

**The HST Cometh**

With the looming harmonization of Ontario's retail sales tax (commonly referred to as "PST" or "RST") with the federal goods and services tax ("GST") beginning on July 1, 2010, the harmonized sales tax ("HST") will result in consumers paying increased taxes for many personal services, such as spa and consulting services, as well as legal and accounting fees, which were previously only subject to GST.

That said, the transitional rules may offer an incentive to encourage customers to prepay for these types of goods and services before the HST takes effect. Although the HST does not officially come into being until July 1st, 2010, the transitional rules require collection of the HST if a customer makes a prepayment between May 1, 2010 and July 1, 2010 for goods or services to be delivered or performed after July 1, 2010. Logically then, if a customer makes a prepayment before May 1, 2010 for goods or services that will be delivered on or after July 1, 2010, no HST will be payable.

To take advantage of these transitional rules, you may consider offering a promotion to encourage sales of prepaid products or services that are currently not subject to PST before May 1, 2010. For example, if you sell pre-paid service packages, or you have a regular delivery that will not be delivered until after July 1, 2010, you can encourage your customers to pre-pay before May 1, 2010 to avoid the HST and only have the GST apply.

You should also consult with your accountant about the one-time sales tax credit that will be provided to help small businesses make changes to point-of-sale and accounting systems. You may also note that you will now be able to claim input tax credits (as you do currently do with GST) for the provincial component of the HST, which is currently not recoverable as PST.

**For more information on corporate and commercial matters, contact Derwin Wong or Dixie Ho at Morrison Brown Sosnovitch LLP, 1 Toronto Street, Suite 910, Toronto, ON M5C 2V6, phone (416) 368-0600 fax (416) 368-6068 email: [dwong@businesslawyers.com](mailto:dwong@businesslawyers.com) or [dho@businesslawyers.com](mailto:dho@businesslawyers.com).**

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