

Executive Summary



ONTARIO NONPROFIT NETWORK

ANTICIPATED IMPACT OF THE HARMONIZED SALES TAX ON ONTARIO'S NONPROFIT SECTOR

In June 2010, the Province of Ontario will do away with its provincial sales tax (PST) and will bring in the Harmonized Sales Tax (HST combines PST and GST). The combined tax is 13% and will be applied to everything that now has GST/PST. On items and services that currently only have GST, an HST of 13% will soon be charged.

The HST tax is exactly like the current GST and can be viewed as a simpler tax because everything is treated the same way. The Provincial of Ontario is giving up the provincial sales tax for a larger GST/HST from which they will receive a share of revenue. To understand the HST, just think of it as a larger GST - the same rules apply. For example, if the counselling services you currently provide are not subject to GST, they will not be subject to HST either.

The stated intent of the Government is that the impact of HST on the nonprofit sector is revenue neutral. Indeed, the provincial government made a significant effort to ensure this was so by establishing an 82% rebate rate for the PST portion of the HST. The government, however, did not have all the information to truly understand the full impact of HST on the sector, nor did we.

ONN pulled together a group of people from across the sector that were involved in trying to figure out the HST for their sub-sectors. We also had a tax expert and a lawyer join to help us navigate the confusion and help us assess the overall impact on the sector. The result is a brief that has been submitted to government that sets out how we think the sector will be impacted and makes eight recommendations on which we hope to see some action.

Findings at a Glance

- Based on our research we believe that, overall, the rebates will be revenue neutral or better for most, but not all, charities and nonprofits that are eligible to apply for rebates. Some organizations will even find they come out ahead with the new rebates. Similarly, government will benefit as agencies report lower HST expenses.

- However many sports and recreation groups and social enterprises are not so lucky. Hard hit will be the sector's nonprofit organizations that are not charities and do not receive significant government funding (i.e. 40% of their revenue from government) but who provide services that are exempt from HST, such as children's activities or services to disadvantaged groups. These groups cannot claim HST that they have paid out against HST collected on sales because their sales are exempt from HST. In addition, these groups are not eligible for rebates, unlike charities. These organizations will also see their costs increase +8% on expenses for services - they currently pay 5% on services subject to GST and this will increase to 13% with HST. We are concerned this cost increase will be reflected in their fees making important community services less accessible to the public.
- As organizations providing public benefit we are very concerned about the impact of HST on the public we serve. Performing arts organizations have traditionally had provincial support for their work in the form of a reduced PST on tickets sales. This has allowed them to keep ticket prices more affordable. With the move to HST, the province loses its capacity to support public benefit activities through sales tax relief. The performing arts organizations are looking at an +8% increase in ticket prices with the implementation of HST. This has serious implications for our cultural organizations especially during this troubled economic period.
- Capital projects are another area where the province has supported the sector through rebates of sales tax. This, too, will be lost with the move to HST. For charities, the 100% sales tax rebate on construction materials will become 82%. This represents a significant increase in the cost of building projects and is especially onerous on those projects already underway and with their financing in place. Similarly, social housing organizations that have been deemed municipalities for the purposes of GST rebates (100%) must see this provision continue with the move to HST or else it will have devastating impact on the ability of nonprofits to build social housing.

Summary of ONN Recommendations

The following is an overview of eight recommendations being proposed by ONN. The exact wording of these recommendations is often more technical. For the exact wording and more information on HST issues in the sector please [read ONN's full brief](#).

- Recommendation 1 requests that government use their "savings" from some service contracts to compensate the other organizations for which the GST is not revenue neutral. In this way service provision will not be negatively affected through the implementation of the HST.
- Recommendation 2 suggests a new definition of "qualifying nonprofit" that is more in tune with the times. We ask that nonprofits providing HST exempt services be treated like charities and be eligible for rebates.

- Recommendation 3 asks that the age limit for exempt activities for children be raised from 14 to 16 years so the sudden increase of 13% HST on activity fees does not discourage 15 and 16 year olds from participating.
- Recommendation 4 asks for implementation grants for all nonprofits, similar to those that will be provided to businesses to assist with changes to accounting practices and procedures.
- Recommendation 5 deals with the problem the arts community has with the loss of their PST tax break (PST tax breaks do not get carried forward to the HST). It means tickets prices will increase for performing arts and we are offering several options to avoid this happening.
- Recommendation 6 and 7 deal with problems in capital projects resulting from the shift to HST. It is important that current rebate levels continue under HST. Capital projects have enough challenges without changes to rebate levels under HST.
- Recommendation 8 asks that the sector receive “sector specific” training regarding the shift to the HST. Ideally we would like it to be sub-sector specific so it can be tailored to the needs to the specific organizations involved.

What's Next?

- Please use the *ONN Guide to Calculating HST Impact* to calculate the impact of HST on your organization and let us know the results by answering the [poll question](#) on our website.
- In the 2010 the Province of Ontario will issue implementation guidelines and we will know if our recommendations were incorporated into their planning.
- The Government is planning HST Implementation Training for the winter and spring, in time for the June switch over. We will continue to try and make it as relevant and helpful as possible.
- ONN will stay focused on this file and keep you posted. Help us help you – please make a contribution to our work through our new download donation function on the ONN website at www.ontariononprofitnetwork.ca.

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