

GUIDE TO HST

For Churches in the Eastern Ontario District of The Pentecostal Assemblies of Canada

This guide has been prepared by PKF Hill LLP in conjunction with the District Office to help churches in the District correctly charge, recover and account for their HST. While it anticipates the most common circumstances, readers are cautioned that it is neither comprehensive nor a substitute for professional advice.

Beginning July 1, 2010, Ontario provincial sales tax (“PST”) is repealed. Instead, Ontario will collect its sales taxes through the federal goods and services tax (“GST”) system, which will now operate as a harmonized sales tax (“HST”). With a few exceptions, HST works in the same way and with the *same rules* as the current GST.

The Ontario HST rate is 13%, made up of 5% for the federal portion and 8% for the Ontario portion. It is all paid to the Canada Revenue Agency (“CRA”), and the rebates are obtained from the CRA.

How do I account for expense reimbursements?
My church operates a daycare centre. Anything to consider for HST?
Other Rebates

DO I HAVE TO CHARGE HST?

If you qualify as a small supplier, you do not have to charge HST on any of your normal activities. Most churches will qualify as a small supplier.

Does your church qualify as a small supplier?
There are two tests, and if you pass **either** test, you do **not** need to register for or charge HST.

TEST ONE

For either your last fiscal year or the fiscal year before, your total of all revenues was \$250,000 or less.

TEST TWO

Your total revenue from services or sales of items on which HST is normally charged is \$50,000 or less in the current calendar quarter *and* in the last four calendar quarters.

Do I have to charge HST?
Expenses Now Subject to HST
Items on Which There is a Reduced Rate of HST
How much is the HST rebate?
How do I account for the HST rebate?

Determining the answer to Test Two requires identifying your revenue sources on which you would normally be required to charge HST. The most common examples for a church are *operation of a bookstore*, (sales from which would normally be subject to HST), fees for *recreational or athletic activities*, and *sales from a café*.

- **Bookstores**

If your church operates a bookstore, and it is not a small supplier, it will have to charge 5% HST on the sale of books (including audio books). The 5% rate also applies to print newspapers and children's clothing. All other items that your bookstore sells would be subject to the full 13% HST.

- **Recreational and athletic activities**

Unless provided primarily for children under 15 years old, and unless you are a small supplier, fees for these activities are subject to HST. If the activity includes overnight supervision, the fees are subject to HST regardless of the age of the children.

Recreational services provided mainly to underprivileged individuals, or individuals with a disability are exempt from HST.

- **Cafés**

Unless the church is a small supplier, food or beverages sold by the church for \$4.00 or less are subject to HST at the 5% rate. Items over \$4.00 are subject to HST at 13%.

Almost all other revenue activities of a church are **not** subject to HST, with the specifics listed below.

- **Donations**

Donations are not subject to HST.

- **Facility rentals**

As a charity, a church does not have to charge HST any time it rents out its facilities. This includes for short-term facility rentals (for example, for weddings), as well as long-term leases of its properties (for example, to daycare operations), and it includes any related catering services.

- **Parking space rentals**

As a charity, a church is exempt from charging HST on parking space rentals.

- **Fundraising activities**

A church does not have to charge HST on most items it sells or services it provides as fundraising activities as long as the activities are not continual or regular throughout the year.

- **Fundraising events**

A church does not have to charge HST on admission to fundraising dinners, galas, concerts, films or other similar events. However, this is only the case if part of the admission qualifies as a charitable donation for income tax purposes. If at least part of the admission does *not* qualify as a donation, then the admission cost would be subject to HST.

But, if no part of the admission qualifies as a donation, the admission is still exempt from HST if:

- The maximum admission price is \$1 or less; or
- The admission is for an amateur performance.

■ **Retreats and instructional events**

Fees charged by the church for retreats and similar events (including off-site and overnight), which are not recreational or athletic, are not subject to HST, provided the fees charged do not exceed the direct cost, or the fees have a fundraising component.

So, in summary, unless your church earns cumulative revenue of \$50,000 or more from bookstore sales, recreational/athletics fees, and café sales, it is most likely a small supplier, and will not be required to charge HST on any of its revenue.

■ **EXPENSES NOW SUBJECT TO HST**

Under the old system, there were some expenses that churches would regularly have to pay that were only subject to GST at 5%. Under the new HST system, the following common expenses incurred by churches are now subject to the full HST at 13%:

- Professional fees (such as legal and accounting)

- Electricity and heating
- Internet access services
- Landscaping, lawn-care and private snow removal
- Hotel rooms
- Domestic air, rail, boat and bus travel originating in Ontario

■ **ITEMS ON WHICH THERE IS A REDUCED RATE OF HST**

As noted above under “Bookstores” and “Cafés”, certain items bear only a 5% rate of HST (because Ontario chooses not to charge its 8% portion). Here is the full list of these items:

- Qualified prepared food and beverages sold for a total of \$4.00 or less
- Print newspapers
- Books
- Children’s clothing and footwear
- Children’s car seats and car booster seats
- Diapers
- Feminine hygiene products

■ **HOW MUCH IS THE HST REBATE?**

As a charity, a church is eligible to apply for a “public service body” rebate of HST. The process is the same as it was for GST; however, the calculation of the amounts is different.

The federal portion of 5% and the provincial portion of 8% are eligible for different rebate amounts.

- 50% of the 5% federal component, and
- 82% of the 8% provincial component.

Just as with GST, the rebate process is different for churches which are required to register for GST/HST. This does not apply to most churches, so we will only describe the process for small suppliers, which are non-registrants.

■ HOW DO I ACCOUNT FOR THE HST REBATE?

Under the old system, most churches accounted for the GST rebate by recording 50% of the GST paid in a GST recoverable account, with the remaining 50% recorded with the expense incurred.

Under the new system, there will be two rebates to account for:

1. The 50% rebate on the 5% federal portion; and
2. The 82% rebate on the 8% provincial portion.

We recommend that you:

- Create a new 13% HST recoverable account and a new 5% HST recoverable account in your general ledger.
- Each time you record an expense on which there is 13% HST, calculate 69.69% of the HST, and record it in your 13% HST recoverable account. (The 69.69% is the weighted average of 50% of the 5% federal portion and 82% of the 8% provincial portion).

The remaining 30.31% of the HST should be recorded with the expense incurred.

Each time you record an expense on which there is 5% HST, calculate 50% of the HST, and record it in your 5% HST recoverable account, with the remaining 50% being recorded with the expense incurred.

- When you file your HST return, you will report the federal and provincial rebates on separate lines. In order to do this, take the total balance of your 13% HST recoverable account and multiply it first by 5/13 (or .38) to calculate the federal portion, and then 8/13 (or .62) to calculate the provincial portion. Then add the amount from your 5% HST recoverable account to the federal portion. Remember: The total rebate you calculate should equal the total balances of your HST recoverable accounts.

For example, suppose your church incurs \$150 in HST on legal fees. You would record \$104.54 (69.69% x \$150) in your 13% HST recoverable account, and the remaining \$45.46 in legal expense.

When it is time to file your HST return, to separate the federal and provincial rebate portions, you would calculate the following:

- Federal portion = $\$104.54 \times 5/13 = \40.21
- Provincial portion = $\$104.54 \times 8/13 = \64.33

Notice that the total rebate calculated is \$104.54, which was the balance you recorded in your 13% HST recoverable account.

■ HOW DO I ACCOUNT FOR EXPENSE REIMBURSEMENTS?

Just as with the GST, a “simpler method” may be used to compute the amount of HST recoverable on expense reimbursements, rather than making an exact calculation – provided the supporting documentation is retained. In this case, the total of the reimbursable expenses would be multiplied by 13/113 (or .115) to compute the amount of the HST. That balance would then be multiplied by 69.69% to determine the HST recoverable. This can be done in one step by multiplying the total expenses by .0801.

■ MY CHURCH OPERATES A DAYCARE CENTRE. ANYTHING TO CONSIDER FOR HST?

Childcare fees are exempt from HST. So most not-for-profit daycares will qualify as small suppliers, and will not register to collect HST. A daycare that is a separate legal entity (from the church) will not normally qualify as a charity, and so will *only* be eligible for the “public service body” rebate of HST, if at least 40% of its total revenue is made up of government funding. Note again that the rent the daycare pays to the church is exempt from HST,

since the church as a charity is not required to charge HST on its rental fees.

■ OTHER REBATES

Effective for expenditures from July 1, 2010, the PST rebate previously available to churches for certain capital expenditures directly related to worship premises is no longer available.

The federal gasoline excise tax refund program continues to be available to churches, as registered charities. The claim amounts remain at 1.5 cents per litre for gasoline purchased by the church for its own use, and .15 cents per kilometre for allowances paid to volunteers or employees for use of their vehicles in church related activities.

■ MORE QUESTIONS?

Contact the District Office if you have further questions on HST.

Notice to Readers: The above is a general discussion based on published information regarding Ontario HST harmonization as it relates to charities. This publication is **not** a substitute for professional advice. You should review these points of discussion with your professional advisor, who should be fully informed of your circumstances, before you take any significant action.