



# HST & YOU

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WHAT TAX  
MODERNIZATION  
MEANS TO THE  
ONTARIO STUDENT



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## So who is the CSA?

The College Student Alliance (CSA) is a student-driven advocacy and student leadership organization, representing over 126,000 college and college-university students across Ontario. The CSA is led by a student executive and Board of Directors that direct a full-time staff to carry out the business of the organization.

One very important function of the CSA is the representation of student interests to government and then facilitating communication of government initiatives and policies back to students. Topics that the CSA address include tuition, college funding, education quality, affordability/OSAP and accountability processes.

So why would the CSA write a booklet on changes to the tax system? The CSA firmly believes in only using its resources on education matters and to not articulate opinions or policy recommendations on areas outside of education (e.g. health care, defense, climate change). However, upcoming changes to the Ontario tax system will have a profound affect on student study, work and overall life. Therefore, tax reform must be clearly communicated to students.

There are two very important reasons for this communication. First of all, changes to the tax system will affect each and every Ontarian as a consumer—including students. Secondly, proponents argue that tax modernization will create a more competitive economy and will support rapid business development—therefore meaning more jobs for college graduates.

The College Student Alliance has written this information booklet so that you, the student, have a firm understanding of what these changes mean to you and the way you live. Some changes will be seen as immediately good, and some changes may appear (especially at the beginning) to be immediately bad.

The CSA has printed this book in the hopes that all Ontario college and college-university students will be as informed as possible regarding HST, other tax reform measures and what it means to them as current students and future graduates looking for secure employment. It is ultimately your responsibility, as a student and member of society, to be informed regarding social, economic and political matters. This document seeks to assist you in your attempts at being informed.

## In a Nutshell

So you have probably heard and read a lot lately about some upcoming changes to the Ontario tax system. The most widely talked about change is “sales tax harmonization”. Sales tax harmonization is one of many reforms the Ontario government is making to the tax system. You will hear supporters who praise these changes as being important—and in many cases a necessity—in creating a more competitive economy. Opponents of these changes say it means that you, as a consumer, will be spending more money in taxes on goods and services previously untouched by PST.

This booklet will stop short of providing an opinion on HST, along with other tax reform measures. However, the CSA wants to provide you with a summary of the facts so that you can form your own opinion as to whether or not you agree or disagree with HST and other tax reform measures.

Students will likely be most interested in how tax reform will affect the:

- Cost of college tuition and textbooks;
- Price of other goods and services;
- Income tax returns that you, as students, file each year;
- State of the current economy; and,
- Availability of secure and high-paying jobs for you upon graduation.

According to the government, colleges will remain fiscally neutral. While the college system continues its own assessment on how tax reform will affect college operations, students should be assured to know that textbooks will not experience an increase in taxation.

In terms of overall changes, the complete package of tax reform measures being implemented in 2010 will cost students slightly more on the front end—spending on goods and services. Conversely, on the back end students will earn more in income tax returns (granted that they earn an income). Perhaps most importantly is that, at least in theory, HST will promote economic competitiveness and attract more business to the province. This in turn should produce greater likelihood of graduates finding meaningful, secure, long-term employment.

Ontario has entered into a memorandum of understanding on sales tax harmonization with the federal government, of which is binding until 2015. This means that these changes cannot be reversed until that time. It is up to you to decide whether or not HST and the other changes are something you could continue to support beyond 2015 or if the continuation of sales tax harmonization is something you must resist and condemn.

## The Terms You May Need to Know...

This booklet is littered with all sorts of fancy words and acronyms. Here is a list of the ones you will encounter and a brief explanation of each. Don't worry though... there will be no test at the end.

**CPI (Consumer Price Index):** A measure that estimates the price change of goods and services between two periods of time in a particular geographical region.

**GST (General Sales Tax):** A federally-imposed 5% tax on most goods and services.

**Income Tax:** A tax imposed on your income earnings.

**HST (Harmonized Sales Tax):** The coupling of the 5% GST and the 8% PST into a single, 13% tax.

**PST (Provincial Sales Tax):** A provincially-imposed 8% tax on many goods and services, mandated to be eliminated on July 1, 2010.

**RST (Retail Sales Tax):** RST is a consumption tax that does not discriminate between businesses and consumers. Anybody or any entity that is purchasing an item is indiscriminately taxed. PST is an example of an RST.

**VAT (Value-Added Tax):** VAT is a tax on the consumer at point-of-sale. Businesses are exempt from paying these taxes. GST is an example of a VAT.

**Tax Modernization:** The further developing and evolving of tax systems in accordance with what other jurisdictions and economies have done to be cutting edge and competitive.

## Harmonized Sales Tax (HST): What's the big deal?

Claim by Proponents: Tax modernization, including HST and other tax reform measures, is vital to increasing Ontario's economic competitiveness.

Claim by Opponents: HST is a tax grab from a cash-strapped provincial government looking to find ways to expand revenue.

### The Facts:

1. HST will combine GST and PST together into one tax
2. HST has already been implemented in Saskatchewan, Newfoundland & Labrador, New Brunswick, Nova Scotia and soon to arrive in British Columbia
3. HST is a value-added tax, which means consumers will exclusively be taxed rather than the current system where a balance of business input and consumption taxation exists
4. 17% of goods and services will experience an increase of 8% in tax (the provincial portion of HST), meaning 83% of goods and services will remain unaffected (Ontario Ministry of Finance, 2009)
5. HST is argued by many economists as important for business; reducing the costs of production will attract more business to Ontario
6. Currently Ontario is an extremely expensive place for businesses to invest and with HST implementation it will cut the effective tax rate by 11 points by 2012, considerably closer to the international average (C.D. Howe Institute, 2009)
7. Research has shown that HST implementation should create an additional 600,000 jobs in Ontario within the next decade solely on its own account (Mintz, 2009)

While the verdict is still out on exactly how much HST will cost colleges extra in operations, the increased costs will only last for the first few years. The CSA expects any temporarily increased operational costs will not result in added tuition costs outside of standard college inflation rates (4%-5%).

Rent/shelter, clothes and transportation may all cost you more. Gas prices and tobacco costs will also rise. While services such as haircuts will rise, costs of doing business will actually lower and other jurisdictions have witnessed these business savings being passed onto the consumer.

## What will cost you more, because of HST implementation?

Claim by Proponents: HST implementation will leave consumers paying close to the same prices at the end of it all.

Claim by Opponents: HST implementation will be adding an additional 8% tax on many of the things you purchase.

83% of goods and services will experience no change in their taxable status. That leaves 17% of goods and services witnessing an 8% increase in tax when HST is implemented July 1, 2010.

### No Change in Taxable/Exempt Status

- Admissions to Sporting Events
- Adult Incontinence Products
- Auto Insurance
- Auto Rentals
- Basic Groceries
- Books
- Cable TV Service
- Cell Phone Charges
- Certain Medical Devices
- Child Car Seats and Car Booster Seats
- Child Care Services
- Children's Clothing
- Children's Footwear
- Cleaning Products (e.g., Soaps, Detergents)
- Clothing
- Crafting Supplies (Scissors, Yarn)
- Diapers
- Feminine Hygiene Products
- Furniture
- Home Insurance
- Home Maintenance Equipment (Lawnmowers, Snow Blowers, Sprinklers)
- Home Phone Services
- Luggage, Briefcases, Bags, etc.
- Mortgage Interest Costs
- Most Educational Services
- Most Health Care Services
- Movie Tickets
- Municipal Public Transportation
- Municipal Water
- Music Lessons
- Newspapers
- Over-the-Counter Medication
- Pharmacist Dispensing Fees
- Prepackaged Computer Software
- Prepared Foods Sold for \$4 or Less
- Prescription Drugs
- Radios, Stereos, CD Equipment and Accessories
- Refrigerators and Freezers
- Residential Rent
- Restaurant Meals
- Tailoring
- Toys
- TVs, DVDs and Accessories
- Vehicle Repairs (Parts and Labour)
- Vehicles and Parts

### Change in Taxable Status

- Electricity
- Gasoline
- Heating Fuels
- Internet Access Fees
- Personal Services (e.g., Hairstyling)
- Professional Services (e.g., Legal, Accounting and Real Estate Fees and Commissions)
- Tobacco

Source: Ontario Ministry of Finance (2008)

## Will cost of business savings actually be passed down to you—the consumer?

Claim by Proponents: HST will undoubtedly save businesses money, and in turn, the cost of goods and services will fall.

Claim by Opponents: Businesses will keep savings to widen profit margins or enhance their businesses in other ways.

### The Facts:

1. In theory, businesses recover costs of paying tax through established prices of the goods and services the business provides
2. Businesses are expected to save \$7 billion annually once HST is implemented (T.D. Bank Economists, 2009)
3. With HST implementation, businesses will be able to recover these costs through tax credits
4. Since exports by Ontario businesses will be HST-exempt, businesses may lower prices closer to those of traditionally inexpensive Asian imports—this is particularly important as the Canadian dollar continues to gain strength
5. Research has shown the CPI prices in HST provinces fell 0.3% relative to RST provinces (Smart and Bird, 2009) while the Toronto Star has suggested that cost of living will increase by well under 1% as a result of HST and these findings have also been substantiated by the Canadian Centre for Policy Alternatives
6. The Smart and Bird research also shows that while most consumer prices had fallen, cost of shelter, clothing & footwear and transportation actually increased relative to RST provinces (Smart and Bird, 2009)

However there is one significantly large assumption that must be addressed: businesses will pass on savings to the consumer. Anecdotally, it is counter to our sense of good business for savings to be passed on to the consumer. After all, when costs of doing business go down this strikes us as an excellent opportunity for a corporate entity to widen its profit margins.

While no one can be certain how Ontario businesses will react to these savings, the other jurisdictions have shown that HST implementation has led to greater competitiveness and lower prices. That being said, the tax-inclusive cost of most goods and services should remain virtually unchanged.

## **Ontario tax reform: Is it actually a cash grab?**

Claim by Proponents: Tax reform will result in monetary savings for both businesses and consumers.

Claim by Opponents: Tax reform will save businesses lots of money, all on the back of the average citizen.

### The Facts:

1. The provincial government will see an increase in tax revenues of approximately \$2.175 billion in the 2011-2012 tax year
2. Income tax cuts and transition benefits, of which are also part of tax reform, will cost government \$3.6 billion
3. The net result to the Ontario consumer will be a reduction of \$1.425 billion in taxes

## **More Money in your Pocket: Tax Savings, Credits and Transition Benefits**

Claim by Proponents: Government tax breaks, credits and transition will ease transition into HST and will keep the consumer fiscally neutral, if not actually benefiting from the reforms.

Claim by Opponents: These tax changes are going to just help out big business and critically injure low-income individuals and families.

### The Facts:

1. Low- and middle-income individuals/families will come out in a bit of a better position with tax reform measures being implemented while families earning \$100,000 a year or more will come out slightly disadvantaged (Canadian Centre for Policy Alternatives, 2009)
2. Single students 18 years of age and older will receive up to \$300 in three installments: July 2010, December 2010 and July 2011
3. Couples and families will receive up to \$1000 in the same three installments
4. Almost a full doubling of sales and property tax credits
5. The provincial portion of your income tax will be reduced by 1% for the lowest tax bracket



## **Additional Sources of Information Regarding Tax Modernization**

Ontario Chamber of Commerce

<http://www.occ.on.ca>

Ontario Ministry of Finance

<http://www.fin.gov.on.ca>

Ontario Ministry of Revenue

<http://www.rev.gov.on.ca>

GST-PST/HST Free Information Seminar for Business Owners

<http://www.rev.gov.on.ca/en/events/pst-gst/#dates>

Say NO to Ontario HST – Online Petition

<http://www.ontariohst.ca>



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