
2010 BUDGET BRIEFING NOTE

Harmonized Sales Tax (HST) - Preliminary Financial Impact

Issue/Background:

As part of the March 2009 Ontario Budget, the Government of Ontario announced that it would harmonize the 8% Provincial Retail Sales Tax (PST) with the 5% Federal Goods and Services Tax (GST) to create a single, harmonized sales tax at a rate of 13%.

The Ontario Harmonized Sales Tax (HST) is scheduled to take effect July 1, 2010 and will apply to a variety of goods and services purchased by municipalities that are currently exempt under the existing PST. The HST will generally use the same rules and tax base as the federal GST and will be administered by the Canada Revenue Agency (CRA).

Although the legislation has not yet been finalized, and further changes may be made, sufficient information is available to allow for reasonable estimates on the impact of the HST on the City's expenditures and the impact to users of City services.

Certain City entities have obtained municipal status under the Excise Tax Act (ETA), including City divisions, Toronto Police Services, Toronto Transit Commission (TTC), Toronto Community Housing Corporation (TCHC), Toronto Public Library, and Business Improvement Areas. These entities will be entitled to a 78% municipal rebate on the 8% Ontario component of the HST in addition to the existing 100% rebate for the 5% federal portion of HST. The net tax rate, after applicable rebates, is 1.76% based on the formula: $13\% - 5\% - (78\% \times 8\%)$.

Nova Scotia, New Brunswick, Newfoundland & Labrador, and Quebec implemented the HST system before Ontario. Municipalities in both Nova Scotia and New Brunswick were entitled to a 57.14% rebate from the provincial tax. Newfoundland & Labrador and Quebec do not provide any provincial tax rebates to their municipalities. British Columbia will be providing a rebate of 75% of the provincial component of HST.

Summary:

City staff met on various occasions with Ministry of Finance staff, as well as staff from MFOA, AMO and other associations, to consult with the province regarding the expected impacts of the HST to a number of different organizations, and to discuss the proposed tax rules and transition rules.

The estimated impacts, based on information available at this time, are as follows:

- It is anticipated that the HST :
 - will be cost neutral to the City's operating budget;
 - will be based on 2010 planned capital expenditures, and have an initial capital cost-savings of approximately \$6.5 million (see Table 1).

- Users of City services can expect to pay an additional \$4 million in taxes for fees that currently only attract the 5% GST (see Table 2 for financial impact estimates and Appendix A for List of common City fees). Patrons of the arts, Zoo and CNE can expect to pay an additional \$2.2 million in taxes for admission fees (see Table 3). The impact of the increases to individuals and families may be partially or fully offset through the Ontario Government’s temporary and permanent tax relief programs.
- It is anticipated that HST will be mainly cost neutral to City agencies that have not been designated as municipalities under the Excise Tax Act and mainly claim Input Tax Credits (ITC). This includes the Toronto Zoo, Toronto Parking Authority and the three (3) Centres for the Arts.

Financial Impact - Preliminary Estimates on City Expenditures (Table 1)

The annual estimated impact of the HST on City operations for entities with municipal status under the Excise Tax Act (ETA) are shown in Table 1 below.

- Initially, it is estimated that there will be an annual cost-savings of approximately \$6.5 million.
- The annual capital cost savings will be achieved mainly through major purchases of public transit vehicles by the TTC as a result of the 78% tax recovery on the 8% PST component associated with these purchases. Future capital cost savings or expenses will be based on the mix of capital expenditures.
- An estimated cost savings of \$4 million will be passed back to City divisions from infrastructure projects through reductions of contracts straddling over July 1, 2010, or through lower pricing for future contracts. Currently, contractors cannot claim PST recovery on their material purchases, and therefore add the 8% PST to their costs. Effective July 1, 2010, these contractors will fully recover the HST.

Table 1

Full Year Impact of 13% HST with 78% rebate on the 8% PST (\$000)			
	Operational budget	Capital budget	Total
	\$	\$	\$
City divisions and Toronto Police Services	774	(1,673)	(899)
TTC	(3,000)	(8,000)	(11,000)
Toronto Community Housing Corporation (TCHC)	1,620	3,198	4,818
Toronto Public Library	249	146	395
Business Improvement Areas	95	116	211
Net impact (savings)	(262)	(6,213)	(6,475)

Note: Estimated tax savings of \$4 million, to be flowed through from real property service contractors (i.e. infrastructure contractors), is included in “City divisions and Toronto Police Services” under the capital budget.

Financial Impact - Preliminary Estimates on Residential Users of City Services (Table 2 & 3)

Appendix A, attached, identifies some of the most common fees charged by the City and its ABC's.

Fees that are currently subject to both the 5% GST and 8% PST will continue to pay 13% HST effective July 1, 2010. Fees that are currently exempt from both GST and PST will continue to be exempt from HST. Fees currently subject to the 5% GST (and no PST) will attract the 13% HST effective July 1, 2010.

Residents and patrons, who utilize services offered by the City and its ABC's, should expect to pay in total an additional \$6 million in taxes for fees that currently only attract the 5% GST (see Tables 2 and 3 below).

Table 2 - Impact on Residential Users of City Services under Clusters A and B

From Table 2, the increase from 5% GST to 13% HST will have an adverse impact on residential users of approximately \$4 million per year.

- Residential users of Cluster A services (e.g. recreational services, Toronto Animal Services, and ambulance fees) can expect to pay an additional \$2.9 million annually. This includes golf fees, various user fees in the recreational community centres and ice rinks, and the occasional rental of community centre facilities.
- Residential users of Cluster B services, mainly on-street and off-street residential parking permits, can expect to pay an additional \$1.1 million.

Table 2

Estimated annual additional tax payment due to the HST by residents (000's)				
	Cluster A	Cluster B	Cluster C	Total
	\$	\$	\$	\$
Residential users	2,857	1,119	0	3,976

Table 3 - Impact on Patrons of the City's Art Centres, Zoo & CNE

Effective July 1, 2010, the 5% GST currently charged on admission fees will increase to 13% HST. From Table 3, the increase from 5% GST to 13% HST will have an adverse impact on patrons in the estimated annual amount of about \$2.2 million.

Table 3

Estimated annual additional payment by patrons effective July 1, 2010 (000's)						
	Centres for the Arts			Toronto Zoo	CNE	Total
	Sony	Toronto	St. Lawrence			
Current Admission Revenues	3,700	2,179	1,160	13,218	7,700	27,957
Additional 8% tax	296	174	93	1,057	616	2,236

Temporary and permanent tax relief for individuals and families provided by the Ontario Government

- Eligible families with an income of \$160,000 or less will get three payments totaling \$1,000 to help them adjust to the new single sales tax.
- Eligible single people with an income of \$80,000 or less will get three payments totaling \$300. The first benefit payment should arrive in June 2010, the second in December 2010 and the third in June 2011.
- Ontario will provide low- and middle-income Ontarians with a permanent refundable credit of up to \$260 for each adult and child. There will also be \$1.1 billion in income tax cuts, giving Ontario the lowest provincial tax rate in Canada for the first tax bracket.

ATTACHMENTS

Appendix A: Breakdown of GST & PST for common City fees as of January 27, 2010

Appendix B: List of City expenses as of January 27, 2010

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Appendix A: Breakdown of GST & PST for common City fees as of January 27, 2010

GST & PST chargeable	GST only	No GST & PST
City Divisions & Toronto Police Service		
Sales of recycling materials	On Street Residential Parking Permit	Water & sewer fees
Sales of recycling boxes	User fees of recreation, fitness and ski centres	Garbage & recycling collection
Sales of road salt to institutions	Rental of City real properties for non-residential purposes	Building Permits
Commercial boulevard parking	Off Street Parking – Application and Appeal Fees	Toronto Animal Services – dog licenses, cat registrations, protective care, impoundment
Gift shop sales	Off Street Parking – Paving Inspection Permit	A series of supervised instructional classes or activities involving athletics, outdoor recreation, music, dance, arts, crafts or other hobbies primarily for children 14 or under
Sales of snack food	Boulevard marketing, boulevard café, publication vending boxes or kiosks, and sidewalk/boulevard & curb vending	Construction permits
Museum admissions and sales of tangible items	Toronto Animal Services -Spay & neuter surgery, & cremation	Snow removal
Sales of materials in stadium and community centres	Areaway annual fee	Temporary street or traffic signs for movie shoots
Commercial printing by Printing Unit	Inspection services	Marriage License
Sales of Scrap Metals	Traffic Count Sales	Property Information Fee
Picnic cart rental at ferry dock	Third-party sign tax	NSF Administration Fee
Sales of Videos to the Ministry of Attorney General	Sales of Accident Reports	Repairing or Maintaining Roads, Streets, & Sidewalks
Toronto Animal Services -Adoption of animals, replacement tags, cat boxes, traps	Advertising Fees	Witness Fees
Duplicate License & Plate Fees		Birth & Death Registration Fees
Sales of vehicles		Tree Relocations
Sales of hard copies of maps		Fines
		Ferry Fees
		Recreational programs for underprivileged or mentally or physically disabled individuals
Agencies, Boards & Commissions (ABCs)		
Parking fees –Toronto Parking Authority	Naming & Management Rights	TTC fares
Sales of snack and tangible items	Admission fees to the centres for the arts	Residential rents collected by Toronto Community Housing Corporation
	Hydro fees	Library fines
	Admission fees to CNE	
	Admission fees to the Toronto Zoo	

Note:

- 1) The fees charged in column 1 by the City divisions and ABC's are subject to 5% GST and 8% PST, and will remain at 13% HST effective July 1, 2010. The fees charged in column 2 will be changed from 5% GST to 13% HST effective July 1, 2010. The fees charged in column 3 will remain tax exempt.

Appendix B: List of City expenses as of January 27, 2010

Expenses with GST only, no PST	Expenses with both GST & PST
Effective July 1: will increase to 13% HST. The net tax after applicable rebates will be 1.76%	Effective July 1: Will realize a net savings of 6.24% tax from the 78% rebate on the PST component
Hydro, Steam Heating, Natural Gas	Computer software, hardware & maintenance
Deep Lake cool water	Trucks (packers, dump-trucks, garbage & recycling collection trucks, SUVs, Pick-up trucks, salt-spreaders, road sweepers, mini-vans)
Gasoline & diesel for City fleet	Ambulance trucks
Chemicals for water and sewer treatment	Vehicles (passenger cars, police cars, fire chief vehicles)
Fire & Rescue Trucks & repair services/parts	Repair services & parts for trucks and vehicles
Commercial Land & Buildings	Office Furniture & equipment
Consultants (legal, audit, actuarial, engineering, architectural, HR, etc.)	Rental of equipment (cars, photocopiers, trucks, trailers, etc.)
Services (advertising, landscaping, shredding, building maintenance, laundry)	Off-the-road unlicensed equipment (tractors, leaf-blowers, lawn mowers, etc.)
Prescribed medical supplies & oxygen	Machinery & parts
Air travels to Canada & US destinations	Agricultural & landscaping supplies
Real property rental	Road salts & de-icers
Web-site access fees	Road signs & materials
Professional Membership fees	Kitchen and laboratory supplies
Postage	Clothing & uniforms
Contractor services to real properties (e.g. building a water treatment plant or a material recycling facility)	Construction & building materials
Building & road/sidewalk maintenance services	Telecommunication & electrical equipment
	Firearms

Notes:

- (1) Effective July 1, 2010 the expenses under column 1 will see a net tax increase of 1.76% after applicable rebates: 13% HST, less 100% rebate on 5% federal component, less 78% rebate on 8% provincial component.
- (2) The blue-shaded expenses in column 1 will see a potential PST savings being passed back to the City effective July 1, 2010 if a fixed price contract straddles July 1, 2010. As well, effective July 1, 2010, the shaded expenses will experience a downward trend if the lowest competitive bid has passed back the embedded PST savings to the City.
- (3) The expenses under column 2 will see a decrease of 6.24% tax out of 13% HST effective July 1, 2010, as currently the 8% PST cannot be claimed on these expenses.