

September 2, 2010



**City Council
Committee Report**

To: Mayor & Council

Fr: Paul Derouard Budget/Auditor General

Re: HST and Current Infrastructure Projects

Recommendation:

Whereas the Harmonized Goods and Services Tax has come into effect on July 1, 2010 resulting in an 8% increase on many products and services for tax payers and municipalities;

And Whereas municipalities have entered into funding agreements the Federal and Provincial government for municipal infrastructure projects that are fundamental to the quality of life of Ontarians and to stimulate economic growth;

And Whereas effective July 1, 2010, costs to complete municipal infrastructure projects will increase by 1.78% resulting from the HST which taxpayers will have to bear;

And Whereas reporting requirements will need to be adjusted on grant claim settlements;

And Whereas there will be increased costs to the municipalities to administer the HST rebates on the municipal infrastructure projects;

Therefore Be It Resolved That the Federal and Provincial governments increase the grants to fund the costs resulting from the HST impact on all funding agreements in place; and

That the Federal and Provincial Governments amend the Grant claims forms to record the HST impact; and

That the Federal and Provincial Governments take into consideration the impact of the HST on future funding initiatives; and further

That this resolution be forwarded to Prime Minister Stephen Harper, Premier Dalton McGuinty for their consideration,

Background:

The City has received a resolution from the Municipality of Central Huron's resolution to Prime Minister Stephen Harper, Premier Dalton McGuinty regarding HST implementation and the additional costs to administer the HST rebates on Municipal infrastructure projects. A copy of this resolution has been attached for your reference.

Most purchasers of construction in the non-residential construction industry are GST registrants and as such are entitled to a full GST input tax credit on all GST paid on their taxable inputs. While municipalities currently also receive a full GST rebate, they will not be entitled to a full rebate under the new HST legislation for the majority of municipal activities. Rather, the rebate factor for municipal activities is 100% of the GST or the federal part of the HST paid or payable and only 78% of the provincial portion of the HST. Prior to the HST, municipalities would be pay only GST on work done on real property and thus were entitled to a full rebate. The impact is a 1.76% increase in the costs for construction projects.

While recent infrastructure funding programs, such as Build Canada and Investing in Ontario, have provided municipalities with the ability to address some infrastructure related issues, the addition costs associated the implementation of the HST has to be taken into consideration. Furthermore future funding agreements must be amended to take the increase in construction costs for projects.

Budget:

N/A

Communication Plan/Notice By-law Requirements:

A copy of this resolution will be circulated to Prime Minister Stephen Harper, Kenora District MPP's and MP's, the Premier's Office, and the Association for Municipalities of Ontario (AMO)