PST applies to Insurance

- Effective date – July 15, 2012
- Rate – 7%
- Reference Bulletin No. 061, *Insurance*, dated July 15, 2012

Impact

- Insurance contracts that relate to Manitoba (e.g., insurance on property in Manitoba)
- May be required to prorate national contracts
- Exemptions for certain insurance, such as health insurance

CRA's Audit Approach

- CRA no longer conducting combined Income Tax and GST/HST audits
- Auditors now doing only single tax audits
- More CRA auditors

Planning for a GST/HST CRA Audit

- Understand the scope of the audit
- If unclear, ask for request in writing
- Single point of contact
- Review and craft waivers to extend period carefully
- Query sampling methods
- Formal and informal appeal process

Tips and Traps

Tips

- Identify and capture recoverable GST/HST and QST
- Public sector bodies are generally not subject to the ITC recapture rules
- Eligibility for higher PSB rebate
- GST/HST and QST accounting and allocation methodologies
- Elections or restructuring to treat certain supplies as taxable
- Restructuring to increase cash flow – e.g., parking
- Claim rebate to recover HST on purchases in higher rate HST province
- Planning for BC de-harmonization and PEI harmonization

Traps

- GST/HST and QST treatment of revenues – significant complexity for public sector

Examples:

- Sponsorship payments with significant additional benefits to sponsor
- Non-taxable grants or subsidies vs fees for services and supplies to the federal and provincial governments
- Registered charity collecting GST/HST in error and retaining 40% of tax collectible
- Requirement to self-assess on imports and transfers between provinces (e.g., inter-organizational transfers)
- Charging applicable rates in other provinces under new place of supply rules (e.g., memberships)
- Point of sale rebates
- Related party transactions

Tips and Traps

Traps

- Using correct GST/HST and QST accounting and rates for simplified method
- Appropriate rebate rate is being used
- Documentation to support ITCs or rebates
- Shared purchasing arrangements – agency vs. re-supply; direct cost rule; administrative services
- Allocation methods for input tax credits vs. rebates
- New pension rules
- CRA's focus of NPO and charitable status
- An evolving area is environmental levies

Summary

- Increased materiality of sales tax costs
- The GST/HST and QST is evolving and complicated for the public sector
- Identify compliance risks and opportunities to reduce sales tax costs
- Determine impact of future changes on your organization and plan for necessary changes to systems and procedures
- KPMG can assist with a diagnostic review and planning
 - Interview and checklist
 - Phased approach

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