



# Corporate Report

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BUDGET COMMITTEE <b>DEC 07 2009</b>
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**DATE:** December 1, 2009

**TO:** Chair and Members of Budget Committee  
Meeting Date: December 7, 2009

**FROM:** Brenda R. Breault, CMA, MBA  
Commissioner of Corporate Services and Treasurer

**SUBJECT:** **Impact of HST on the City of Mississauga**

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**RECOMMENDATION:** That the report dated December 1, 2009 from the Commissioner of Corporate Services and Treasurer titled "Impact of HST on the City of Mississauga" be received for information.

**BACKGROUND:** In the March 2009 Ontario Budget, Ontario announced that it would harmonize the provincial Retail Sales Tax (RST) with the Federal Goods and Services Tax (GST), moving to a single, composite, 13 per cent sales-tax rate: five percent GST and eight per cent Ontario Value-Added Tax (OVAT), effective July 1, 2010.

The tax will be administered by the Canada Revenue Agency, although Ontario will be responsible for winding down its retail sales tax. Ontario will receive transfer payments from the Federal Government for the provincial tax component on the basis of an agreed formula, similar to the compensation arrangements in place in the participating provinces.

Effective July 1, 2010, all supplies that are GST applicable will become HST applicable. The federal legislation will identify the items and services on which the tax is paid, and the exemptions or

rebates associated with it. This legislation is expected to be released after March 2010.

The new harmonized sales tax, which blends the 8 per cent provincial sales tax with the 5 per cent federal GST, will now apply to a host of goods and services purchased by municipalities that are currently exempt under the existing provincial sales tax. This includes gasoline, heating fuel, legal fees, accounting fees, consulting fees, contracted services (i.e. capital construction, snow clearing, etc.), and many more City expenditures.

Under the new harmonized tax system, public service bodies will be able to claim rebates for the provincial portion of the single sales tax so that the net effect of the tax on each sector will be fiscally neutral in total relative to the amount of RST currently paid by these sectors. As with the GST, the rebates will be a percentage of the provincial portion of the tax paid (i.e., municipalities 78%, hospitals 87%, universities and colleges 78%, school boards 93%, charities and qualifying non-profit organizations 82%). The net impact will, however, vary by municipality depending on what proportion of spending is for services subject to sales tax.

The Ontario Government states that the new harmonized tax system offers many advantages to businesses ranging from simplified tax compliance, which will save an estimated \$500 million annually in reduced administrative costs, to the elimination of approximately \$5 billion in embedded PST, which businesses currently absorb annually reducing the pre-tax retail price to individuals.

They project that 80 per cent of business savings will flow through to consumers within one year and will result in an 11 per cent increase in business investment within a year. These benefits will not be known until the HST has gone through a complete cycle, which can range from one to two years. Competition, through supply and demand, drives current price levels therefore it will be interesting to see how and if these business savings flow through to the consumer.

**COMMENTS:**

All organizations will be impacted differently by the Harmonized Sales Tax (HST). The Ontario government intended the impact of the HST on the municipal sector to be revenue neutral by establishing a 78 per cent rebate rate for the Provincial portion of the HST.

Many goods and services purchased by municipalities are presently not subject to PST and will be subject to the new HST. Therefore, municipalities will be faced with an additional tax burden/expense of 1.22% of the 8 % provincial portion of HST paid on these expenditures.

However, on items where a municipality has previously paid PST and absorbed the additional tax burden/expense within their budgets, for example transit vehicles, the municipality will now be entitled to claim a rebate of 78% on the provincial portion of HST representing savings of 6.24% of the 8% provincial portion.

Minimal information from both the federal and provincial Governments have been provided at this point. Transitional rules and other specific details regarding HST may be released as late as March 2010, leaving little time to prepare for HST.

This tax change will be a major undertaking for the City due to the scope and complexity of the new requirements.

To be ready for the July 1, 2010 implementation date, Finance will be leading up a citywide working team to roll out the new tax requirements. This working team includes representatives from each of the City departments, key service areas, Material Management, Internal Audit, and Legal Services. Each representative will be responsible for leading and guiding the changes within their assigned areas. KPMG LLP will also be contracted to help guide the working team and City during the planning stages and transition. Planning is currently underway, in preparation for a successful transition. All facets of our organization that are affected by sales taxes (for example, accounts receivable, accounts payable, payroll, purchasing, forecasting and budgeting) will be reviewed by the working team.

**FINANCIAL IMPACT:** City purchases impacted by the tax harmonization include snow removal services, grass cutting and maintenance services, road repairs and construction, land purchases, leases and facility rentals, consulting services, fuel, utilities, custom computer software, recreation programs and memberships, cemetery plots, third party charge-backs, items purchased for resale, building repairs and maintenance, courier services, legal services, firefighting vehicles, parts and repairs to these vehicles, and many more expenditures.

Under the current tax regime, these expenses only include GST. Under the new HST system, an additional 8% value added tax (VAT) will be added to the total price.

Ontario proposes to exempt books, diapers, children's clothing and footwear, children's car seats and car booster seats and feminine hygiene products from the 8% provincial portion of the single sales tax.

The City's current Financial Enterprise System (SAP) does not track nor separate the PST paid on purchases. When PST is applicable, the cost of the PST is included in the final expense cost charged to the Department. Therefore, it is very difficult to identify the amount of PST paid for reporting purposes. Additionally, many of the items we purchase will have embedded PST – amounts paid by others in the supply chain which become part of the sales price and are not identifiable. Part of the case for revenue neutrality is that costs of certain items should decline as this embedded tax will disappear.

In 2008, the City spent approximately \$313 million on GST applicable purchases (including the \$75 million to which PST was applicable). On these purchases, the City paid approximately \$15.6 million in GST and approximately \$6.0 million in PST. The City received 100% rebate for the GST portion which caused no financial impact on the City. However, the City did not receive a rebate for the PST paid which resulted in a direct cost impact of \$6.0 for the City.

Agencies such as MFOA are working with municipalities to determine the impact of HST, and have developed a template to be used in

estimating impacts. However, this template is based on a number of assumptions and only provides an approximate impact. A significant variable is the current embedded PST and whether prices will adjust downwards as the tax is replaced with the HST. Staff's most recent analysis using this template indicates that the financial impact and burden won't be as significant as originally forecasted and is close to the Province's projections of revenue neutrality on a City wide basis. However, this only an estimate. It is known that certain services will be negatively impacted and it is not possible to quantify the savings in other areas. Therefore it remains a risk in the City's 2010 Budget.

Customers of the Community Services Department programs will most likely feel the financial impact as a result of the new tax structure. Recreation programs such as ice rentals, facility rentals, golf fees, sport field fees, fitness memberships and program registrations relating to participants aged 14 and above are not currently PST applicable and will become HST applicable starting July 2010. Recreation programs for children under 14 years of age will continue to be tax exempt under the new tax structure.

Based on the current municipal understanding of the HST rules, recreational services (other than programs for children under 14 years of age) will be HST applicable. Therefore, the implementation of HST may impact the City's recreation revenues due to the increased cost of 8% to users.

The City's 2010 proposed Operating Budget does not reflect reduction in recreation revenues based on implementation of HST. Staff will monitor recreation revenues throughout 2010 and report to Council through the mid-year monitoring reports.

The City's various Fees and Charges By-laws for 2010 have been restructured to move from a tax inclusive fee structure to a base fee structure. A separate statement within the By-law has been added that states HST will be applied on fees where applicable. The Legal Division has assisted Departments with the wording of the By-laws.

**CONCLUSION:**

At this time, it is very difficult to determine the financial impact and burden on the City. The Ontario Government believes that PST/GST harmonization will be "fiscally neutral" for the municipal sector as a whole based on a number of assumptions. The analysis conducted by staff indicates that the financial impact will not be as significant as originally forecast and will be much closer to the Province's projections, but this will depend on whether price reductions are realized as a result of tax flow through; and the mix of services versus goods versus service and goods expenditure combinations in any year.

The City is continuing to work with MFOA and AMO to assess and address these concerns.



Brenda R. Breault, CMA, MBA

Commissioner of Corporate Services and Treasurer

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