Toolkit for golf course owners and operators

ONTARIO SALES TAX HARMONIZATION

The HST experience in Ontario is definitely noteworthy for provinces that currently do not have the HST in place. The sidebar on page 35 offers a snapshot of the BC HST which will be implemented on July 1, 2010.

In its March 26, 2009 provincial budget, Ontario announced its intention to proceed with a value added tax. Effective July 1, 2010, provincial sales tax will be harmonized with the federal GST, resulting in a federally administered 13% tax. Although the new Ontario Harmonized Sales Tax (OHST) only comes into effect next year, there are things that golf course owners should start doing now to prepare for the new tax.

TAX OVERVIEW

The OHST will generally use the same rules and tax base as the federal GST and will be administered by the Canada Revenue Agency. In order to avoid problems where transactions straddle the period in which both the retail sales tax (RST) and the OHST apply, a set of transition rules setting out the application of the OHST will be introduced later in 2009.

Transition

Transition rules will apply to such areas as: real property, tangible personal property, services and intangible personal property (i.e., memberships). At the time of writing, the transitional rules respecting the conversion from a RST to a single value-added tax have not been published but are anticipated to resemble some of the policies implemented with the Harmonized Sales Tax in Atlantic Canada.

Input Tax Credits

Businesses who sell taxable or zero-rated goods and services will be able to claim input tax credits (ITCs) on their purchases for the 8% provincial component, as under the GST, with limited exceptions. Thus, golf course owners will be entitled to recover the 8% provincial component of the OHST on most of their expenses. It is important to note, that under the GST businesses are not entitled to claim input tax credits (ITCs) for golf memberships and initiation fees, similar to the restrictions for income tax purposes. Thus the OHST will represent an 8% additional cost for businesses. In contrast, under the GST businesses are entitled to claim 50% ITCs for green fee expenses.

Any food and beverage expenses incurred at a golf course clubhouse will also be subject to the 50% limitation. Since most food and beverage expenses at a golf course are subject to RST, the transition to the OHST will see businesses actually paying less sales tax. The effect for individual consumers will be neutral as in both cases the 8% RST and the 8% OHST is not recoverable.

Vendor Compensation

Small businesses with less than $2 million in annual revenue from taxable sales will be eligible for a transition credit of up to $1,000. Ontario will parallel the GST small supplier threshold where businesses with sales under the $30,000 threshold are not required to register and collect the single sales tax. Small suppliers with taxable revenues of $30,000 or less in the prior year that choose not to register will not be required to file a single sales tax return and will not be eligible to claim ITCs.

Ontario currently compensates vendors for collecting and remitting RST. With the elimination of the RST and the adoption of the OHST, vendor compensation will end. Vendor compensation will only apply for RST returns filed up to and including those filed for the period ending March 31, 2010.

Temporary Restrictions

Similar to the restricted ITC system in Quebec, large businesses (annual taxable sales in excess of $10 million) will be unable to claim ITCs for the Ontario component of the OHST in certain cases. However, in Ontario these restrictions will be temporary. After the first five years of single sales tax implementation, full ITCs will be phased in over the subsequent three-year period. The temporary ITC restrictions for large businesses 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 expenses.

The restriction on energy will create a new cost for golf course owners as electricity is not currently taxed under the RST.

Alcoholic beverages sold through licensed establishments and through retail stores will be taxed at the single sales tax, with the provincial rate falling to 8%. Accordingly, the government proposed to introduce tax legislation to replace various alcohol and other fees, levies and charges in order to maintain the current net pricing based on the current 10% and 12% rates on alcoholic beverages.

IMPACT TO YOUR BUSINESS

Currently, green fees and golf membership are not subject to tax. Ontario's intention to adopt the much broader GST base will mean that green fees, golf memberships and facility rentals will be subject to the 8% provincial component of the OHST. This will have a negative impact for golf course owners as their customers will end up paying more taxes and there are little, if any, tax savings that owners can pass on to offset this tax increase. Although golf course owners do pay non-recoverable RST on certain purchases (e.g., golf cars, restaurant supplies, furniture and equipment) this is insignificant versus other non-taxable expenses (e.g., salaries, course maintenance, irrigation, energy, utilities and property taxes). Thus the benefit of transitioning from the RST to a refundable OHST does not create significant cost savings that can be passed on to golfers.

As a result, the new tax may increase golfer's expenses by as much as 8%! Although the experience in Quebec (with the 7.5% Quebec Sales Tax) and in Atlantic Canada (with the 13% Harmonized Sales Tax) indicates that consumers will adapt to the new tax on their golfing expenses. As Alastair Barr of Welsford Golf Course in New Brunswick recalls, it was a welcome change since their administrative requirements dropped and so too the cost of golf since it had been subject to 11% PST and 7% GST and following the implementation of the HST was decreased to a combined 15% tax.

However, in provinces where PST is not currently charged on golf, this places incredible pressure on golf course owners who may end up absorbing the cost of the tax as green fees and memberships are already very competitively priced.

IMPORTANT PREPARATIONS

So what can golf course owners do to be prepared for the new OHST and to avoid costly mistakes? The following is a list of areas that should be reviewed:

Financial Budgeting

- What is the economic impact of paying more tax on your operations? Remember that if you are considered a large business you will be restricted from claiming any of the 8% provincial component of the OHST on: energy costs; telecommunication services; road vehicles and fuel; as well as food, beverages and entertainment expenses.
- What is the impact on your cash-flow position, of collecting and remitting more tax?
- What are the implementation costs associated with complying with the OHST?
- What is the impact to your financial budgets, plans and forecasts?

Purchasing

- For large purchases that are currently subject to RST (e.g., golf carts, lawn maintenance equipment, restaurant supplies, computer equipment and related software) and for which the provincial component of the OHST will be recoverable, consider the timing of the purchase to minimize sales tax costs.
- Determine the pros and cons of purchasing versus leasing property, depending on when the property is needed, the significance of the acquisition and the ability to recover the OHST.
- Review the benefits of electing not to have OHST apply to certain inter-company transactions. This could alleviate the cash flow impact of the tax.
- Review past and current operations for potential overpayments of ORST and apply for refunds.
- Consider the impact of harmonization on suppliers and their ability to pass on any savings.
- For large dollar transactions, consider the timing of purchases and related payment of the OHST suppliers to minimize the funding requirements where ITCs are available. For suppliers who will be monthly filers, the OHST they are required to collect from you likely will not be required to be remitted until the last day of the month following the month in which the purchase took place. This could be as much as 60 days, allowing your business to claim the ITCs before the remittance is due by the suppliers.

Sales

- Consider how the provincial component of the OHST will apply to memberships under single or monthly payment plans or to prepaid memberships (remember to review the transitional rules as previously there was special treatment for memberships).
- Consider the impact of harmonization to any required wording changes in your advertisements.

Systems and compliance processes/procedures

- Plan for the system changes, including:
  - for sales (accounts receivable and billing/POS systems), tax codes and invoices will have to be adjusted
  - for purchases (accounts payable systems), programming will be required to track the OHST where necessary to claim ITCs and to deal with the unrecoverable provincial component of the OHST on certain expenses, as well as adjusting the rates in the system if ITCs are automatically calculated for certain expenses
  - current RST capabilities may need to remain in the system for a certain period of time following implementation of the OHST to deal with adjustments (e.g., price adjustments) post June 2010.
- Identify the priorities for IT departments relating to system requirements for the OHST and ensure the requisite testing and updating of procedures is completed in time for implementation on July 1, 2010.
- Ensure the process for self-assessing RST is amended accordingly effective post-implementation of the OHST.
- Consider the impact on:
  - policies concerning credit notes, debit notes, discounts, gift certificates, deposits, partial payments and bad debt adjustments
  - procurement transactions and related procedures and policies for existing procurement card and corporate credit card programs
  - employee allowances and reimbursements
  - taxable benefit calculations
  - petty cash requirements
  - GL accounts
  - reasonability testing and other exceptions analyses.

Other

- Consider the impact on human resources, such as the need for additional resources, staff training, and changes to internal policies, etc.
- Note: ORST audits will continue after June 2010 for a number of years, so retain records accordingly to deal with a possible ORST audit post-implementation of the OHST.

The issues noted above are not intended to be exhaustive. However, planning ahead as much as possible will allow golf course operators to prepare for the future changes the OHST will bring to their business.

BC HST

Facts

Introduction date: July 1, 2010
5% GST + 7% PST = 12% HST

Differences compared to Ontario

- Businesses will be able to claim back the full 12%, not just the PST component as proposed in Ontario
- No $1,000 transition credit
- Can claim ITC on full 12% - no limitations on recovering just PST component
- No ITC on green fees and golf memberships

Business implementation considerations

- Computer software patch that will change over tax rates automatically
- Price structure consistency amongst competitors
- Check that suppliers not charging tax after implementation

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