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## Impact of British Columbia harmonized sales tax (B.C. HST) on medical and health care professionals

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Effective July 1, 2010, the provincial sales tax (PST) will be harmonized with the federal goods and service tax (GST), resulting in a federally administered single sales tax imposed at 12%, of which the provincial portion will be 7%. The proposed harmonization will impose significant additional costs on the health care industry.

With just a few months to go, now is the time for medical and health care professionals to consider the implications of harmonization on their costs, compliance systems and customers. Medical and health care professionals are persons licensed or otherwise certified to provide such services and include doctors, dentists, nurses, and other health care providers (e.g., chiropractors, orthopedists, optometrists, physiotherapists, podiatrists, chiropodists, osteopaths, audiologists, pathologists, occupational therapists, psychologists and midwives).

### Impact on services provided by medical and health care professionals

Most services provided by medical and health care professionals are not currently subject to either the GST or the PST. Under B.C.'s proposed harmonization with the GST, these services should remain exempt from B.C. HST with no direct impact to the consumer. However, where supplies made by a medical or health care professional are taxable (e.g., therapeutic massages, cosmetic surgery, sales of certain goods such as toothbrushes, etc.) these supplies will be subject to the B.C. HST. This represents a significant increase to the price of these supplies to consumers, and it is recommended that the tax status of these items be reviewed in detail prior to the introduction of the B.C. HST.

### Impact on purchases made by medical and health care professionals

Currently, the PST applies to a relatively narrow base of goods and services used by medical and health care professionals in their practices. The B.C. HST will apply to a much broader base of goods and services. As a result, medical and health care professionals will be required to pay additional non-recoverable tax on the purchase of goods and services that are not currently subject to the PST. Consequently, their overhead costs will likely increase, and these professionals may be forced to pass on the additional costs to their customers.

The following table highlights a number of typical expenses that are currently subject to the GST but not the PST. Acquiring these items under the B.C. HST will become more expensive than under the current regime.

Goods and services currently subject to the GST only
• Commercial rent and purchase of commercial property for own use
• Certain staffing services provided by an employment agency
• Electricity costs for a building
• Accounting services
• Management fees
• Membership/professional/association fees
• Most other services (other than telecom and legal)
• Disposable products used during the treatment of patients including: <ul style="list-style-type: none"> <li>- latex gloves</li> <li>- surgical cotton</li> <li>- casting materials</li> </ul>

### Claiming of input tax credits (ITCs)

As most medical and health care professionals cannot recover the GST currently paid on expenses, harmonization will result in additional costs. As a result, medical and health care professionals involved strictly in making GST-exempt supplies will see their costs rise.

For those professionals that provide both exempt and taxable services, ITCs should be available to the same extent as under the current GST system. For example, an orthodontist and who currently claims 35% of the GST paid as ITCs will likely be entitled to 35% of the B.C. HST paid as ITCs. With the much higher rate of tax under the B.C. HST, it is even more important to understand which taxable expenses relate either directly or indirectly to taxable revenues in order to maximize ITC recoveries.

### Transitional considerations

A medical or health care professional may be required to self assess the provincial component of the B.C. HST (i.e., the 7%) on services or properties acquired prior to July 1, 2010 when:

- he/she has acquired the property or services for consumption, use or supply otherwise than exclusively in the course of your commercial activities, or
- he/she is using simplified procedures available under the Excise Tax Act for calculating net tax (as may be the case for certain medical and health care practitioners).

Examples of where a medical or health care professional may be required to self assess the provincial component of the B.C. HST could be the prepayment of certain services, such as lawn maintenance, annual prepaid membership dues, and equipment purchased before July 1, 2010 but not delivered until after July 1, 2010.

Where a medical or health care professional is required to self assess in these circumstances, he/she should account for the tax either: (i) in the GST/HST return for the reporting period that includes July 1, 2010, if the due date for that return is before November 1, 2010, or (ii) in any other case, in prescribed form and before November 1, 2010.

### Other issues to consider

With the implementation of the B.C. HST fast approaching, medical and health care professionals should consider a number of strategic planning activities:

- *Timing of purchases* – stocking up on purchases of goods that do not currently attract the PST but that will attract the B.C. HST on July 1, 2010, will

assist in reducing overall costs.

- *Real estate issues* – consider purchasing real property prior to the implementation of the B.C. HST to minimize the taxes due on the purchase (i.e., 5% GST instead of 12% B.C. HST on the purchase of real property).
- *Corporate structure* – consider reviewing the structure to determine the optimal treatment for income tax and B.C. HST purposes.
- *Current contracts* – discussing the impact of the B.C. HST on suppliers will assist in determining whether a supplier's costs will be positively affected by the implementation the B.C. HST and, as such, allow the medical or health care professional to purchase these products at a lower price.

### Now is the time to prepare and plan

Deloitte can assist in preparing and planning for the impending harmonization. We can guide medical and health care professionals in understanding and prioritizing the issues that will require attention. We can perform a diagnostic impact analysis to assist with budgeting and forecasting the impact of harmonization, establishing priorities for necessary systems and process changes, and planning for minimizing the cost impact to customers.

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