



ONTARIO NONPROFIT NETWORK

ONN Revised Guide to Calculating HST Impact

What is the Harmonized Sales Tax (HST)?

In June 2010 the Province of Ontario will do away with its provincial sales tax (PST) and the Harmonized Sales Tax will come into effect (HST combines PST and GST). The combined tax is 13% and will apply to everything that currently has GST/PST. A Harmonized Sales Tax of 13% will soon be charged on all those services that currently only have GST of 5%, for example legal services. HST is a simpler tax because everything will be treated the same way.

The HST is exactly like the current GST. The provincial government is giving up the PST 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.

Step I: Identify Your Organization's Category

The HST is not revenue neutral for all parts of the sector. We have identified four different groups into which all nonprofits fall and you must first identify to which category your organization belongs.

For the first, second and fourth groups, the HST will, for the most part, be revenue neutral. Some organizations will even be better off. For the third group, HST will not be revenue neutral.

1. Charities – If you have CRA charitable status, you are a charity and eligible for rebates from HST.

2. Qualifying Nonprofit – If you are not a charity but you receive 40% of your funding from government, you can apply to be a qualifying nonprofit. This means you can be treated like a charity for the purpose of HST and be eligible to claim rebates if you provide HST exempt services.

3. Non-qualifying Nonprofit – If you do not get government funding for 40% of your revenues, you are classed as “non-qualifying”. This means you cannot claim rebates even if you provide an exempt service such as providing sport activities to children. Organizations finding themselves in this category are nonprofit sport and recreation groups, for example swim clubs and soccer leagues. Also, many social enterprises also fall into this group because many of their revenues are from fees and sales. You know if you are a non-qualifying nonprofit if you currently do not charge GST on your sales or fees and do not claim rebates for the GST you pay for services.

4. HST Registrants – If your gross revenues are \$250,000 and/or you have taxable sales of \$50,000 you must register for HST. Groups under this threshold can voluntarily register and begin charging GST/HST and claim input tax credits (ITC) Registered nonprofits, like businesses, can deduct the HST paid to obtain the revenues (ITC) from the HST collected on sales and remit the balance to the government. Typically this gives a registered organization 100% rebate on the HST paid. Many of the larger performing arts organizations are registered for GST/HST.

Step II: Calculate the HST

1. Charities and Qualifying Nonprofits

Because you are eligible for GST rebates you are eligible for HST rebates. The GST rebate will remain at 50% for the GST part of the HST. What is new is the rebate on the PST portion of the HST. Right now you receive no rebate for sales tax except in exceptional circumstances. Under HST you will receive a rebate of 82% of the PST component of HST.

Remember that with HST both goods and services will be subject to the tax. To understand the impact you need to understand that on services for which you currently pay GST only, your out of pocket costs will increase +1.4% over current costs when the HST comes into effect. However on items, typically goods for which you pay PST/GST you, will be further ahead by +5.9%.

To understand how this works read [ONN's detailed brief](http://bit.ly/3GD90R) - <http://bit.ly/3GD90R>.

A Quick Assessment

A quick method to assess the impact of HST on Charities and Qualifying nonprofits is to look at the ratio between your current or recent expenditures on *services* (GST only) and expenditures on *goods* (PST/GST).

For the past year:

1. Calculate how much you paid in GST expenditures from your GST .	Use the Full GST amount, (not rebate amount) and gross it up to determine - Total Expenditures including GST paid.	$(\text{GST} \times 20) + 2.5\%$ GST=	Total Expenditures including GST paid. <i>(TEGST)</i>
2. Estimate how much you paid in total for Goods subject to PST/GST	Purchase price of goods plus all taxes (PST/GST)	This will need to be estimated if you do not track PST expenditures	Purchase price of goods plus all taxes (PST/GST) <i>(goods)</i>
3. Compare Total expenditures including GST with purchase price of goods plus all taxes . HST savings from every dollar spent on goods (+5.9%) offsets 4 dollars spend on services (-1.4%)	Quick test - Yes, GST on goods is included in both but try this now.	$(\text{goods}) \times 4 =$	If Goods x 4 is equal to or greater than (TEGST) Your organization is HST revenue neutral or better, If not.... do step 4.
4. Calculate the amount of expenditure paid for services (GST only)	Remove the PST from (goods). This will give you the portion of (TEGST) that is included in the purchase of goods.	$(\text{goods}) / 113 \times 105 =$ $(\text{goods} - \text{PST})$ $(\text{TEGST}) - (\text{Goods} - \text{PST}) =$ Service expenditures	Service Expenditures (GST Only)
5. Compare Service Expenditures and Goods Expenditures.	If Goods x 4 in step 3 is more than Service Expenditure in	Goods HST +5.9% Services HST	HST is Revenue Neutral if the ratio of Service

	step 4	+1.44% = Net \$ Impact to Organizations	Expenditures to Goods Expenditures is 4:1 or less.
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* Note that government contracts will net out the difference so they, not you, may keep the savings.

2. Non-qualifying Nonprofits

Non-qualifying nonprofits will have the cost of providing service go up 8% on current (GST only) purchases with HST. You are already paying PST and GST on items subject to sales tax items so these costs will not change with HST.

To calculate the impact on your organization:

1. Calculate/estimate for the last year how much you paid for services on which you only pay 5% GST (no sales tax).
2. Service expenditures x 8% = the increase in your costs of doing business.

Non-qualifying nonprofits who are not charging GST/HST because they are too small, and are not providing a GST/HST exempt service, may register for GST/HST even if their income is below the threshold required. However, this will mean you will have to start charging HST to you customers to collect your ITC. Be very careful before making this decision. Get professional advice.

Step III: Add to our collective Data

Once you know the impact of your organization's move to HST, please answer the [poll question on ONN's website](http://bit.ly/3e8P0i) (http://bit.ly/3e8P0i). It is important to have this information on HST impact and it will only take a minute.

If you have important details and comments for us, contact: Tel: (416) 642-5786

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