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Ontario Releases HST Transitional Rules

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Proposed Measures Would Help Businesses and Consumers Prepare For Change

The McGuinty government has proposed general transitional rules that would assist in the move to a Harmonized Sales Tax (HST).

These rules explain:

- which tax would apply for transactions that straddle July 1, 2010 - the current Retail Sales Tax (RST) or the Ontario portion of the HST,
- how the RST would wind down, and
- the special transitional rules that would apply.

Overall, the HST would apply to goods and services purchased on or after July 1, 2010. In addition, consistent with the approach used in the Atlantic provinces and Quebec, the HST would generally apply to prepayments starting on May 1, 2010, for goods or services that would be provided on or after July 1, 2010. This would create a level playing field for consumers and provide clarity for businesses as they transition to the HST.

The transitional rules include some key measures:

- **Funeral services** - The HST would not apply to funeral services where the contract is entered into before July 1, 2010.
- **Transitional RST inventory rebate for residential contracts** - A rebate would be available for RST embedded in construction materials purchased before July 1, 2010, but used in residential property contracts on or after July 1, 2010.
- **Subscriptions to newspapers, magazines and other periodical publications** - The HST would not apply to subscriptions paid before July 1, 2010.
- **Passenger Transportation Services** - The HST would generally not apply to round-trip journeys that commence before July 1, 2010.

Read the full description of the proposed transitional rules in the Information Notice: General Transitional Rules For Ontario HST, dated October 14, 2009, available at ontario.ca/taxchange.

QUICK FACTS

- The HST is just one part of a comprehensive tax package that would also provide, over three years, \$10.6 billion in direct payments and permanent tax relief for the people of Ontario and \$4.5 billion in tax relief

for businesses.

- Consumers would not have to pay the Ontario portion of the HST on some items currently exempt from RST - children's clothing and footwear, diapers, kids' car seats and booster seats, books and feminine hygiene products.
- As under the federal Goods and Services Tax, the HST would not be charged on items such as basic groceries, prescription drugs and medical devices.
- The comprehensive tax package would result in the removal of \$4.5 billion a year in embedded taxes when fully phased in, and about \$2.5 billion a year in corporate income tax cuts.
- On June 18, 2009, Ontario proposed enhanced housing rebates and transitional rules for housing that would build on the comprehensive tax package. These measures would help Ontarians buying new homes, supporting a strong housing industry.

LEARN MORE

- Learn more about the proposed HST and the government's comprehensive tax package
- Information Notice: General Transitional Rules For Ontario HST
- General Transitional Rules for Ontario HST

CONTACTS

- Leslie Donaldson
Minister's Office
416 314-4816
leslie.donaldson@ontario.ca
- Ontario Budget and HST information
1 800 337-7222
- Scott Blodgett
Ministry of Revenue
416 325-0324
scott.blodgett@ontario.ca

Ministry of Revenue
ontario.ca/revenue

"These rules provide greater clarity for Ontarians as we move to implement a comprehensive tax package that will improve Ontario's competitive edge, helping to create a strong, growing economy and the jobs that come with it."

– John Wilkinson
Minister of Revenue

"The comprehensive tax package is the single most important action the government could take to strengthen the Ontario economy for the long term. It would provide a lifeline to many businesses and would position the economy for rapid growth as Ontario emerges from the economic downturn."

– Dwight Duncan
Minister of Finance

Rebates - Contractors

Transitional RST Inventory Rebate for Residential Contracts

An RST rebate will be available to provide relief with respect to the RST embedded in construction materials that are purchased or produced for the contractor's own use, held in inventory at the end of the day on June 30, 2010 and ultimately used in a residential real property contract to which the HST applies. Inventory will not include materials and items attached to real property as at July 1, 2010. Materials delivered to the job site but not attached should still be classified as inventory.

Qualifying residential real property contracts would include contracts to construct or substantially renovate a residence, or to repair or improve land and items permanently attached to land, such as buildings and patios. Residential real property contracts for repair or improvements to rental housing, condominium and apartment buildings and long-term residential care facilities may qualify for this rebate.

Contractors must file an application for the RST rebate directly with the Ontario Ministry of Revenue on or before December 31, 2010.

Contractors who engage in both residential and non-residential construction will need to keep detailed records of both the quantum and costing of their inventory on June 30th as well as proof that the inventory was ultimately installed in a residential unit in order to be able to support the rebate application.

What's Taxable Under the HST and What's Not?

Most products we buy will see no new tax

Most of the products we buy every day will see no new tax. There are a lot of products and services on which we already pay the RST and GST. For these products, like cable and phone services, new cars and adult clothing, there won't be a change. On July 1, 2010, instead of paying 13 per cent tax to two different governments (8 per cent provincial and 5 per cent federal), there will be one tax — still 13 per cent, collected by the federal government.

No RST now, no HST after July 1, 2010

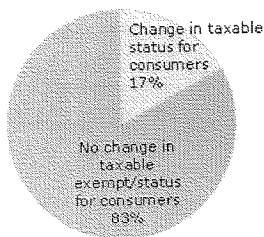
There are some other items now that have no sales tax on them, such as basic groceries, municipal transit and prescription drugs. On July 1, 2010, there will still be no HST charged on these items.

Point-of-sale rebate

Other products will be eligible for a point-of-sale rebate for the provincial part of the HST. This means you will only pay the 5 per cent federal portion of the HST. These include print newspapers, books (including audio books), diapers, children's clothing and footwear, children's car seats and booster seats, feminine hygiene products, and qualifying prepared food and beverages sold for \$4.00 or less.

No new tax for 83 per cent of products and services

In total, about 83 per cent of products and services purchased by consumers will see no new tax. Only 17 per cent will see a new tax, things like personal and professional services such as hairstyling and legal fees, as well as energy costs including home heating fuel and electricity.



Did you know?

When the Atlantic provinces harmonized with the federal GST, cost savings to business were passed through to consumers. This led to lower prices for some products.

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Here are examples of common products and services and how they will be affected by the HST.

Clothing and Footwear

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Adult Clothing	5%	8%	No (remains 13%)
Children's Clothing	5%	No RST	No (remains 5%)

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Shoe Repair Service	5%	8%	No (remains 13%)
Children's Footwear	5%	No RST if \$30 or less	No for footwear up to size 6 (remains 5%)
Tailoring Services	5%	8%	No (remains 13%)
Dry Cleaning Service	5%	No RST	Yes (changes to 13%)

Food and Beverages

Did You Know?

6.6 million families and individuals in Ontario will receive sales tax transition benefits in three instalments over one year beginning in June 2010.

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Basic Groceries (e.g., Dairy, Meat, Vegetables, Canned goods)	No GST	No RST	No HST
Snack Foods (e.g., Chips, Pop)	5%	8%	No (remains 13%)
Qualifying Prepared Food and Beverages Sold for \$4.00 or Less	5%	No RST	No (remains 5%)
Restaurant Meals for More than \$4.00	5%	8%	No (remains 13%)
Alcoholic Beverages	5%	10-12%	HST 13% ^[1]

Home Services

Did You Know?

93 per cent of all homes sold in Ontario, on average, will not be subject to an additional tax amount under HST.

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Cable Television Services	5%	8%	No (remains 13%)
Cell Phone Services	5%	8%	No (remains 13%)
Municipal Water	No GST	No RST	No HST
Home Maintenance Equipment	5%	8%	No (remains 13%)
Home Phone Services	5%	8%	No (remains 13%)
Home Service Calls to Repair Free-Standing Appliances such as Stoves, Refrigerators, Washers, Dryers, and Televisions	5%	8%	No (remains 13%)
Home Insurance	No GST	8%	No (remains 8%)

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Electricity and Heating (e.g., Natural Gas/Oil for Home)	5%	No RST	Yes (changes to 13%)
Internet Access Services	5%	No RST	Yes (changes to 13%)
Home Service Calls by Electrician/Plumber/Carpenter to Maintain or Repair Furnace, Leaky Faucets, Bathtub, Toilet, Electrical Wiring, etc.	5%	No RST	Yes (changes to 13%)
Landscaping, Lawn-Care and Private Snow Removal	5%	No RST	Yes (changes to 13%)

Accommodation and Travel

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Luggage, Briefcases, Bags, etc.	5%	8%	No (remains 13%)
Municipal Public Transit	No GST	No RST	No HST
GO Transit	No GST	No RST	No HST
Air travel originating in Ontario and terminating in the U.S.[2]	5%	No RST	No HST
Air travel originating in Ontario and terminating outside of Canada and the U.S.[3]	No GST	No RST	No HST
Rail, boat and bus travel originating in Ontario and terminating outside of Canada	No GST	No RST	No HST
Hotel Rooms	5%	5%	Yes (changes to 13%)
Taxis	5%	No RST	Yes (changes to 13%)
Camping Sites	5%	No RST	Yes (changes to 13%)
Domestic Air, Rail and Bus Travel originating in Ontario	5%	No RST	Yes (changes to 13%)

Around the House

Did You Know?

The comprehensive tax package provides Ontarians with \$11.8 billion in tax relief over three years.

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Cleaning Products	5%	8%	No (remains 13%)

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Laundry Detergent, Fabric Softeners	5%	8%	No (remains 13%)
Household Furniture	5%	8%	No (remains 13%)
Refrigerators and Freezers	5%	8%	No (remains 13%)
Pre-packaged Computer Software	5%	8%	No (remains 13%)
Books (including Audio Books)	5%	No RST	No (remains 5%)
Newspapers	5%	No RST	No (remains 5%)
Magazines Purchased at Retail	5%	8%	No (remains 13%)
Office Supplies, Stationary	5%	8%	No (remains 13%)
Landscaping Materials Including Sod, Seeds, Plants	5%	8%	No (remains 13%)
Linens (e.g., Blankets, Towels, Sheets)	5%	8%	No (remains 13%)
Tents, Sleeping Bags, Camping Supplies	5%	8%	No (remains 13%)
Tools	5%	8%	No (remains 13%)
Patio Furniture	5%	8%	No (remains 13%)
Barbeques, Lawnmowers, Snowblowers, Sprinklers	5%	8%	No (remains 13%)
Toys (e.g., Puzzles, Games, Action Figures, Dolls, Playsets)	5%	8%	No (remains 13%)
Outdoor Play Equipment (e.g., Swing Set, Sandbox, Slides)	5%	8%	No (remains 13%)
Crafting Supplies	5%	8%	No (remains 13%)
Building Materials (e.g., Lumber, Concrete Mix)	5%	8%	No (remains 13%)
Magazines Purchased by Subscription	5%	No RST	Yes (changes to 13%)
Home Renovations	5%	No RST	Yes (changes to 13%)

Motorized Vehicles

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Vehicle Parts	5%	8%	No (remains 13%)
Short-Term Auto Rentals	5%	8%	No (remains 13%)
Lease of a Vehicle	5%	8%	No (remains 13%)

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Child Car Seats and Booster Seats	5%	No RST	No (remains 5%)
Auto Insurance	No GST	No RST	No HST
Labour Charges to Repair Vehicle	5%	8%	No (remains 13%)
Oil Change	5%	8%	No (remains 13%)
Tires	5%	8%	No (remains 13%)
Window Repair	5%	8%	No (remains 13%)
Purchase of Vehicle from Dealer	5%	8%	No (remains 13%)
Boats	5%	8%	No (remains 13%)
Snowmobiles	5%	8%	No (remains 13%)
Recreational Vehicles	5%	8%	No (remains 13%)
Private Resale of Vehicles	No GST	8%	Yes[4] (changes to 13%)
Gasoline/Diesel	5%	No RST	Yes (changes to 13%)

Home Purchases

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
New Homes up to \$400,000	5%	No RST	No change[5]
New Homes over \$400,000	5%	No RST	Yes[5A]
Resale Homes	No GST	No RST	No HST
Real Estate Commissions	5%	No RST	Yes (changes to 13%)

Health Products and Services

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Audiologist Services	No GST	No RST	No HST if offered by a practitioner of the service.
Chiropractor Services	No GST	No RST	No HST if offered by a practitioner of the service.
Physiotherapist Services	No GST	No RST	No HST if offered by a practitioner of the service.
Pharmacist Dispensing Fees	No GST	No RST	No HST
Over-the-Counter Medications	5%	8%	No (remains 13%)

Prescription Drugs	No GST	No RST	No HST
Some Medical Devices Includes walkers, hearing aids	No GST	No RST	No HST
Prescription glasses/contact lenses	No GST	No RST	No HST
Feminine Hygiene Products	5%	No RST	No (remains 5%)
Adult Incontinence Products	No GST	No RST	No HST
Diapers	5%	No RST	No (remains 5%)
Cosmetics	5%	8%	No (remains 13%)
Hair Care Products (e.g., Shampoo, Conditioner, Styling Products)	5%	8%	No (remains 13%)
Dental Hygiene Products (e.g., Toothpaste, Toothbrushes)	5%	8%	No (remains 13%)
Massage Therapy Services	5%	No RST	Yes (changes to 13%)
Vitamins	5%	No RST	Yes (changes to 13%)

Memberships, Entertainment and Sports Equipment

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Admissions to Professional Sporting Events	5%	10%	Combined rate going down to 13% from current 15%
Movie Tickets	5%	10%	Combined rate going down to 13% from current 15%
Music Lessons	No GST	No RST	No HST
Skis and Snowboards	5%	8%	No (remains 13%)
Hockey Equipment	5%	8%	No (remains 13%)
Golf Clubs	5%	8%	No (remains 13%)
Green Fees for Golf	5%	No RST	Yes (changes to 13%)
Gym and Athletic Membership Fees	5%	No RST	Yes (changes to 13%)
Ballet, Karaté, Trampoline, Hockey, Soccer Lessons, etc.	5%	No RST	Yes[6] (changes to 13%)
Tickets for Live Theatre with 3,200 Seats or Less	5%	No RST	Yes[7] (changes to 13%)

Leases and Rentals

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Condo Fees	No GST[8]	No RST[8]	No HST[8]
Residential Rents	No GST	No RST	No HST
Hockey Rink and Hall Rental Fees	5%	No RST	Yes (changes to 13%)

Electronics

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
TVs	5%	8%	No (remains 13%)
DVD and Blu-ray Players and Accessories	5%	8%	No (remains 13%)
MP3 Players	5%	8%	No (remains 13%)
Cell Phones, Smart Phones	5%	8%	No (remains 13%)
Cell phone service	5%	8%	No (remains 13%)
CDs, DVDs and Blu-ray discs	5%	8%	No (remains 13%)

Professional and Personal Services

Did You Know?

Approximately 2.8 million families and individuals would benefit from the proposed Ontario Energy and Property Tax Credit, which would provide over \$1.2 billion annually in energy and property tax relief.

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Child Care Services	No GST	No RST	No HST
Legal Aid	No GST	No RST	No HST
Coffins and Urns Purchased Separately from a Package of Funeral Services	5%	8%	No (remains 13%)
Fitness Trainer	5%	No RST	Yes (changes to 13%)
Hair Stylist/Barber	5%	No RST	Yes (changes to 13%)
Esthetician Services (e.g. Manicures, Pedicures, Facials)	5%	No RST	Yes (changes to 13%)
Funeral Services	5%	No RST	Yes (changes to 13%)
Legal Fees	5%	No RST	Yes (changes to 13%)

Tobacco

	GST-taxable before July 1, 2010	RST-taxable before July 1, 2010	Is there a change to the amount of tax payable under the HST?
Cigarettes and Other Tobacco Purchases	5%	No RST	Yes (changes to 13%)
Nicotine Replacement Products	5%	No RST	Yes (changes to 13%)

Banking and Investments

Did You Know?

In Atlantic Canada, investment in machinery and equipment rose by more than 12 per cent following the move to a harmonized sales tax.

	GST-taxable before July 1, 2010	RST-taxable before July 1,2010	Is there a change to the amount of tax payable under the HST?
Mortgage Interest Costs	No GST	No RST	No HST
Most Financial Services	No GST	No RST	No HST

Still Have Questions?

To learn more about the benefits of HST visit ontario.ca/taxchange. You can also call 1 800 337-7222 or 1 800 263-7776 for teletypewriter (TTY).

For more information, you can also contact the Canada Revenue Agency. Visit the CRA website at cra.gc.ca/harmonization or call 1 800 959-5525.

Footnotes:

[1] Although sales tax on alcohol is decreasing, other alcohol fees and taxes are changing to continue to support social responsibility.

[2] Includes air travel terminating in the French islands of St. Pierre and Miquelon but does not include air travel terminating in Hawaii.

[3] Includes air travel terminating in Hawaii but does not include air travel terminating in the French islands of St. Pierre and Miquelon.

[4] HST does not apply; however, Ontario will maintain the RST on private transfers of used vehicles at a rate of 13 per cent to help ensure a level-playing field between sales by dealerships and private sales.

[5] The new housing rebate will be 75 per cent of the Ontario component of the HST, up to a maximum of \$24,000. The rebate will ensure that buyers of homes priced up to \$400,000 will, on average, pay no more tax than under the RST system. However, applicable RST on building supplies is embedded in the price of the home.

[5A] New homes purchased as primary residences, valued at \$400,000 or more will be eligible for the maximum new housing rebate of \$24,000.

[6] HST taxable, although some could be HST-exempt if provided by a public service body to children 14 and under and underprivileged individuals with a disability.

[7] HST taxable, although some could be exempt if maximum admission charged by a public service body is \$1 or less, if the admissions are made in the course of the fundraising events where charitable receipts for income tax purposes may be issued, or admissions are to amateur performances.

[8] Residential condo fees charged to residents are exempt; however, purchases by condominium corporations will be subject to HST, if applicable.