

# Ontario's Harmonized Sales Tax: Issues for Medical Practitioners & Dentists

On July 1<sup>st</sup>, the HST comes into effect in Ontario, replacing the GST and PST. This newsletter highlights some issues related to the HST that are relevant to medical practitioners and dentists.

Medical services can be categorized into three types for the purposes of GST/HST: exempt, zero-rated or taxable.

1. Services that are **exempt** for GST will also be exempt for HST. These include OHIP insured services and uninsured services that are consultative, diagnostic or health-related. ITC's cannot be claimed for exempt services, which means that medical practitioners/dentists must absorb the cost of the HST on these services.

For those expenses that are not currently subject to Ontario PST, this will represent an 8% increase in overhead costs.

2. **Zero-rated** products/services are products/services that are subject to GST/HST at a rate of 0% and include medical aids, eyeglasses, hearing aids, canes, crutches, heart monitoring devices, artificial teeth, orthodontic appliances and exports etc. ITC's can be claimed for all expenditures related to the supply of these products/services.
3. **Taxable** services include uninsured cosmetic surgery, consulting services and expert witness fees. HST will be charged for these services and ITC's can be claimed for all expenditures related to the supply of these services. Medical practitioners may want to evaluate the benefits of claiming ITC's if they haven't claimed them in the past as the ITCs will be 13% instead of 5%.

Patients will be most affected by the introduction of HST. As they will not be able to recover any of the HST as an ITC, this will mean an 8% increase in their costs.

Medical practitioners and dentists with zero-rated and taxable supplies in excess of \$30,000 per annum are required to register for GST/HST.

Some medical practices engage associates who are compensated by OHIP and are required to pay a percentage of their billings as an associate fee towards the overhead expenses of the medical facility. These associate fees are currently subject to GST and will be subject to HST. The associate fees are often 25% - 40% of a physician's gross billings. The associate fee for an average physician who has gross revenues of \$315,000 can range from \$79,000 to \$126,000. The transition to HST could increase an average physician's costs by \$6,320-10,080 (8% of associate fees). Structures that can reduce this impact of the HST should be considered. Unfortunately, CRA is expected to scrutinize these structures in more detail to ensure that they are tax compliant as the potential tax dollars will be much larger.

Please contact a member of the McLarty tax team if you are interested in discussing any restructuring opportunities or reviewing your GST/HST filings to ensure that you are tax compliant.

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