HST:
The Introduction of the Harmonized Sales Tax in Ontario

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Executive Summary

The biggest change the HST will have on Thunder Bay will be the affect on the First Nations community. As of right now the Federal Government has refused to offer the same point-of-sale (POS) exemption that is currently available. The Ontario Provincial Government will continue to lobby for a change in this legislation, but as of November 6th 2009 there will be no POS exemption for Ontario First Nations. Goods will have to be purchased on reserve, or be delivered to a reserve in order to receive an exemption.

New homes over $400,00 will be subject to a portion of the HST, and those over $500,000 will be subjected to the full 13%. The housing market will not be affected as hard as the Greater Toronto Area (GTA) for example. The average price of a house in Thunder Bay is $140,127 compared to the average price in Toronto of $403,112. Resale homes are not subject to the HST; however, real estate fees transaction will be subjected to the HST.

Businesses will now be able to claim the full 13% HST as input tax credits, as opposed to the current system of claiming only the 5% GST. This will result in increased capital expenditures. To help adjust to the change, micro-businesses with revenues up to $500,000 will receive a transition credit of up to $1,000 to help them adopt needed changes to their accounting systems. Businesses will also benefit from the simplification of tax returns. Formerly two separate returns had to be filed for both GST and PST; following the implementation of HST only one tax return will be filed to the Canada Revenue Agency.

Consumers will now pay HST on a number of goods that were previously only subject to either GST or PST; however, there is evidence from the experience in Atlantic Canada that the consumer price index (CPI) of goods and services actually fell following the implementation of the HST. The government will also be providing relief to consumers in the form of one-time transition benefits, income tax cuts and sales tax credits.

Ontario will be providing a one-time transition funding of $1,000 for families with income below $160,000 and $300 to singles with income below $80,000. This transition payment will be paid in two installments in 2010 and a third in 2011. Along with the transition funding there is also a sales tax credit of up to $260 for low and middle-income families.

The current personal income tax rate for the first $36,848 is 6.05%. Part of the transition benefits provided to the citizens of Ontario is the permanent cut in the income tax rate to 5.05%. This will be a permanent decrease and will benefit 93% of Ontarians.

Public service organizations will receive partial rebates for the provincial portion of the tax. The rebates will be as follows: 78% for municipalities, 78% for universities and colleges, 82% for qualifying non-profit organizations, 87% for hospitals, and 93% for charities. This should cause the net effect to be neutral in terms of the amount of PST currently paid by these organizations.

This report is current to November 6th 2009. Any information released after this date is not included.

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1.0 - Introduction

On March 26th 2009 Ontario Finance Minister Dwight Duncan released the 2009 Ontario Budget. In the budget was a plan for the Ontario government to reform its current system of taxation. The 2009 Budget called for the harmonization of the Goods and Services Tax (GST) and the Provincial Sales Tax (PST) into the Harmonized Sales Tax (HST) to take effect on July 1st 2010.

This tax reform has already been implemented in three of the Atlantic Provinces (Newfoundland Labrador, Nova Scotia, and New Brunswick) and Quebec. British Columbia is also proposing to move to the new HST. There have been many revisions to the Ontario tax harmonization plan in comparison to what was done in Atlantic Canada and Quebec.

The purpose of this report is to twofold. Firstly, the report will provide information to local Thunder Bay business owners on how the tax harmonization will affect their business. Secondly, the report will inform consumers as to how this proposed tax harmonization will impact their lives. This report reviews literature from a variety of sources such as government documents, economic reports, statistics/demographics of Thunder Bay, and draws on the experiences in Atlantic Canada to make conclusions on how the HST will affect Thunder Bay in particular.

1.1 - What is the Harmonized Sales Tax?

The Canada Revenue Agency (2008) defines the HST as being "…composed of the GST [5%] and the 8% provincial tax and applies to the same base of goods and services that are taxable under GST". The amount of tax paid on services that are currently subjected to both GST and PST will not change; however, those goods and services that are currently only subjected to the federal GST will see an increase in the amount of tax paid as they will now be subjected to the 13% HST.

For example, there will be some new items added to the HST tax base that were not previously subjected to the PST portion of the sales tax. Individuals will notice a change in the amount of taxes paid on gasoline and heating fuels, electricity and tobacco among other things. Personal services, gym memberships, taxi fares and professional services will also see an increase in taxes paid. Additionally the housing market will be affected, particularly new homes over $400,000 and the real estate fees on resale homes.

There will still be some exemptions to the HST. For example children's clothing/footwear, car seats and booster seats, books, diapers and feminine hygiene products will only be subjected to the federal portion of the HST at 5%.

1.2 – Why HST?

Lorraine Pigeon, in her report Tax Harmonization in Canada, describes the current retail sales tax as having a narrow base, being time consuming to administer, contributing to consumer confusion and being a factor in economic inefficiencies. These factors lend themselves to supporting the conversion to a harmonized sales tax with a broader base with few exceptions, ease of administration by one tax agency (Canada Revenue Agency), and reduction of distortion in consumer decisions (2008). Smart feels that a value added tax (VAT) such as the GST/HST is far superior to the retail sales tax (RST)/PST due to many crucial factors such as the narrowness of the RST base, ease of tax evasion and the propensity for the RST to cascade through the value-added chain making end users pay taxes on taxes (2007).

In order to provide Ontarians with some relief in the midst of this tax reform the government of Ontario is offering many new tax credits and transition benefits to its citizens. These credits and benefits are mainly geared towards the lower to middle income individuals and families to help them cope to the changes. The Ontario government is also providing relief to small and medium sized firms in order to assist them in changing their point-of-sale (POS) equipment and to cope with the new accounting changes.

2.0 - Experiences in Other Provinces

Before exploring the potential impacts in Ontario, we will first review the experiences of other provinces that have made similar conversions. This analysis will provide a frame of reference from which we can draw conclusions. We have reviewed the experiences of Atlantic Canada (Newfoundland, Nova Scotia and New Brunswick) as well as Quebec. We have also examined British Columbia's recent decision to move to a harmonized tax system.

2.1 - Experience in Atlantic Canada and Quebec

The harmonization of taxes is not a new concept. Three provinces in Atlantic Canada along with Quebec as well as 29 of the 30 member countries of the Organization for Economic Co-Operation and Development (OECD) have already implemented a Value Added Tax. In 1992 Quebec became the first province to begin a sales tax reform by introducing the Quebec Sales Tax (QST). This was similar to the GST but generally only offered tax credits to businesses; however, by 1995 the QST was more or less harmonized with the GST. In 1997, three Atlantic Provinces followed suit and Newfoundland, Nova Scotia and New Brunswick introduced the HST. Now, the HST is beginning to creep westward with Ontario and British Columbia proposing to adopt a harmonized sales tax.

Smart (2007) found several important economic effects of the HST in the Atlantic Provinces. The first factor that followed the implementation of the HST was that"…annual investment in machinery and equipment in the harmonizing provinces rose 12.1% above trend levels in years following the 1997 sales-tax reform." Another important effect that harmonization had on the Atlantic Provinces is that most prices in these provinces actually fell after the HST was put into effect. It was noted, however, that the affect on CPI prices for shelter, transportation, clothing and footwear increased at 1.4%, 0.8% and 1.5% respectively. Despite these increases, overall the CPI Prices decreased by 0.3%.

However, the overall decrease in CPI in Atlantic Canada may have partially been the result of an overall decrease in their provincial tax rates, which took effect at the same time as their tax harmonization. David Murrell and Weiqiu Yu, University of New Brunswick economists, point out that "the three participating provinces had the highest sales tax rates in the country, and reducing those high tax rates to 8 percent (along with changing the tax bases) ended up benefiting consumers." (Murell and Yu)

Having seen the effects of the HST implementation in the Atlantic Provinces, it appears that Ontario's leaders have made some exemptions that will help to counteract the increases in the CPI that happened in Atlantic Canada. The 2009 Budget announced that the following would remain exempt from the 8% provincial portion of the HST:

- Books
- Children's Clothing/Footwear
- Diapers
- Car Seats and Booster Seats and,
- Feminine Hygiene Products

By exempting these items from eight percent of the HST, policymakers hope that the increase in the CPI of these items seen in Atlantic Canada will not happen to the CPI of goods in Ontario. This decrease will to some extent counterbalance the increase in taxes consumers will be paying on goods previously only subjected to a single tax.

2.2 - Harmonization in British Columbia

On July 23, 2009 British Columbia announced its intentions to follow Ontario and implement a VAT in the form of the HST in place of the current system of GST and PST. The British Columbia harmonization is scheduled to take effect the same day as the Ontario harmonization, on July 1st 2010 and will give British Columbia the lowest harmonized tax rate in Canada at 12%. Unlike the Ontario harmonization, which was announced in the Ontario Budget in March 2009, British Columbia's move to HST was declared five months after the British Columbia budget was revealed in February 2009. British Columbia Finance Minister Colin Hansen said "Ontario had a head start on this and we felt it was important for B.C. not to lose a competitive advantage."(The Canada Press, 2009). This now leaves only three provinces that are not harmonized or are not planning to harmonize: Manitoba, Saskatchewan and Prince Edward Island. Alberta does not have a PST and therefore has no retail taxes to harmonize with the GST.

The British Columbia government feels that this move will help make the province better able to compete with Ontario and Alberta as well as be able to be a destination for business and investments. Being located next to Alberta, the only province without a Provincial Sales Tax has been detrimental to business in B.C. as firms saw it was less expensive to locate in nearby Alberta in order to take advantage of the lack of PST on business inputs.

The harmonization in British Columbia will be similar to the harmonization in Ontario as there will be some exemptions, but for the most part the new HST will be applied to the same base as the GST. One of the most significant differences between the Ontario and British Columbia harmonization implementations is that the HST will provide a point-of-sale (POS) rebate to consumers in B.C. for gas prices at the pump. The reasoning behind this exemption is the carbon tax applied to fuel in British Columbia. Besides this one difference the exemptions in British Columbia will be the same as in Ontario. Bill Robson, the president of the C.D Howe Institute, a not-for-profit organization that endeavors to provide Canadians with economic and social policy has stated "Ontario's harmonization plan [is] overdue, badly needed and timely [and that]…the exact same analysis applies now, and always has, to B.C" (The Vancouver Sun).

3.0 - How the HST Will Affect Individual Consumers

This report will now examine the effects the harmonization will have on consumers in Ontario. It will look at some of the major price changes individuals will experience. It will also look at the transition benefits individuals will receive from the government in order to help mitigate these price changes.

3.1 - Negative Perceptions

A high percentage of individuals have a negative perception of the proposed HST. Many individuals feel that the harmonization of GST and PST will increase the price to the final consumer, which will leave less disposable income in their hands. Currently property and services that are subject to the 5% GST will now be subject to the 13% HST, with the exception of books, children's apparel, car seats, diapers and feminine hygiene products. Individuals in Ontario can expect to pay more for:

- New Homes Over $400,000
- Utilities - Natural Gas, Heating Oil, Electricity
- Gasoline
- Postage Stamps and Courier Fees

- Newspapers and Magazines
- Vitamins
- Meals Under $4
- Accountant Fees, Lawyer Fees, Consulting Fees, Mutual Fund Expense Rations and other professional fees
- TV, Phone and Internet Services
- Auto, Life and Health Insurance Premiums
- Footwear Selling for Less Than $30
- Taxi, Train, Bus tickets and Airplane Fares
- Hair Cuts, Gym Memberships and Dry-cleaning
- Real Estate Transaction Fees
- Funeral costs
- Hotels

The majority of individuals believe that the negative effect of the HST will essentially fall on the end users or purchasers of goods and services. However, some argue that "a new value-added harmonization sales tax (HST) of 13% will generate economic benefits for consumers" (Made in Ontario). With the current system, the PST produces approximately $5 billion in taxes. By harmonizing PST and GST Ontario will be able to reduce the five billion dollars of provincial sales tax that has put a damper on businesses. This will in-turn benefit consumers through price reductions, as it happened in Atlantic Canada; however, many consumers feel that now is not the time to implement a HST due to the current economic conditions.

3.2 - Government Relief to Consumers

The government will be providing $10.6 billion in temporary and permanent tax relief for Ontarians over three years to help consumers through the transition in the form of one time transition benefits, income tax cuts and sales tax credits.

On January 1st 2010 the Ontario government will cut personal income tax rates for the first income tax bracket by one percentage point. The current personal income tax rate for the first $36,848 is 6.05%. Part of the transition benefits provided to the citizens of Ontario is the permanent cut in the income tax rate to 5.05%. This will be a permanent decrease and will benefit 93% of Ontarians (Ontario Budget 2009: Chapter III: Reforming Ontario's Tax and Pension Systems, 2009).

Ontario will be providing a one-time transition funding of $1,000 for families with income below $160,000 and $300 to singles with income below $80,000. This transition payment will be paid in two installments in 2010 and a third in 2011 (Made in Ontario). Along with the transition funding there is also a sales tax credit of up to $260 for low and middle-income families.

Ontario's NDP states that one very controversial aspect to the HST tax is the impact that it will have on gas prices. The summer of 2008 saw gas prices increase to extremely high prices per barrel, with many consumers paying more than $1.50 per liter at the pump. The HST will increase gas prices by an additional 8%, which is sure to anger many consumers. Although gas has an inelastic demand and citizens need their vehicles to transport themselves and their families, consumers will not be pleased with the increase in gas prices (2009).

3.3 - Tax-Inclusive Pricing

One unresolved issue that has arisen due to the harmonization is whether or not the HST should be included in the sales price of products. This means that price tags of items would incorporate the retail price and the 13% HST. Currently retail prices tags do not include GST or PST; however, there has been speculation that pricing may be HST inclusive (like the United States and Australia) which has some businesses concerned. However, it was stated in Bill C-70 that this tax-inclusive pricing would not occur until at least 51% of provinces participate.

Many consumers feel that inclusive pricing would be beneficial because they would be able to see the final price immediately as opposed to adding tax to that price. Although inclusive pricing may be beneficial to consumers, it may not be good for retailers. This is likely because there are going to be many problems when supporting two pricing systems- both the tax-inclusive pricing and tax-exclusive pricing systems- that would touch on all central systems of a company's operations (Firth, 1997). Firth also states "the practical problems of supporting two pricing systems would extend through all of the central systems of a company's operations including inventory marking and pricing by the supplier, inventory control and allocation, shipping and logistics, pricing and stock valuation and advertising (1997). Other areas of business that Firth believes will be affected by the change are warehousing, distribution, national retail advertising and supplier ticketing (1997).

4.0 - How the HST Will Affect Businesses

The report will now look at the benefits and constraints that the HST will place on businesses. It will examine the effects on small and large businesses as well as how it will affect different industries. It will also explore the assistance the government will give to businesses to help them through the transition.

4.1 - Current Tax System for Businesses

There will be a significant change for Ontario businesses when the switch is made from GST and PST to a Harmonized Sales Tax. With the current system of separate Federal and Provincial Sales Tax, businesses must comply with both Federal and Provincial rules. GST is enforced at each stage of the supply chain. GST credits are available to businesses involved in commercial activities, in the form of input tax credits. According to the CRA, an input tax credit is defined as "a credit GST/HST registrants can claim to recover the GST/HST they paid or owe for goods or services they acquired, imported into Canada, or brought into a participating province, for use, consumption, or supply in the course of their commercial activities" (CRA 2008). This means that the end-users of the supply chain, usually the consumers, bear the burden of GST rather than the intermediary businesses.

If a vendor has input tax credits that are greater than its collectible GST, it may claim a refund for the excess amount. Companies are not able to claim input tax credits for goods and services that are GST exempt, which according to the CRA are "goods and services that are not subject to GST/HST." (CRA 2008); however, vendors that offer "zero-rated taxable supplies" ("goods and services that are taxable at the rate of 0%" according to the CRA), such as basic groceries and agricultural products, are able to claim input tax credits, resulting in entirely tax-free transactions (Schieman, 2009). As there are currently not many credits available to Ontario businesses for the eight percent provincial tax, capital expenditures are more costly for these businesses, and thus, less attractive. When businesses are hesitant to make capital expenditures, it can limit capital stock, productivity and employment opportunities, and increase the marginal effective tax rate on capital; which in turn has a negative effect on Ontario's economy (Smart, 2007).

4.2 - Simplification of Tax Returns

One benefit to businesses that will occur from HST implementation is the need to fill out only one tax return. As stated above, with the current system, companies must maintain two separate accounting records and compliance reports for the two levels of government (federal and provincial). This is time consuming and costly. The new harmonized tax will have a GST base, and all Ontario businesses will file an HST return to the Canada Revenue Agency, complying with its rules and needing only one set of accounting records (Harmonization of Canadian Commodity Taxes). It is estimated that businesses will save approximately $500 million a year on the costs of administering a single tax instead of two (CBC News, 2009). To help adjust to the change, micro-businesses with revenues up to $500,000 will receive a transition credit of up to $1,000 to help them adopt needed changes to their accounting systems (Cooper, 2009).

4.3 - Proposed HST System

When HST is put in place in July 2010, businesses will be able to claim not only the five percent federal portion but the eight percent provincial portion for capital goods as well, as an input tax credit. This will not only result in a large tax-savings for businesses, but it will also increase competitiveness and productivity of Ontario's economy (Preparing for the harmonized tax in Ontario). One of the major conclusions Smart found was that Atlantic Canada's per capita investments increased by approximately 11% when compared with non-harmonized provinces. Total investments in machinery and equipment also rose by approximately twelve percent (Clemens, Veldhuis 2008). Smart mentions that this increase in investment is probably a short-run phenomenon, as businesses may have postponed capital purchases until the new tax was implemented so they could claim input tax credits on the full 13%, which can save them money (KPMG 2009). Smart also concluded that the long-term gains for the economy could be as high as $1.75 billion.

There will be some restrictions for the input tax credits. Large businesses exceeding $10 million in annual taxable sales and financial institutions will not be eligible for the credits in the first five years of implementation for some capital expenditures which are energy, telecommunication services, road vehicles weighing less than 30,000 kilograms, fuel, parts, and some services for such vehicles, food beverages and entertainment. These restrictions will be phased out after the five-years in a three-year phase-out period and will be fully qualified for the input credits in 2018 (KPMG 2009).

The government is going to give a break to public service organizations, allowing them partial rebates for the provincial portion of the tax. The rebates for the eight percent will be as follows: 78% for municipalities, 78% for universities and colleges, 82% for qualifying non-profit organizations, 87% for hospitals, and 93% for charities. The 2009 Ontario budget stated that the net effect for these organizations should remain relatively neutral in terms of the amount of PST they are currently paying (KPMG).

4.4 - Housing Industry

HST is not going to have a favourable effect on all industries however. The housing market will be negatively affected by the change. Many services that are exempt under the current system will now be fully taxable such as renovation services, legal fees, home inspections, land survey reports and real estate agent commission. The tax to purchase a new home is also going to increase for new homes valued at $400,000 and higher.

PST is currently exempt from the selling prices of residential houses, and is only applied to the materials that go into construction, adding approximately two percent to the selling price of a new home. With HST in place, the provincial portion will be added to the selling price of newly built homes. Rebates will be available for homes worth up to $500,000. The rebate for homes under $400,000 will be 75% (or 6% of the purchase price), which will result in an effective tax rate that matches the 2% PST already embedded in the cost of building materials, meaning that there will be no net tax increase or decrease. For houses worth between $400,000 and $500,000, the rebate will decrease on a sliding scale, with homes over $500,000 subject to the entire eight percent (KPMG). This is a steep increase, as the marginal tax rate on buying a new $500,000 home compared to a $400,000 one is thirty-two percent (Clayton 2009).

A report conducted by the Building Industry and Land Development Association (BILD) revealed that if there is not an improvement in the housing aspect of the tax, it could essentially result in a decrease in residential construction, renovations, and there may also be a shift to renovations being done in the underground economy (Clayton 2009). BILD goes on to say that the new home and renovation construction activity and related industries provide about 325,000 jobs per year, and with the implementation of HST it is estimated that 14,100 to 21,200 could be threatened if new residential construction was to decline by 10% to 15%.

Landlords are also going to feel the effects of HST, in a similar respect to realtors and homebuilders. Currently, landlords are not able to claim input tax credits on expenses for GST-exempt activities such as maintenance and electricity. There will be an eight percent increase on these services, which cannot be rebated to the landlords (KPMG). KPMG also states "It's not clear whether the HST housing rebate will be available to landlords who buy or build new multiple-unit residential complexes, as the GST rebate is."

5.0 - HST and Thunder Bay

Having described the effects of the HST to businesses and individuals as a whole this report will now investigate the potential impact of the HST that will be most specific to Thunder Bay and the surrounding region, as the demographics and industry breakdown of Thunder Bay differs somewhat from that of the rest of Ontario.

The 2009 Thunder Bay Ventures Small Business Opinion Survey indicated that small business owners had a negative attitude towards the GST/PST Harmonization. The *Current Small Business Issues* section uses a 1-5 likert scale to determine the beliefs of small businesses with 1 being negative and 5 being positive. Question 6 asked small businesses "What kind of impact do you believe the following developments/institutions will have upon your business?" and in regards to the GST/PST harmonization the mean score was 2.27 signifying most small businesses felt that the harmonization would have a negative effect on their firms.

The third section of the report, entitled *Development Projects, Your Business and the Community* specific questions were asked as well as an opportunity for respondents to leave comments. Question 16 read, “What impact will the planned harmonization of GST and PST have on your small business?” The respondents were offered the option to answer positive, negative or neutral and the break down of responses is as follows:

Response	**Percentage**
Positive	12%
Negative	56%
Neutral	32%

The option for comments on this question was used quite frequently and most expressed sentiments of wanting to know more about the HST and how it will affect them. Many believed there would be more paperwork and a decrease in consumer spending (SBCS 2009).

5.1 - HST and Aboriginal Peoples

5.1.1 - Definitions

The following is a list of important terms and expressions that are necessary to understanding how the HST will affect the nation’s aboriginal population.

- Band Empowered Entity - is an organization that is owned or controlled by a band, a tribal council, or a group of bands other than a tribal council. This policy is applicable to those band-empowered entities that are situated on a reserve. A band-empowered entity is considered situated on a reserve when the entity maintains a presence on a reserve (Canada Revenue Agency 2009).

- Band Management Activities – are undertaken by a band-empowered entity. The output of any activity is used to determine if the activity is a band management activity or not. Band Management Activities cannot be commercial activities as they are entitled to receive input tax credits on commercial activities (Canada Revenue Agency 2009).

5.1.2 - Current Situation

The Indian Act was enacted in 1876 and amended numerous times. It governs the relationship between the Canadian government and the Canadian First Nations. According to Section 87 of the Act "the personal property of an Indian or Indian band situated on a reserve and their interest in reserve lands are not subject to tax."(Canada Business 2008). Currently the First Nations population is not required to pay the PST on purchases on or off reserves with the stipulation that the goods be consumed on a reserve and that the buyer can produce his or her Certificate of Indian Status issued by the federal government at the Indian and Northern Affairs Canada (Ontario Ministry of Revenue 2006).

5.1.3 - New HST Rules

Those who identify themselves as Aboriginal make up over eight percent (8.31%) of the population in Thunder Bay compared to just over two percent (2.02%) in Ontario as a whole. The HST causes an issue for those Aboriginal people who take advantage of their Certificate of Indian Status in order to be exempt from the PST as the rules regarding the HST will be different. The general guidelines provided by the Canada Revenue Agency indicate that any goods purchased by a Status Indian, an Indian Band, or an unincorporated band-empowered entity on a reserve will not be subjected to the GST/HST; however, should the goods be bought off a reserve the GST/HST will be applied regardless of if the buyer is one of the previously mentioned exemptions. Should the goods in question be purchased and delivered to a reserve via the seller than the GST/HST will not be applied. It should be noted that if the buyer brings the goods to the reserve himself/herself the exemption does not apply and the buyer is required to pay the GST/HST (Canada Revenue Agency 2008).

Thunder Bay's closest reserve would the Fort William Indian Reserve 52 located just south of the city. With a population of 909 people living on 58.17 square kilometers of land the Fort William 52 Indian Reserve is the most populous of reserves located near Thunder Bay. It is followed by Lake Helen 53A with a population of 283 (Stats-Can 2006). Located on the Fort William First Nations Reserve are educational services, health services, recreation services as well as police and social services. Under the new GST/HST tax administration these taxable services will not be subjected to the GST/HST, as they will be purchased on the reserve.

Once the HST is put into effect, Canadians with Certificates of Indian Status will no longer be able to simply provide their Certificate of Indian Status Card to vendors in order to receive an exemption. Instead, in order to receive an exemption from the HST the individual will need to have the appropriate documentation to show the vendor and the goods must be delivered to the reserve by either the vendor or the vendor's agent. If the purchaser transports the goods to the reserve themselves, the purchaser will be subject to the entire HST amount. (CRA)

The new GST/HST affects services as well as goods. Services that are performed entirely on a reserve will not have the GST/HST applied to the price; however, should the service be performed off the reserve than the GST/HST will be applied. The only exceptions to the new GST/HST rules is for services purchased for real property on a reserve and transportation when the departure and destination points are both located on a reserve. This applies whether the transportation is between points on the same reserve or from one reserve to another.

Most First Nations believe that the POS method of dealing with the PST exemption is not perfect but is somewhat reasonable as First Nations are exempt from the PST portion of taxes upon presentation of a Certificate of Indian Status. This exemption is effective whether or not the transaction takes place on or off a reserve. First Nations bands are concerned with the affects the new GST/HST administration will have on their ability to receive a POS exemption of the provincial portion that will be embedded in the HST.

Ontario Revenue Minister John Wilkinson covered the issue in a presentation to the Thunder Bay Chamber of Commerce on November 5th, 2009. The current POS system in effect allows those with status cards in Ontario to present the card to retailers and receive the PST exemption at the POS. The Ontario government believes this should remain the same upon implementation of the HST on July 1st 2010; however, the federal government does not agree. As of November 5, 2009 the Ontario government has so far been unable to secure the POS exemption but the Revenue Minister says he will continue to put pressure on the Federal government in order to obtain the exemption but that the province of Ontario cannot do it alone. The Federal government must agree to provide the exemption, as the HST is a nationally administered tax (Presentation, November 5 2009).

5.2 - Thunder Bay Industries

The breakdown of occupations in Thunder Bay definitely differs somewhat to that of the breakdown of Ontario as a whole.

OCCUPATION	THUNDER BAY	ONTARIO
Total Experienced Labour Force (Age 15+)	**55,655**	**6,473,735**
Management Occupations	8.08%	10.30%
Business, Finance, and Administration Occupations	17.04%	18.61%
Natural and Applied Sciences Occupations	5.21%	6.98%
Health Occupations	7.81%	5.26%
Occupations in Social Sciences, Education, Government and Religion	10.02%	8.44%
Sales and Service Occupations	28.11%	23.52%
Trades, Transport and Equipment Operators	15.78%	14.08%
Occupations Unique to Primary Industries	2.22%	2.55%
Occupations Unique to Processing, Manufacturing and Utilities	3.41%	7.16%

*This chart was prepared using data from Stats Canada (Stats-Can 2006)

In terms of differences in occupation the largest variation being in the manufacturing and sales and services occupations. The GST/HST tax credits available are more valuable to manufacturing occupations as they can claim and receive a credit on inputs, while sales and services occupations cannot. The HST may, in fact, harm the sales and services sector in Thunder Bay as the HST burden will now be carried by the final consumer of the goods, which in the case of sales and services would be the average consumer purchasing these goods or services.

INDUSTRY	THUNDER BAY	ONTARIO
Total Experienced Labour Force (Age 15+)	**55,655**	**6,473,730**
Agriculture and Resource Based Industries	3.65%	2.93%
Construction	5.37%	5.94%
Manufacturing	7.73%	13.90%
Wholesale Trade	2.84%	4.75%
Retail Trade	12.75%	11.13%
Finance and Real Estate	4.16%	6.84%
Health Care and Social Services	15.20%	9.45%
Educational Services	8.87%	6.70%
Business Services	16.84%	19.68%
Other Services	22.57%	18.68%

*This chart was also prepared using data from Stats Canada

The Ontario government predicts that small business, those with annual taxable sales less than $2 million will be eligible for the full $1,000 in transition benefits. This will go towards helping businesses transition their POS systems as well as their accounting techniques to accommodate the new HST. According to the 2009 Thunder Bay Ventures Survey, 24% of small businesses in Thunder Bay had annual sales in 2008 of $1 million or more. That leaves 76% and the majority of Thunder Bay small businesses eligible for the full transition benefits based on their annual sales (SBCS 2009). These results are consistent with past years, which indicate that the majority of Thunder Bay small businesses will receive benefits to help ease the transition to the new form of taxation with the HST. Those with taxable sales of more than $2 million are assumed to have the means to absorb the change in taxation systems easier than smaller businesses.

5.3 - Weather and Heating Costs

It is a well-known fact that Northern Ontario suffers from extremely cold winters, and its residents must therefore substantially increase the amount of energy used to heat their homes during the frigid Northern Ontario winters.

The average temperatures in Thunder Bay and Toronto through the months of November through March are as follows:

Month	Thunder Bay	Toronto
November	-2	+5
December	-10	-1
January	-14	-4
February	-12	-3
March	-5	+1
AVG	-8.6	-0.4

*All temperatures in degrees Celsius have been retrieved from The Weather Network

It can be seen that the average temperatures in Thunder Bay (Statistics: Thunder Bay, ON, Canada) and Toronto (Statistics: Toronto island airport, ON, Canada) vary greatly in the winter months with Thunder Bay being far colder. The vast differences in temperature, mainly in the winter months, means that Northern Ontarians must use more energy to heat their homes from November until March. As the use of heat was previously not subjected to the PST portion of sales tax the price of heating ones home will increase by 8% once the HST is applied. As those in Northern Ontario suffer from such severe winter weather, the HST applied will cause a more substantial increase in home heating bills.

According to Union Gas the average Thunder Bay (Rate 101) customer uses 2,600 m^3 of natural gas per year (Union Gas 2009). Appendix II shows the Union Gas rates for natural gas beginning July 1 2009.

5.4 - Financial and Professional Services

Under the new HST regime financial services will be exempt from the HST; however, this also means that financial institutions, such as banks and credit unions will have a limited ability to collect the HST input credits. This is vastly different than the approach taken by Quebec in 1992 when it harmonized its sales tax with the GST to create the QST. Quebec zero-rated its financial services, which allowed financial services to collect the HST input credits. As Ontario exempts its financial services, it is not allowed to claim these input credits. This puts Ontario financial institutions at a disadvantage compared to those in Quebec (Pel, Warnock 2009). Approximately

4% of Thunder Bay's industry is made up of financial and real estate services and will be affected by the move to HST.

Professional services will not be exempt from the HST rules. These professional services include lawyer fees, accountant fees, engineering fees, and chiropractic fees among others.

5.5 – Thunder Bay Housing Market

The Thunder Bay housing market will not be affected to the same extent as the housing market in Southern Ontario. The average price of a house in Thunder Bay is $140,127, which is far below the $400,000 threshold to which the HST will be applied (Stats-Can 2006). This new taxing system will hit the hardest in the Greater Toronto Area (GTA), where the average value of a home is $403,112 (Statscan). BILD's report estimated that GTA homebuyers would be hit with 72% of the province-wide increase (Clayton 2009). However, the higher price could be partially offset by the lower taxes on construction materials due to the input tax credits available (Cooper 2009).

The Ontario average price is $297,479, which is still below the $400,000 threshold, but is beginning to get close. The comparison between housing prices in both Thunder Bay and Toronto clearly shows that the HST imposed on newly built homes over $400,000 will only minimally affect the Thunder Bay area.

6.0 - Conclusion

The indication in the 2009 Thunder Bay Ventures Small Business Survey was that small business owners in Thunder Bay had a very negative impression about the proposed Harmonized Sales Tax and also indicated that they required more information or were unsure what affects the HST would have on their organization (SBCS).

There have been letters to editors in various newspapers and many complaints in regards to businesses and individuals, which appear to be mainly due to the uncertainty and lack of awareness about the effects of the HSTt. The purpose of this report was to help educate the public about the HST and to give an unbiased analysis of how the HST will affect Thunder Bay business and individuals. This report provides information to small businesses to reveal exactly how the new harmonized sales tax will impact their businesses. The report also suggests that overall, despite the negative connotation carried by taxes in the community; the HST tax may in fact help businesses rather than hinder them. It is clear, however, that the HST will benefit businesses more so than consumers as consumers will now bear the tax burden rather than the businesses. Realizing this, the Federal government is providing Ontarians with some measures of relief in order to help offset the increase in taxes on some goods and services.

Twenty-nine of the thirty OECD countries around the world have already adopted this value-added tax system and as of now three provinces in Canada have harmonized with two more to follow (Ontario and British Columbia). It is regarded as one of the most efficient taxation systems in the world and will increase investment to businesses and make Ontario a destination to do business.

Appendix I – Changes in the CPI

The following table depicts the percentage change in the Consumer Price Index (CPI) for various baskets of goods in the Atlantic Provinces following the 1997 harmonization of GST and PST (Smart 2007).

Table 1

Item	**% Δin CPI**
All Items	-0.3%
Food	-0.7%
Shelter	1.4%
Household Operations and Furnishings	-2.9%
Clothing and Footwear	1.5%
Transportation	0.8%
Health and Personal Care	-1.4%
Recreation, Education and Reading	-0.4%
Alcohol and Tobacco Products	-3.2%

Appendix II – Natural Gas Prices

CHARGES	RATES (JULY 1 2009)
Gas Commodity	20.2127 ¢/m3
Transportation	23.4254 ¢/m
Storage	1.8926 ¢/m
Delivery	
-First 100 m	8.7142 ¢/m3
-Next 200 m	8.1473 ¢/m3
-Next 200 m	7.7445 ¢/m3
-Next 500 m	7.3748 ¢/m3
- All Over 1,000 m	7.0695 ¢/m3
Monthly Charge	$18.00

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