

Articles Program



How the HST changed small business

It's been almost a year since the Harmonized Sales Tax became the law of the land in Ontario. It was a hard sell for government, which gave taxpayers some relief with rebate cheques and promised us that when all was said and done, the cost of things wouldn't really go up...much.

However, anyone who buys almost anything knows that it's individuals and families who really pay the tax on consumption. But businesses have been affected, too. Some more – and better – than others, says Chartered Accountant Adam Rubinoff, Partner, Taxation Group at Soberman LLP in Toronto, and Chartered Accountant Sonia Bajwa Dhaliwal, Manager at Grant Thornton LLP in Mississauga. Here, these experts explain some ways that small businesses might be feeling the impact of the HST: some good; some, not so good.

The tax burden has shifted – In the big picture, harmonization in Ontario has shifted the sales tax burden from businesses to individuals, Rubinoff explains. As a result, businesses generally find their costs have gone down. But the impact varies widely, depending on the type of business, its products and customers.

More things get taxed – Basically, harmonization has meant scrapping Ontario's PST and expanding the federal GST from 5 to 13 per cent. But the GST has always applied to a wider range of goods and services, so more things are subject to the 13-per-cent tax under the HST system than under the old GST/PST combination.

Most had to change processes – Rubinoff says in his experience, most small businesses adjusted to collecting and remitting HST on their own without major costs. They probably would have received advice from the CRA or another reliable resource, like a software company, bookkeeper or accountant. Of course, there were some administrative costs to make the change, typically borne by the businesses themselves. But Ontario did step-up with a one-time payment of up to \$1,000 (subject to income tax) to help compensate for the hassle.

Everything to Ottawa, nothing to Toronto – The HST did simplify things for many businesses, large and small. Companies that previously had to file both GST and PST returns – sending the first portion to the CRA and the latter to the Ontario government – now make just one payment to the CRA for the full 13 per cent.

Most businesses save – For small businesses that used to charge both PST and GST on all their sales, harmonization had two significant effects, says Rubinoff. An example is a store that sells furniture, he explains. Before harmonization, it could recover only GST on its costs, no PST. Now it can recover all the HST it pays. Administratively, Dhaliwal says, it's also much easier and more cost-effective for businesses to file one return and

remit one sales tax amount to the CRA, rather than deal with two tax authorities and have two audits.

Some small businesses got more *and* less expensive – For a small business that once had to charge GST but not PST, harmonization may have both cut its costs **and** inflated the tax-included cost of its services. Take, for example, a landscaper charging \$100 for lawn care. Its invoice to customers would now total \$113 instead of \$105, Rubinoff says. Regular non-business customers who couldn't recoup HST themselves might balk at the higher, tax-included price, forcing the company to reduce its base prices and cut its profits in the process. But if its customer is another business that can recover HST too, the increased, tax-included price would be less significant. The landscaper could then hold its prices and also benefit from a decrease in operating costs, because in the accounting world, the effective price of its lawn mowers and grass seed has declined by \$8.

The smallest guy loses most – In general, the big losers are very small businesses, especially those that previously could not, or chose not, to register for GST/HST. This may have been because either their annual sales were under \$30,000 or their businesses, by their very nature, were exempt from charging sales tax. For many, unless they can raise their prices, the increased sales tax they now must pay effectively undercuts their profit margins.

For specific advice about the HST and how to manage it most effectively in your own small business, schedule a meeting with a Chartered Accountant in your community.

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