

Would HST Be Good For Your Business? You Decide!

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Background

The Provincial government is considering replacing our current combination of GST/PSI (Goods & Services Tax and Provincial Sales Tax – currently 15.5% combined) with the HST (Harmonized Sales Tax – currently 13%). Many businesses on PEI are not sure whether this would be a benefit to them, or just the opposite. So, the time is right for a little refresher for businesses.

Taxable

Most commercial businesses are registered for GST, and collect the 5% GST on the goods and services they sell. A commercial business selling taxable goods and services in Canada is entitled to get back the GST they paid on purchases or other ‘business inputs’ related to that activity. That means capital items as well as regular purchases and expenses such as utilities and supplies.

Exempt

Certain business sectors are designated under GST legislation as ‘exempt’ activities. These include businesses providing long-term residential rental accommodations, many health care service providers (e.g. doctors and dentists) and child care service providers, to name a few common ones. Exempt businesses aren’t eligible to register for GST and so they don’t charge GST to their tenants, patients or customers. However, exempt businesses are not allowed to recover any GST paid on business inputs. Effectively, an exempt business ‘eats’ this additional cost as part of its cost of doing business.

Zero-rated

The luckiest category of businesses are those involved in zero-rated activities. Farming and fishing businesses are typical examples of businesses in this category. On sales of zero-rated items (e.g. cattle or potatoes), a business charges 0% GST. However, the business can register for GST and claim back the GST paid on its business inputs, when it files its GST return.

How does HST affect this?

The HST legislation piggybacks on the GST rules. So, if your business activities are taxable, exempt or zero-rated under GST, they would be the same under HST. Taxable and zero-rated businesses would recover the full HST on business inputs, and exempt businesses would not.

Winners and losers

At this point, if you're involved in an exempt activity such as residential apartment rentals, you're probably thinking that a switch to HST wouldn't be that great for you. You're right. In Nova Scotia, an organization representing landlords determined when they made the switch to HST a decade ago that the net effect of the switch cost them around 2% of total expenses. (Although the HST rate is currently 8% on top of the GST, there is some saving from not paying 10% PST on certain items.)

However, for most taxable businesses, the HST would make them money. Right now, many business inputs are subjected to PST of 10% on top of the GST, an effective PST rate of 10.5%. None of this PST is recoverable to a business. Under an HST regime, all of the HST is recoverable. Think about the last time you bought computers for your business and paid all that non-recoverable PST. Under HST, you would get your tax back.

There are other benefits as well. Having only one set of rules, deadline dates and forms would make it easier for businesses to charge and remit the correct amount of tax. Customers would like the lower rate (currently 13% HST instead of 15.5% GST/PST) on many items. And finally, there would be no competitive disadvantages for PEI businesses compared to their counterparts in the other Atlantic provinces, who get to charge their customers a lower tax and recover more of the tax on their business inputs.

Other things to consider

If your business currently has a key exemption under PST (for example, no PST on clothing) and it looks like HST is on the horizon, you might want to collaborate early with other businesses in your sector on strategies to try and maintain that exemption under HST. Nova Scotia managed to get a special exemption for books included in the HST legislation when they joined in, but it wasn't easy. You'd want to get started on your game plan early.

For other businesses, take some time to think about how the HST would affect your business and your customers. Would your customers benefit from the lower rate, or not? How much more money would you get to keep? Would HST be good or bad for your business? You decide!