

February 9, 2010

Ontario businesses scramble to ready for arrival of HST

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With less than six months to go, business across Ontario are scrambling to get their accounting and billing systems ready to deal with the implementation of the harmonized sales tax.

Love it or hate it, Craig Robertson of consulting firm Deloitte and Touche told a seminar at the Toronto Construction Association, it's a done deal.

For construction companies and their clients there isn't a massive change that they will have to deal with, he said, since the GST is already programmed in and in most cases the eight per cent provincial retail sales tax is also payable.

On billing for services where until now only GST was payable, the total tax will be the 13 per cent of the HST.

"And that's not a bad thing," he said, "because the owner of the project will now get an input tax credit (ITC) of 13 per cent instead of the five per cent they had been getting."

The convergence of the two taxes and the ability to claim a 13 per cent ITC will reduce the tax burden overall and will mean a slight adjustment in cash flow, he said.

"General Motors doesn't care because they get an ITC but the Bank of Montreal doesn't like it because financial institutions (including insurance companies) can't claim an ITC under the rules," he said.

Construction companies, however, can claim the ITC and it will make things easier in the long run for accounting and billing purposes.

Beverly Gilbert, a Calgary-based chartered accountant tax group leader with law firm Borden Ladner Gervais LLP says companies need to read the fine print in this new tax regime.

If a contract was signed before the deadline, the HST is payable after July 1.

While in most cases the client will simply be billed 13 per cent and pay it, in other cases the responsibility of taxes may be spelled out differently in the wording of the contract.

Complications are also created by new methods of putting together projects with digital technology.

Construction firms, like many large enterprises, pride themselves on the expertise of their people and the ability to bring virtual teams together as needs dictate.

This starts to create issues around tax liabilities when a multi-disciplinary team spread across the country works on a file and then looks to bill the client.

“If you are a firm that does business only in Alberta, for example, you don’t have to worry,” she said in a telephone interview. “But if you do business in Ontario things change, even if you just have an agent there.”

Mitigating whether the tax is payable, regardless of where the head office is, rests on the question of where the service was supplied. If, for example, the service to a client was supplied in Ontario, regardless of where the client is, the HST is payable.

Even if only part of the service was supplied in Ontario, there could be HST payable, she says, noting that even if as little as 10 per cent of the work was supplied from Ontario, then the HST is payable on the entire billing.

Other considerations are around where negotiations took place. If they took place in Ontario, the HST is payable.

This is going to create some headaches and adjustments and a rethinking of some business models, she says.

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