

Accounting for the HST

FEI Annual Conference, June 10, 2010

Harmonization



- Tax changes
- Implementation
- Cost/benefit?

Harmonization



Example:

- Personal services business (investment manager/dealer)
- Offices only in Ontario
- GST/HST recovery rate of 32%

Harmonization



For the year ended December 31, 2009 ('000s)		GST Paid	GST Cost*	ORST	Tax Cost	HST Paid	HST Cost	PVAT Loss
Fee revenue	21,195		1060			1867		
Commissions	44,414		0			0		
Total revenue	65,609							
S,G&A Expenses								
Communications/Trading	1,751	81	55	130	185	211	143	
Telephone services and equipment**	558	26	18	41	59	67	22	35
Cellular charges**	190	9	6	14	20	23	6	14
Consulting and memberships	7,336	367	249		249	954	649	
Audit and legal	272	14	9		9	35	24	
Office expense	3,553	164	112	263	375	428	291	
Property tax	1,190							
Office rent	4,772	239	162		162	620	422	
Furniture leases	436	20	14	32	46	52	36	
Parking	78	4	2	6	8	9	6	
Registration and exchange fees	770	39	26		26	100	68	
Travel and promotion	815	38	26	30	56	102	69	
Meals and entertainment**	45	2	1	3	4	5	1	3
Bank charges, capital tax and interest	223							
Software, hardware and maintenance	1,203	56	38	89	127	145	98	
Compensation and benefits**	44,236	30	24	16	40	78	61	16
Amortization	1,591							
Total S,G & A	69,019							
Fixed asset additions								
F&F, software & hardware	583	27	18	43	62	70	48	
Leaseholds	289	14	10		10	38	26	
Trading platforms	453	21	14	34	48	55	37	
Total additions	742	1149	784	702	1486	2992	2006	68
* Assume 32% recovery of GST								
** PVAT restricted item								
Increase in total tax cost					1486		2006	521

Harmonization



Revenues

Canada	95%		
Non-resident	5%		
Ontario	38%	$21195 * .95 * .38 * .13 =$	995
British Columbia	12%	$21195 * .95 * .12 * .12 =$	290
Nfld&Lab, NB	3%	$21195 * .95 * .03 * .13 =$	79
Nova Scotia	1%	$21195 * .95 * .01 * .15 =$	30
Rest of Canada	47%	$21195 * .95 * .47 * .05 =$	473
		Total GST/HST	1867

Office in Ontario only

Harmonization



('000s)

Receivables 6,476

30% taxable

GST included 92

GST/HST included 162

Increase in balance 1.0%

Payables 12,086

GST included 194

HST included 504

Increase in balance 2.6%

Harmonization



Revenues

- Now taxed based on customer residence
- Tax collected increases to \$1,867 from \$1,060
- Impacts receivables

Harmonization



Expenses

- Total cost under GST/PST is \$1,476k; under HST is \$1,996k
- Increase of \$520k
- Impact on payables
- If full recovery, savings of \$702k in PST, but loss of \$68k in restricted PVAT

Harmonization



If HST fully recoverable:

- Receivables and payables management remains critical
- PST paid is outright saving
- Only concerned about input tax credit restrictions
- If manufacturing business, lesser impact – PST exemptions, relief from restrictions

Harmonization



Intangible benefits:

- Fewer returns and auditing jurisdictions
- Flow-through of cost savings from suppliers
- Squeeze for cost savings from customers?