

## **Proposed Harmonized Sales Tax Implication for Sport, Parks and Recreation**

### **A joint submission by Parks and Recreation Ontario, Ontario Recreation Facilities Association, Sport Alliance, SPORT4ONTARIO, YMCA**

#### **Background**

After the announcement in the 2009 Ontario Budget of the modernization of the tax system in Ontario, including the implementation of the HST, Ontario's major sport and recreation organizations came together to discuss the implications of the harmonization on the sport and recreation sector. A coalition was established to work collaboratively with other stakeholders and Government to address the concerns of the sport and recreation sector and seek ways to achieve our common goals of a healthy and active Ontario and a strong economy.

This coalition represents individuals and organizations in every community across Ontario. Sport and recreation are an integral part of the daily life of Ontarians, who spend \$4 billion annually on goods and services related to sport, recreation and physical activity. There are 7,500 incorporated sport and recreation organizations in Ontario and many more grassroots, unincorporated groups. More than 2.3 million Ontarians participate in sport and recreation activities, which are supported by 1,000,000 volunteers. Sport and recreation builds healthy Ontarians and healthy communities.

#### **Organizations Profiles**

**Parks and Recreation Ontario** was formed in 1995 and represents over 1,500 members including professionals, volunteers, educators, students, interested citizens, elected officials and commercial representatives. Through our membership, PRO has connection with over 10,000 professionals and volunteers who provide parks and recreation services. PRO fulfills its mandate by collaborating with stakeholders to influence decisions and policies that support the benefits of recreation through information, advocacy, and the research and development of innovative and relevant products and services.

**The Ontario Recreation Facilities Association (ORFA)** was incorporated in 1947 as a provincially-recognized, not-for-profit, volunteer-driven recreation organization. Today, the ORFA has over 4,000 card-bearing members who operate and manage recreation facilities in municipalities, educational institutions, government agencies, First Nations communities and in the private recreation sector. Members also include businesses and industries that support the recreation sector. As a member-based organization, the ORFA is dedicated to providing leadership in training and development, and in products and services for the benefit of the recreation facility profession.

The **YMCA** in Ontario is an integrated network of 24 YMCA and YMCA-YWCAs reaching over 125 communities across the province. Through close relationships with other Associations across Ontario and Canada, we are able to deliver collaborative programming on behalf of funders on a consistently high-quality basis. Almost 500,000 Ontarians are members and participants of YMCA Health, Fitness and Recreation centres and programs; 230,000 of whom are children, youth and young adults.

The **Sport Alliance of Ontario (SAO)** is a not-for-profit provincial sport management agency. It is our goal to support personal and community development through sport opportunities - from the Playground to the Podium. Central to the Sport Alliance of Ontario's mission is the protection and advancement of the participants' interests. The coaches, officials, administrators, and athletes who participate in sport at all levels across Ontario set our direction. We are committed to being a cohesive, credible and viable connector and deliverer of sport development opportunities in Ontario.

**SPORT4ONTARIO**, incorporated in 1998 as The Provincial Sport Organizations Council, is a not-for-profit, non-partisan organization dedicated to the promotion of sport and physical activity in Ontario. SPORT4ONTARIO undertakes advocacy on behalf of the provincial sport sector and their members through response to policy issues, undertakes and shares research, disseminates relevant knowledge and provides educational opportunities to sport volunteers and staff.

## Executive Summary

The sport and recreation sector in Ontario is one of the largest businesses in the province. It contributes over \$4 billion to the economy in Ontario. Nationally, an average of just under \$2,000 per household was spent on sport in 2004, more than household spending on health care and household furnishing and equipment. Sport and recreation is also Ontario's largest volunteer enterprise, with over 1,000,000 people devoting time as coaches, administrators, and instructors.

The health and social impact of participation in sport and recreation is even greater. Research done in Canada and elsewhere validates the health and social benefits of participation in sport and recreation programs<sup>1</sup>, including reducing obesity and contributing to the prevention of chronic disease, especially type-2 diabetes and some types of cancer. In addition, children and youth substantially benefit from positive sport and recreation experiences, which contribute to mental and physical health, team building and leadership development. Children and youth who are involved in sport are less likely to exhibit risky behaviour, have better self-esteem, do better in school and are more likely to continue to be lifelong participants.

The Ontario Government has recognized the importance and benefits of sport and recreation through several initiatives including the creation of the Ministry of Health Promotion, the Poverty Reduction Strategy, and the Healthy Eating Active Living (HEAL), Active2010, Childhood Obesity and Healthy Communities strategies.

The coalition also commends the Government of Ontario for tackling the task of updating the tax system and for proposing a streamlining that will benefit the economy as a whole. We recognize the need to simplify the tax system in order to make Ontario more competitive in the global market and we also applaud the government for including short-term and permanent tax relief for families in the form of transition payments and low-income supports.

However, the coalition is still concerned about the potential impact on the sport and recreation sector in four areas: shift in the tax burden to individuals and its impact on declining participation due to increased cost; age restriction for exemption on sport and recreation programs; impact on the capacity of small and medium sized not-for-profit organizations and volunteer involvement; and rise in cost of equipment specifically related to injury prevention.

---

<sup>1</sup> For example: Canadian Parks and Recreation Association (CPRA). *The Benefits Catalogue*. 1997.

## The Issues

### 1. Shift in the tax burden

With the harmonization of the RST and GST the tax burden will shift from businesses to consumers, who will now pay the HST on a broader range of goods and services. While savings can be accrued in manufacturing, and those savings then passed on to the consumer, the same may not be true for sport and recreation programs. Even with the rebates and input tax credits, initial estimates by municipal and not-for-profit organizations site that the harmonized tax will not be revenue neutral. The budget shortfalls due to the harmonization will have to be passed on to the users through increased fees for participants.

The coalition recognizes that the government has put in place certain measures which may mitigate the additional tax burden (i.e. transitional payments; rebates for the MUSH and not-for-profit sector). Still, when decisions are being made about purchases, sport and recreation are sometimes viewed as an extra or “nice to have but not a must have” and are the first family activity to be curtailed.

At the same time, health care costs continue to rise – and physical inactivity and obesity are a contributing factor to this. Current estimates place the cost of physical inactivity in Canada at \$5.3 billion (\$1.6 billion of direct costs and \$3.7 billion in indirect costs) and the cost of obesity in Canada at \$4.3 billion (\$1.6 billion of direct costs and \$2.7 billion of indirect costs) in health care expenditures.<sup>2</sup>

The government has invested significantly in the promotion of healthy living and increased physical activity through HEAL, Active 2010, the Childhood Obesity Strategy and After-school program, and the new Healthy Communities strategy. As well, important initiatives such as Poverty Reduction and Roots of Youth Violence have also underlined the importance of affordable access to sport and recreation as an important strategy. The coalition believes that the proposed HST will have a negative impact on these initiatives.

In addition, the coalition would like to highlight the exemption of music lessons as another example of tax regulation that was established to ensure that citizens are able to afford to participate in enriching and educational activities. Sport, recreation and culture provide many of the same benefits to society and individuals and should be taxed in a similar manner.

Just as other goods and services that contribute to the health and well-being of Ontario residents are exempt from HST, the coalition recommends:

#### Recommendation

- **An exemption from HST for sport and recreation programs, memberships and facility rentals in order to ensure that all Ontarians receive the health and social benefits of participation.**

#### Other Policy Options

- The government ensure that HST is revenue neutral for the not-for-profit and MUSH sectors so that any shortfalls are not passed on to consumers.
- Consider implementing a provincial fitness tax credit that is applicable to all ages.
- Consider an exemption or point-of-sale rebate for drop in fees where the maximum drop in fee is under \$5. This would significantly reduce the administrative burden where drop in fees are charged on a variety of services.

---

<sup>2</sup> Katzmarzyk et al, The economic costs associated with physical inactivity and obesity in Canada: an update, Canadian Journal of Applied Physiology, 2004.

## **2. Exemptions for children aged 14 years and younger**

The current age exemption from HST for programs is 14 years and younger. The coalition proposes that the exemption be aligned with the federal Children's Fitness Tax Credit, which is applicable for children aged 15 years or younger. While this one year may seem insignificant, research shows that this is a crucial time for teens and that participation rates can drop off significantly. In addition, by aligning the two programs, the administrative processes for sport and recreation organizations will be simplified since many organizations are already tracking the age of participants for tax receipt purposes.

### **Recommendation**

- **That the age exemption for sport and recreation program fees be extended to children and youth aged 15 years and younger.**

## **3. Administrative impact and impact on volunteers**

The coalition believes that there will be a significant impact on not-for-profit sport and recreation organizations, especially small and medium sized organizations that rely heavily on volunteers. Many of these organizations fall under the \$50,000 revenue threshold and are not currently GST registered. They currently pay a relatively small amount of tax in the course of delivering their programs and do not collect GST on any fees.

### **a. Increased costs**

Most small and mid-sized sport and recreation organizations rent space/playing fields/arenas from municipalities, not-for-profit organizations and academic institutions. While the impact of the HST is meant to be revenue neutral, it is not realistic to project that facility operators will be able to lower their current rental rates/operating costs by 8% in July 2010, in order to offset the additional tax, and thus keep rental fees at current levels. Therefore organizations that rent facilities will see a direct increase in rates due to the HST. They will then be faced with two options: register for HST in order to recover a percentage of the tax or find another way to raise funds to cover the additional cost of facility rental (either through increased participant fees which could lead to decreased enrolment, additional fundraising or sponsorship). Both of these options will impose an administrative burden on the not-for-profit organization.

### **b. Volunteer Involvement**

As noted elsewhere, volunteers are the engine that drives sport and recreation organizations in Ontario. Volunteers administer many organizations and they don't have the expertise to implement the requirements for HST compliance. Today, there are fewer volunteers doing more work. By diverting volunteer time to more administrative tasks, we are taking time away from the important role these volunteers play in coaching and leading activities.

The coalition also believes that with the harmonized tax, volunteers will bear more of the costs. Most sport volunteers pay for their own background checks (which are required for many volunteer positions) and they pay for the gas to travel to tournaments, games and events. They pay for the juice and fruit that children and youth eat after the practice or game. They help out with the youth who cannot afford their own uniform. In a study in the 1990s, it was revealed that, on average, sport volunteers spend \$450 out of their own pocket annually. With the imposition of the HST, these will all become more expensive.

### **Recommendation**

- **Ensure that not-for-profit organizations receive the support required during the transition, such as training, special resources and financial assistance.**
- **Ensure that transition rules are written with the not-for-profit sector in mind.**

#### 4. Injury Prevention

In 2007, the Government announced a wide-ranging injury prevention strategy. At the same time, the Federal Advisory on Healthy Children and Youth, Dr. Kellie Leitch, called for a national injury prevention strategy. Sport and recreation related injuries account for ten percent of major trauma cases in Ontario. Ontario has taken steps to help Ontarians play safe and stay active by providing an exemption for bicycle safety equipment, and the coalition strongly supports an extension and expansion of this exemption.

##### Recommendation

- **The coalition recommends continuing and extending that exemption from HST to include all safety equipment for sports and recreation as this would help mitigate the cost of participation and ensure that children and youth have the proper safety gear and are playing in a safe environment.**

##### Conclusion and Next Steps

The Sport and Recreation HST Coalition recognizes that there are many factors that must be considered when implementing a broad policy such as the harmonization of the RST and GST. However, by implementing recommendations included in this paper, the coalition feels that the sport and recreation sector will continue to:

- Be an economic driver in the province;
- Provide high quality sport and recreation programs;
- Engage volunteers;
- Keep Ontarians physically active and build strong communities.

We have made the recommendations in this document based on the belief that the application of the harmonized tax on sport and recreation facilities and programs is at odds with other Government priorities such as Healthy Communities, Obesity Reduction, Poverty Reduction and Roots of Youth Violence. In order for these initiatives to reach their full potential, we ask the Government to consider the recommendations.

There are also a number of outstanding questions that the coalition has received from members and stakeholders, which are listed below. We would like to continue the dialogue with Government to ensure that the best information is being circulated to our sector and that we can continue to work with Government to achieve the best results for this new tax policy.

The coalition will also be seeking support from a broader group of organizations from a variety of sectors including public health, social services, justice and sport and recreation.

##### Additional questions

1. How will low-income be defined and will those individuals and families receive a rebate through the income tax filing process or will organizations be required to remit information to the government? For an organization like YMCA, defining low-income is difficult because its membership assistance is based on ability to pay rather than a set "low-income" fee reduction.
2. How was the exemption for music lessons established? It should be noted that there is equal educational benefit from participating in sport and recreation, especially for children and youth who are learning life skills.
3. Will liability insurance be eligible for the HST rebate?
4. When will the transition rules be available?

## Additional Documents

1. [Understanding the Capacity of Ontario Sports and Recreation Organizations \(2007\)](#). A synthesis of findings from the National Survey of Nonprofit and Voluntary Organizations and the Canada Survey of Giving, Volunteering, and Participating
2. [Report of the Expert Panel for the Children's Fitness Tax Credit](#) submitted to the Honourable James M. Flaherty, P.C., M.P., Minister of Finance (October 2006)
3. [Charter for Recreation and Parks in Ontario](#) (2009)

## Contact Information

Diane English, Communications and Public Policy  
Parks and Recreation Ontario  
1 Concorde Gate, Suite 302  
Toronto, ON M3C 3N6  
p. 416-426-7306  
e. [denglish@prontario.org](mailto:denglish@prontario.org)

John Milton, Chief Administrative Officer  
Ontario Recreation Facilities Association  
1 Concorde Gate, Suite 102  
Toronto, ON M3C 3N6  
p. 416.426.7062  
e. [jmilton@orfa.com](mailto:jmilton@orfa.com)

Margaret Emin, Chair  
SPORT4ONTARIO  
3 Concorde Gate, Suite 201  
Toronto, ON M3C 3N7  
p. 416.426.7310  
e. [memin@sport4ontario.ca](mailto:memin@sport4ontario.ca)

Jim Bradley, Chief Executive Officer  
Sport Alliance of Ontario  
3 Concorde Gate, Suite 313  
Toronto, ON M3C 3N7  
p. 416-426-7073  
e. [jbradley@sportalliance.com](mailto:jbradley@sportalliance.com)

Jennifer Holmes Weier  
External Relations Manager, Federal & Provincial Affairs  
YMCA Resource Creation & Capacity Building Initiative  
42 Charles St E, 6th Floor  
Toronto ON M4Y1T4  
p. 416.413.1020 ext. 4202  
e. [Jennifer.HolmesWeier@ymcagta.org](mailto:Jennifer.HolmesWeier@ymcagta.org)