

June 26, 2009

FOR INFORMATION

To: The Board of Governors of Exhibition Place

From: Dianne Young, Chief Executive Officer

Subject: **HST Impact on Exhibition Place Consolidated Operations**

Summary:

The intent of this report is to provide an update to the Board on the operating and capital impact of the proposed Harmonized Sales Tax (HST) set to commence on July 1, 2010.

Ontario would move to a single, value-added sales tax that would be federally administered. The single sales tax would have combined rate of 13%, the provincial portion would be 8%, the same as the current Retail Sales Tax (RST) rate and the federal portion would be 5%.

Financial Impact:

Operating expenses currently paid with both RST and GST will result in cost savings on an annualized basis of approximately \$148,000 due to the 100% rebate on the 8% tax component of the HST for Exhibition Place and Direct Energy Centre and approximately \$87,000 for the CNEA.

Capital expenditure currently paid with GST only will result in cost savings on an annualized basis of approximately \$220,000.

It is not known at this time what the CNEA will do in the 2010 budget to address the negative pressure of the \$633,000 from its admission revenue.

Decision History:

At its meeting of May 29, 2009, the Board adopted a motion for staff to bring forward a report outlining the estimated impact of the proposed changes as a result of the implementation of the Harmonized Sales Tax to be effective on July 1, 2010.

Issue Background:

The Province of Ontario and the Government of Canada have entered into a Memorandum of Agreement for Ontario to join a framework agreement for Federal collection of a single value-added sales tax (Bill 162). It is proposed starting July 1, 2010, Ontario Retail Sales Tax (RST) would be converted to value-added tax structure and combined with the Federal Goods and Services Tax (GST) to create a federally administered tax rate of 13%. The Provincial portion would be 8% which is the same as the general RST rate, and the Federal portion would be 5% which is the same as the general GST rate. To simplify administration, the single sales tax will generally use the same rules and tax base as the Federal GST. The tax will be administered by the Canada Revenue Agency (CRA).

Value-Added Tax Structure – The current RST applies to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax can become embedded in the price of the finished goods and services throughout the supply chain. This hidden RST is passed on to consumers. The new single sales tax would use a value-added tax structure, meaning that most businesses would be reimbursed for the tax they pay on their inputs.

Comments:

In general, a value-added tax applies to all commercial activities related to goods and services, but the tax paid by commercial business is generally reimbursed through input tax credits (ITC). This approach would have the impact of reducing business costs, most notably in areas that are taxable under the current RST system.

The annual estimated impact of the HST on both the revenue and expense side is shown in Table 1 with a sample of a typical expenditure in Table 2.

Table 1

Full Year Impact of 13% with 100% rebate on the 8% RST				
		Operational Budget	Capital Budget	Total
1	CNE Program - Revenue	(633,000)		
1.1	CNE Program - Expenses	87,000		
		(546,000)		(546,000)
2	Exhibition Place & Direct Energy Centre	148,000	220,000	368,000
	Net Impact - Positive (Negative)	(398,000)	220,000	(178,000)

Table 2

Expenditure Example				
		[A] Current RST & GST Applicable	[B] Proposed HST Applicable	[A-B] Savings
1	Equipment Rentals	\$ 100.00	\$ 100.00	
2	PST @ 8%	8.00	-	
	Total Expenditure	108.00	100.00	8.00
3	GST @ 5% (\$100 x 5%)	5.00	-	
4	HST @ 13% (\$100 x 13%)	-	13.00	
5		113.00	113.00	

Note: Total invoice amount with taxes remains the same

CNEA

The CNEA currently has a tax-inclusive pricing for admissions, which only includes the 5% GST as the CNEA admissions only is exempt from RST due to its Agricultural Fair status. From Table 1, the increase from 5% GST to 13% HST would have an adverse effect to patrons if the CNEA decides to add applicable taxes to maintain its revenue base. On the other hand, if the CNEA decides to hold its admission pricing at the same level as an all inclusive pricing and remit the 13% HST (previously 5% GST) then it must find the 8% from other sources. Based on past research done for the CNEA, pricing is quite a sensitive topic, more so now, due to the economic slowdown and for this report it is assumed that the pricing will remain as previously planned which will have an adverse effect on admissions revenue of approximately \$633,000. Other major sources of revenue are not impacted as HST costs passed on to commercial businesses would be eligible for a full input tax credit. Expenses for rentals and supplies currently paid with both RST and GST (Table 2 example) will have cost savings of approximately \$87,000, due to 100% rebate on the 8% tax component of the HST.

Exhibition Place and Direct Energy Centre - Operations

Currently clients paying for building rentals and show services such as cleaning and labour are only charged 5% GST, under the proposed HST they will now be charged 13%, and however, as commercial businesses they would be able to claim 100% input tax credit. Other show services such as equipment rentals, telecommunications, electrical, etc. are already charged out with both the RST and GST and this area should be seamless to customers.

Expenses for equipment rentals and base building supplies (plumbing, electrical, etc) currently paid with both RST and GST will have cost savings of approximately \$128,000, due to 100% rebate on the 8% tax component of the HST.

Expenses incurred for equipment rentals and supplies for the delivery of show services paid with both RST and GST currently qualify for an exemption of the RST portion as these items are purchased for provisioning of and reselling of the Board's services; in addition, the Board receives a full input tax credit for the GST portion, therefore, there is no impact from this area.

Expenses which are currently paid with the 5% GST only will increase due to the additional 8% tax. These expenses include consultant and professional services, hydro, natural gas, etc; however, the Board will receive a full input tax credit under HST, there is no impact from this area.

A significant portion of the Board's expenses are its own payroll and related benefits, therefore there is no impact from the proposed legislation.

Manufacturing for Own Use – (Carpentry, Print shop, Electrical), currently we are self assessing on the manufactured cost of goods produced by these operations. With the elimination of the self assessment under the HST system, the Board will realize cost savings of approximately \$20,000 as these operations have a substantial labour and overhead component.

Exhibition Place and Direct Energy Centre – Capital

Currently the RST on capital (real property) items are embedded in the price of the finished goods and services, that is, by legislation it is not shown separately on the invoice. The new single sales tax would use a value-added structure, meaning that commercial businesses would be reimbursed for the tax they pay on their inputs as it will be generally free of the embedded sales tax. The positive impact from this is estimated to be around \$200,000 on an annualized basis.

Maximizing tax savings

Expenses currently paid with both RST and GST will have cost savings due to the 100% rebate on the 8% tax, staff would consider delaying both operating and capital expenditure to July 1, 2010 where appropriate for purchases of construction, equipment and supplies to maximize tax recoveries, as the effective provincial tax rate for these items will drop from 8% to 0%.

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