

PST + GST = HST

The HST and non-profit membership organisations

We have prepared this write up to raise some issues that are important to non-profit membership based organisations. The advent of the HST will mean a considerable cost increase to organisations of this type. There are two ways in which a non-profit organisation can position itself to avoid these costs.

- If the organisation has taxable income such as event fees and elects to have membership fees become considered taxable supplies the organisation can become a registrant.
- If the organisation has charitable status or receives more than 50% of its funding from government or if the organisation is part of a municipality the organisation can receive part of the HST paid in the form of a rebate.

Non-registrant membership based organisations are unlikely to qualify for the HST rebate because they won't meet the criteria noted above.

With the expansion of the number of goods and services which will now be taxed at the 12% HST rate most end users will find that they will experience substantial cost increases. However, there is also a significant opportunity for membership based organisations to not only avoid this additional cost but to lower their costs substantially if they organise their affairs properly.

This paper will attempt to give the background and reasons for positioning your organisation to take advantage of the most favourable tax treatment possible.

Background

Consumption (sales) taxes have been used by both provincial and federal governments to generate revenue for many decades. The recent announcement by the BC Government to "harmonise" the PST with the GST does not change the revenue side of the tax but it radically changes the collection of the tax. As of July 1, 2010 the PST will effectively cease to exist. The "harmonised" portion of the GST will take the place of the PST and, for BC, the HST will be borne.

There will be a number of very important changes that will need to be considered when developing a strategy for minimising the impact of changes. Here is a list of the changes that will need to be considered:

- The HST (like the GST) is a refundable tax through either ITC's (tax paid on supplies or services) for tax collecting organisations or rebates for qualifying non-profits;
- The HST will be levied (with a few exceptions) at the rate of 12% where the GST was levied at 5% and the PST was levied at 7%;
- The HST is levied on exactly the same goods and services as is the GST which includes some items that were not formerly included in PST;
- There are "transition" rules that affect taxable membership fees that will be challenging to manage;

Reasons for becoming an HST registrant

While it may seem like an additional administrative burden to become an HST registrant there are several very good reasons for doing so. Both the GST and the HST are "pass through" taxes, that is, the tax only has an effect on the end user. By being a "pass through" tax there is no impact on the final price of goods or services for any of the tax charged except for the final tax collection.

	Price	HST Collected	Cost	HST Paid	Net HST
Raw material for 10 wigits	100	12			12
Produced 10 wigits			100	12	-12
Sold 10 Wigits to Wholesaler	200	24			24
Sold 10 Wigits to Retailer	300	36	200	24	12
Sold 10 wigits to Consumers	500	60	300	36	24
					60

In the end the Consumers will pay \$60 of tax on the goods consumed and the governments will collect only \$60 even though tax was charged on each step of the process of getting the goods to the consumer.

The reason that only the Consumer ends up paying the tax is due to the refundable nature of the tax. Any organisation that collects HST (or GST) is allowed to offset the amount collected by any amount paid (known as ITC's or Input Tax Credits). The refundable nature of the tax can generate substantial savings for an organisation where the organisation has the following qualities:

- The organisation receives grant funding from any source for the purposes of acquiring goods or services (gaming grants, foundation grants, etc.);
- The organisation provides a significant amount of "zero rated" services; (non-taxable food, certain services to children, etc.)
- The organisation has little or no expenses related to employment (little or no directly paid staff);

- The organisation provides a significant percentage of its services to the general public outside of its membership (event fees, service fees).

It's worth taking a look at a couple of examples that can illustrate the cost of the tax to the organisation. One example will look at the cost of the tax to the membership if the organisation is not a registrant and the second example will look at the cost of the tax to the membership if it is a registrant.

NON-REGISTRANT	Revenue	HST Collected	Expense	HST Paid
Membership fees (under14 yr old)	10,000			
Membership fees (over14 yr old)	10,000			
Event registration fees	5,000			
Gaming grant	5,000			
Fundraising meat sale	5,000			
Uniforms, and event supplies			4,250	510
Event management, timing, etc			5,000	600
Travel			10,000	1,200
Equipment purchases			12,000	1,440
	35,000	-	31,250	3,750

In this case the Non-registrant has a total budget of \$35,000 which all gets spent during the year. The organisation was able to purchase only \$31,250 worth of good or services however because it needed to pay \$3,750 of HST.

REGISTRANT	Revenue	HST Collected	Expense	HST Paid
Membership fees (under14 yr old)	10,000	-		
Membership fees (over14 yr old)	10,000	1,200		
Event registration fees	5,000	600		
Gaming grant	5,000			
Fundraising meat sale	5,000			
Uniforms, and event supplies			5,000	600
Event management, timing, etc			5,000	600
Travel			10,000	1,200
Equipment purchases			15,000	1,800
	35,000	1,800	35,000	4,200

In this case the registrant gets to collect \$1,800 of HST which is used to offset part of the HST paid and will get a refund for the rest of the HST paid, recovering the whole amount of the HST and allowing the organisation to spend its entire budget on goods and services. It's not all good news, however. While the example assumes that the HST paid on Event Registrations comes from external sources that do not affect the gain to the membership, the membership was required to pay HST on some of the membership fees the net savings is reduced to \$3,000 (\$4,200 less the \$1,200 paid on membership fees).



It can be seen from these examples that there can be a significant benefit from becoming an HST registrant. In this case the net savings was approximately 8.5%, which is well worth the small amount of administration required to administer the HST.

If your organisation would like to look into becoming an HST registrant you can contact us at Dragomir Liu & Co and we'll be happy to provide you with assistance.

Gerald Dragomir, CMA