

# Single Sales Tax

The 2009 Ontario Budget has proposed a comprehensive package of tax changes. These proposed changes, if approved by the legislature, would fundamentally reform Ontario's tax system to help position Ontario for the next generation of economic growth and prosperity. Central to this proposed tax reform package is a single, value-added sales tax, which would come into effect on July 1, 2010 to further strengthen Ontario's economic growth and tax competitiveness.

The province would also provide \$10.6 billion in temporary and permanent tax relief for the people of Ontario, and \$4.5 billion in tax relief for businesses, over three years. To support small business, the proposal includes cutting the corporate income tax (CIT) rate for small business from 5.5 per cent to 4.5 per cent, effective July 1, 2010. The CIT small business deduction surtax would also be eliminated, making Ontario the only Canadian jurisdiction that would eliminate this barrier to growing small businesses.

Businesses across the province would benefit from reduced compliance costs of more than \$500 million a year under a single sales tax. More than 130 countries, have adopted a value-added tax structure – which reimburses most businesses for the tax they pay on their inputs.

In Canada, three provinces joined the Harmonized Sales Tax and Quebec adopted its own value-added tax structure. Moving to a single value-added tax combined with the federal Goods and Services Tax (GST) would make Ontario more competitive, attracting the investment the province needs to grow, create jobs, and maintain a high and rising standard of living.

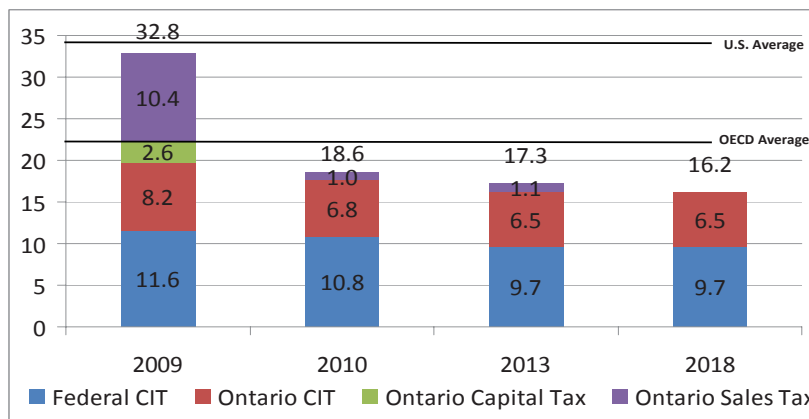
By 2018, Ontario's marginal effective tax rate on new capital investment would be cut by more than half when combined with previously announced federal and provincial tax cuts and the tax measures proposed in the 2009 Budget. This would make the province one of the most competitive jurisdictions in the industrialized world in terms of the tax treatment of new capital investment by corporations. This would promote increased investment and productivity in Ontario.

## Impact on Prices

The comprehensive tax reform package would provide large and small businesses with annual savings that could be passed through to consumers. The examples illustrate the estimated annual savings for some typical small and medium-sized businesses.

When Newfoundland and Labrador, Nova Scotia and New

**Cutting Ontario's Marginal Effective Tax Rate on New Business Investment by Over Half**



**Notes:**  
Includes CIT rate cuts and single sales tax proposed in the Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction of the federal CIT rate to 15 per cent by 2012, and the end of input tax credit restrictions in 2018. U.S. and OECD averages are for 2012.  
**Source:** Ontario Ministry of Finance and Finance Canada.

# Single Sales Tax

Examples of Annual Cost Savings Starting July 1, 2010

	Service Provider	Manufacturer	Retailer
Annual Sales	\$200,000	\$5,000,000	\$600,000
<b>Total Ontario Tax and Cost Savings*</b>	<b>\$5,520</b>	<b>\$47,350</b>	<b>\$4,960</b>

\*Includes the proposed Ontario corporate income tax rate reductions and the conversion to the single sales tax. Does not include compliance cost savings from the single sales tax administration.

Brunswick harmonized with the federal GST, cost savings were passed through to consumers<sup>1</sup>. It is expected the same would happen in Ontario's highly competitive economic environment.

As businesses throughout Ontario pass these savings through to consumers, some prices would fall. In some cases, the savings may not be sufficient to fully offset the application of the provincial portion of the single sales tax on the final price for items that were not subject to the retail sales tax.

## How it would work

Starting July 1, 2010, Ontario's Retail Sales Tax (RST) would be replaced by a single, value-added sales tax combined with the federal GST. The tax would be federally administered and would use the same tax base and structure as the federal GST, with few exceptions. The single sales tax would be applied at the combined tax rate of 13 per cent. The provincial portion would be eight per cent, the same as the general RST rate, and the federal portion would be five per cent.

The current RST applies to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax can become embedded in the price of the finished goods and services throughout the supply chain. This hidden RST is passed on to consumers. The new single sales tax would use a value-added tax structure, meaning that businesses would generally be reimbursed for the tax they pay on their inputs.

Exported goods would also be generally free of embedded sales tax, making Ontario exports more competitive.

Registered businesses selling taxable or zero-rated goods and services could claim input tax credits on their purchases, as under the federal GST, with limited exceptions. These credits would reimburse businesses for the tax they pay in the course of commercial activities. This approach would reduce business costs, most noticeably in sectors that use inputs that are taxable under the current RST system, and would support business investment.

### Three Key Ways Businesses Save

Input Tax Credits	Compliance Costs	Eliminating Hidden Tax
<p>Business would receive credits for sales tax they pay on their business inputs and capital investments</p> <p>While some business inputs were RST-exempt, many were RST-taxable</p> <p>Savings of 8 per cent on many business inputs</p>	<p>Businesses would save over \$500 million per year in costs</p> <p>One tax return, one payment and one point of contact for audits, appeals and taxpayer services</p> <p>One set of rules which would eliminate the many legislatively and administratively difficult rules that vendors currently comply with under the RST</p>	<p>Single sales tax would eliminate cascading layers of RST</p> <p>Removing this embedded tax makes inputs cheaper</p> <p>Savings over and above that resulting from input tax credits</p>
<p><b>PLUS business tax reductions of \$4.5 billion over three years</b></p> <ul style="list-style-type: none"> <li>• Cutting the small business corporate tax rate by 18 per cent</li> <li>• Cutting the corporate tax rate for manufacturers to 10 per cent on July 1, 2010, and the general corporate tax rate to 10 per cent by July 1, 2013</li> </ul>		

In general, businesses selling tax-exempt goods or services would be unable to claim input tax credits, as under the federal GST rules. For example, most financial services are GST exempt and therefore input tax credits could not be claimed in respect of those services.

## Non-Taxable Sales

To simplify administration, the single sales tax would generally use the same rules and tax base as the federal GST.

*An audio book, where all or substantially all of the book is a spoken reading of a printed book, would qualify as a non-taxable sale on the provincial portion of the single sales tax.*

To provide targeted tax relief while maintaining the single administration of sales taxes in Ontario, sales would be non-taxable for the provincial portion of the tax on: books (including audio books); children's clothing and footwear; children's car seats and car booster

<sup>1</sup> Michael Smart, "Lessons in Harmony: What Experience in the Atlantic Provinces Shows about the Benefits of a Harmonized Sales Tax," *C.D. Howe Institute Commentary*, July 2007.

seats; diapers; and feminine hygiene products. This treatment would also preserve retailers' ability to claim input credits.

### Small Supplier Threshold

To reduce the administrative burden for small businesses Ontario would parallel the federal small supplier threshold. Businesses with sales under the threshold (those with total taxable sales of \$30,000 or less in the last year or \$50,000 or less in the case of a public service body) would not be required to register and collect the single sales tax.

### Small Business Transition Credit

Although most RST vendors are also registrants under the federal GST, businesses would have to make some changes to their point-of-sale and accounting systems in order to collect the single sales tax. To support small business, Ontario would provide up to a total of \$400 million in one-time transition assistance to small business in the form of a transition credit.

Most businesses, other than financial institutions, with less than \$2 million in annual revenue from taxable (including zero-rated) sales, would be eligible for the Small Business Transition Credit of up to \$1,000.

### Administration

Under Ontario's RST administration, the province compensates vendors for collecting and remitting the tax. With the elimination of the RST and the adoption of a value-added tax structure where most businesses would be reimbursed for the tax they pay on many of their purchases, vendor compensation would end as part of the move to the federally administered single sales tax. Vendor compensation would continue to apply for RST returns filed up to and including those filed for the period ending March 31, 2010 under the existing RST system.

### Temporarily Restricted Input Tax Credits

On a temporary basis, large businesses (those

with annual taxable – including zero-rated – sales in excess of \$10 million) and financial institutions would be unable to claim input tax credits on certain inputs used in their taxable activities.

*Similar to the rules in Québec, the restrictions would not apply to goods or services acquired solely for re-supply by large businesses. For example, a car dealership would be entitled to input tax credits on its inventory of vehicles and parts. Likewise, a power utility would be entitled to input tax credits on the electricity it purchases for distribution to its customers.*

These inputs are: energy, except where purchased by farms or used to produce goods for sale; telecommunication services other than internet access or toll-free numbers; road vehicles weighing less than 3,000 kilograms (and parts and certain services) and fuel to power those vehicles; and food, beverages and entertainment.

These restrictions would be temporary, during the initial implementation of the single sales tax, and would apply only to the provincial portion of the tax. After the first five years of single sales tax implementation, input tax credits relating to their taxable (including zero-rated) sales would be phased-in over a three-year period.

### Admissions

Admission charges over \$4 for performances and entertainment are, with some exceptions, currently taxable at an RST rate of 10 per cent. Taxable admissions under the GST are levied at the rate of 5 per cent, for a total combined rate of 15 per cent. Under the single sales tax,

*Currently, admissions to places of amusement priced over \$4.00 (excluding GST), are generally taxable at the RST rate of 10 per cent. Taxable admissions under the GST are levied at the rate of 5 per cent, for a total combined rate of 15 per cent. The combined rate for taxable admissions under the single sales tax would be 13 per cent, meaning a 2 per cent reduction in the tax rate for most admissions.*

admissions would be subject to the 13 per cent general tax rate, resulting in a reduction in the tax rate of 2 per cent for most admissions.

### Transition Rules

The province is working with the federal government to develop transition rules for the proposed single sales tax. The province is also working with the federal government to review the rules for determining how the single tax would apply to inter-provincial transactions. More information will be released in the near future to help taxpayers and businesses prepare for the proposed changes.

### For more information please call the Budget hotline:

Toll-free English & French inquiries: 1-800-337-7222  
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