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ONTARIO BUDGET

What the "value added" tax means to you

Adding up the new sales tax

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Why should the average Ontarian be overly interested in this year's provincial budget? Three words: Harmonized Sales Tax.

Finance Minister Dwight Duncan recently tabled the province's 2009 budget. In it, Ontario has decided to harmonize the Retail Sales Tax (RST) with the Federal Goods and Services Tax (GST) to create a federally administered single value-added sales tax, effective July 1, 2010.

This means that we can say "goodbye" to RST and GST and say "hello" to a combined tax of 13 per cent (with the provincial portion being equal to eight per cent and the federal portion equal to five per cent). The rules relating to the single sales tax will be largely consistent with those governing the GST.

The "value-added" tax applies to all commercial activities related to the sale of goods and services. Tax is paid throughout the supply chain, but the tax paid by businesses is generally reimbursed through input tax credits. Specifically, businesses that sell taxable or zero-rated goods and services will be able to claim input tax credits on purchases (similar to the rules under the federal GST).

In order to help with the transition of this single sales tax, the federal government will give Ontario $4.3 billion in cash transfer payments in order to better promote economic growth. $3 billion is payable on July 1, 2010 – to coincide with the implementation date of the single tax – and the balance will be paid one year later.

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So what does this mean to the average consumer?

For individuals, benefits would be payable to eligible Ontario tax filers aged 18 and over, totaling a maximum of $300 for a single person and $1,000 for single parents and couples.

A single person with no children and income of up to $80,000 would receive a benefit of $300, payable in three installments: June 2010, December 2010 and June 2011.

A family with income of up to $160,000 would receive three benefits: $330 in June 2010, $335 in December 2010 and $335 in June 2011. Note – the maximum benefit will be reduced by five per cent of the recipients' previous year's adjusted family net income over $80,000 for single individuals and over $160,000 for families.

The government uses the following example to illustrate this reduction. A single person with income of $81,000, would receive three benefits of $50 each. Single people with income over $82,000 would not receive a benefit.

A family with income of $163,000, on the other hand, would receive one benefit payment of $180 and two benefit payments of $185 each. Families with income over $166,700 ($166,600 for the June 2010 benefit) would not receive a benefit.

Benefits for small businesses.

Transitional support will also be available to small businesses, especially taking into account that, effective March 31, 2010, the vendor's compensation currently paid under the RST will be eliminated and the new tax system will result in administrative costs to businesses in accounting and point of sale systems.

For those reasons, a one-time credit will be provided to most businesses (with the exception of financial institutions).

- Businesses with taxable sales of $15,000 or less will receive a $300 credit;
- Businesses with taxable sales between $15,000 and $50,000 will receive a credit of two per cent of taxable sales; and
- Businesses with taxable sales between $50,000 and $500,000 will receive a credit of $1,000.

Small supplier threshold.

Small suppliers with total taxable revenues of $30,000 or less ($50,000 or less for public service bodies) would not be required to register and collect the single sales tax.

New housing rebate.

Purchases of newly constructed homes from developers are currently subject to RST, but this embedded tax will be removed with the introduction of the single value-added tax.

However, under the new system, new homes will be subject to the single sales tax (thereby including the federal portion of the tax).

In order to provide some relief, the Budget proposes to ensure that new homes priced under $400,000 will be eligible for a rebate equal to 75 per cent of the provincial component of the singles sales tax (i.e. six per cent).

This rebate is phased out for homes priced between $400,000 and $500,000. However, resale homes will not be subject to the single sales tax.

Point-of-sale exemptions.

Point-of-sale rebates will be introduced to provide exemptions for the provincial portion of the single tax on books, children's clothing and footwear, children's car seats, diapers and feminine hygiene products.

Alcohol sales.

The current RST rate of 12 per cent on alcohol (10 per cent if sold through a licensed establishment) will be replaced with the singles sales tax, which means that the provincial rate will fall to eight per cent.

To compensate for this reduction, the government has issued a statement that it proposes to make adjustments to current alcohol fees, levies and charges in order to maintain social responsibility and existing revenue.

Hotel rooms.

Currently, RST applies at a rate of five per cent for hotel rooms. Under the new single sales tax system, the provincial rate will be increased to eight per cent by virtue of the value-added sales tax.

Items not included under the single sales tax.

In order to maintain a level playing field between used vehicles sold through dealerships and private sales, Ontario will retain a separate sales tax for private transfers of used motor vehicles.

In addition, Ontario will also tax premiums for certain types of insurance, such as group insurance under a separate sales tax.

Other Budget notes

While the announcement of the value-added sales tax grabbed the Budget headlines, I would be remiss if I didn't mention some other measures affecting individuals that were announced in this year's Budget:

- Effective January 1, 2010, the lowest Ontario marginal tax rate will be reduced from 6.05 per cent to 5.05 per cent
- The current Ontario 20 per cent surtax on basic Ontario tax over $4,257, and the 36 per cent surtax on basic Ontario tax over $5,370 will be reduced to $3,978 and $5,091, respectively.
- The 2010 dividend tax credit rate on eligible dividends will be reduced from 7.7 per cent to 6.4 per cent bringing the top marginal tax rate on such dividends to 26.57 per cent. The tax credit on other taxable dividends will be reduced from 5.13 per cent to 4.5 per cent bringing the top marginal tax rate for other taxable dividends to 32.57 per cent.
- The current combined sales and property tax credit will be replaced with the new Ontario Sales Tax Credit (OSTC) and Ontario Property Tax Credit (OPTC) effective July 2010. The OSTC will be refundable and paid quarterly for a maximum credit of $260 per person.

The OPTC will be based on

occupancy cost (which is property tax paid or 20 per cent of rent paid) resulting in a credit equal to a maximum of $250 ($625 for seniors), plus 10 per cent of occupancy cost to a maximum of $900 ($1,025 for seniors). Both credits will be phased out for net income of over $20,000 for an individual and over $25,000 for families.

- Currently, a taxpayer can contribute up to $5,000 annually to a tax-free savings account (TFSA) so that investment income and capital gains earned on these funds are tax-free.

  The Budget proposes to amend currently legislation to allow for beneficiary designations of TFSAs so that the latter can pass outside of a will to a beneficiary (similar to RRSPs). This will help avoid probate tax or Estate Administration Tax on these funds.

- The Ontario senior homeowners' property tax grant will be doubled from $250 to $500.

- Certain measures were announced to parallel those introduced in the 2009 federal budget, including:

- Increasing the Home Buyers' Plan withdrawal limit from RRSPs to $25,000 (from $20,000) as of January 27, 2009.

- 100 per cent accelerated capital cost allowance rate for eligible computers and software acquired after January 27, 2009 and before February 2011. ❑