
2006 BUDGET BRIEFING NOTE – Potential Revenues Arising from the Proposed Reduction in GST

Issue/Background:

The Deputy City Manager and Chief Financial Officer was requested by Budget Advisory Committee on February 9 to provide a Briefing Note on the potential revenues across the various City Programs, Agencies, Boards and Commissions resulting from the recent Federal announcement on the potential reduction to the Goods and Services Tax.

The proposal announced by the Conservatives during the recent federal election campaign was to reduce the GST rate from 7% to 5%. It is expected that the first phase of this reduction will be introduced in 2006 and would reduce the rate from 7% to 6%.

Key Points:

Timing of Implementation of a Reduced Rate:

- A Federal budget is expected to be tabled in mid-April 2006 and is expected to include the introduction of a 6% GST rate.
- A reasonable time frame to change over to the reduced rate is expected in order to approve the legislation and to allow GST registrants to adjust their cash registers will likely mean the new GST rate would not be effective until September 2006.
- A retroactive implementation of a reduced GST would be very difficult to administer for both the Canada Revenue Agency (CRA) and GST registrants, due to complications involved in processing and auditing the GST refunds so retroactivity is not considered likely.

Impact on Expenditures:

- Prior to February 1, 2004, the City was able to claim a partial recovery (ie. \$4 recovered for each \$7 paid to vendors) from the Federal government on GST charged by and paid to vendors.
- Subsequent to this date, the recovery was increased to 100% (ie. \$7 recovered for each \$7 paid to vendors).
- There is no effect on the net cost of City purchases from a reduced GST rate. Whatever the rate (6% or 7%) charged by vendors to the City, GST is now fully recovered from the Federal government.

Impact on Revenues:

- Some City user fees and rates include a GST component in the established fee or rate and do not separately itemize the GST charged.
- The principal examples of GST-included pricing (where GST is not shown separately on the receipts) are admission fees, parking fees and some user fees for recreational facilities.
- In these instances, GST is self assessed; the City calculates the GST component embedded in the fee – 7/107, reduces its revenues and establishes a liability for this amount. This amount is paid on a monthly basis. Upon self-assessment, revenues are reduced for the GST component.
- Where GST-included pricing forms a part of City revenues, a reduced GST rate will result in minor revenue increases, assuming fees remain the same. The revenue increases are caused by applying a lower factor (6/106 or 0.056604 rather than 7/107 or 0.065421) to revenues in extracting the GST amounts.
- Where GST is not embedded in the established fee or rate and is charged to customers in addition to the fee/rate, the GST paid out in full to the Federal government will be based on prevailing rates when collected and will have no impact on revenues.

Impact of Potential Revenues:

- The following is the summary of the increased revenues expected to be realized from fees and rates with GST-included pricing, based on a reduced GST rate implemented for the last 4 months of 2006. The estimates have been developed based on the assumption that GST-included user fees and rates remain the same throughout the year and that these fees and rates will not be lowered even with a reduced GST.

	Entity/Division	Fee Description	\$000s
1.	Agencies, Boards & Commissions		
	Toronto Parking Authority	Parking Fees	308.0
	Exhibition Place	Admission Fees & parking fees	58.8
	Arena Boards	User Fees	45.0
	Metro Zoo	Admission Fees	<u>33.0</u>
	Total		<u>444.8</u>
2.	City Programs		
	Parks and Recreation facilities	User Fees	250.6
	Solid Waste	Sale of recycling boxes	5.0
	Museums	Admission fees	<u>4.0</u>
	Total		<u>259.6</u>
	Total ABCs and City Programs		<u>704.4</u>

Conclusion:

Based on the assumption that the GST reduction is approved and implemented by September 2006, the increased revenues expected to be realized during the last four months of 2006 would be approximately \$704,400.00.

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