

President's Viewpoint

## Harmonized Sales Tax (HST) - Friend or Foe of Business?

On March 26, 2009 the Ontario Provincial Budget announced a bold direction for Ontario including a single sales tax as part of a comprehensive tax reform package. Ontario will move to a single value-added sales tax starting July 1, 2010 by combining Retail Sales Tax (RST) with the federal Goods and Services Tax (GST) to create a federally administered single sales tax, Harmonized Sales Tax (HST).

To properly evaluate this tax reform package, which includes HST, one must look at the entire economy, the net effects on all business and the net effects on the consumer over a period of time.

To begin, sales tax harmonization was first proposed by Ontario Chamber of Commerce business members in 2004 as part of a comprehensive tax package strategy. This package included Sales Tax Harmonization, the elimination of the Capital Tax and Corporate Tax Harmonization. These issues were in conjunction with advocacy efforts on other changes to the tax system.

What does HST mean for Ontario businesses? The Ontario Chamber of Commerce reported that "the move towards a single sales tax in Ontario in combination with other tax reform measures will put Ontario on a path towards increased competitiveness, productivity and economic recovery that will benefit every Ontarian and every business operator in the province." Many research studies have recommended sales tax harmonization including the report by the Ontario Chamber of Commerce entitled: Made



**BBOT President**  
Charles Waud

in Ontario: The Case for Sales Tax Harmonization" which is available free of charge at

<http://taxharmonization.on.ca>. There is also an informative video at <http://occ.on.ca/2009/08/ontarios-single-sales-tax-and-tax-reform-package-explained/>, entitled "Ontario's Single Sales Tax and Tax Reform Package Explained" recently presented by Stuart Johnson, Vice President, Policy & Government Relations of the Ontario Chamber of Commerce, to the Ajax Pickering Board of Trade.

**WHAT IT MEANS**

Stuart Johnston recently shared, "unfortunately, many stories in the media are not terribly successful in describing harmonization, and what it means to the consumer and business. It does not mean all prices will go up by 8%; in fact, in many cases, prices will go down; and it is not a tax grab by the province; it will actually cost the provincial treasury about \$2.3 billion over three years... It does mean that most businesses will have the benefit of reclaiming sales taxes paid, thereby reducing the cost of doing business." And that's only part of the story. Another advantage of HST is that it will also stimulate both foreign and domestic investment - and decrease business costs dramatically as they will not have to administer the

cumbersome provincial sales tax. Each year, business in Ontario pays approximately one third - or \$5 billion - of all PST to the government. That means \$5 billion of costs are embedded (unseen) in the consumer price for goods and services. It is estimated that between 2 and 8 per cent of the costs of ALL goods and services are from the cascading effects of PST embedded in business costs throughout the supply

*"in many cases,  
prices will go down"*

chain. If you're presently paying PST or trying to decipher the rules and regulations - this is good news!

The province has also agreed to an annual \$260 Ontario Sales Tax Credit for low to medium level earners in the province and will be sending out cheques quarterly to every household member who qualifies. In addition, the province has lowered Personal Income Tax rates for the lowest income tax bracket.

**OTHER MEASURES**

Other significant tax measures that were introduced in March's provincial budget will result in a net reduction in direct taxation to business and a net reduction in indirect costs to business. Here are just a few of the highlights:

- Business Education Tax (previously announced)- between now and 2014,

the BET rate will drop down to a uniform rate of 1.52%, saving Ontario businesses \$540 million - Brampton businesses are a net beneficiary of this tax reform.

- Corporate Income Taxes are also dropping beginning next year. By 2012 the general rate and the manufacturing/processing rates will drop to 10% from 14% and 12% respectively.

- Part of this strategy was realized this year with the full harmonization of corporate income taxes. The federal government alone will collect, administer and audit all corporate income tax in Ontario. That's another \$200 million in annual savings to business.

- Small Business Surtax of 4.25% will be eliminated altogether.

- The Small Business income tax rate will be lowered from 5.5% to 4.5%

- Capital tax - already eliminated for manufacturers, it will be eliminated for all business in July 2010. This means, as an example, businesses with \$20 million in capital will save \$30,000 annually.

The Ontario Chamber of Commerce along with other Chambers and Boards of Trade, including The Brampton Board of Trade, support this tax reform strategy believing it will benefit Ontario business over all.

We welcome your comments and feedback. If you would be interested in attending an information session with key policy makers to discuss your specific budget concerns, let us know!

You can contact me at [president@bramptonbot.com](mailto:president@bramptonbot.com).