

## **Harmonized Sales Tax Implications for Group Insurance Plans**

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In our continuous efforts to keep our clients informed of changes taking place in the world of employee benefits and pension plans, we would like to take this opportunity to discuss the implications of the Harmonized Sales Tax (HST) on group insurance plans.

Ontario and British Columbia have adopted measures to implement the HST that will take effect in these provinces on July 1, 2010. Also, certain application rules have been changed or clarified, which has resulted in changes to the existing HST in the other provinces where this tax already applies (Nova Scotia, New Brunswick and Newfoundland and Labrador) and to the QST in Quebec.

### **What does this mean for your benefits plan?**

**Insured benefits:** Insurance premiums and administrative fees for benefits with risks assumed by the insurer are not subject to GST, HST or QST. These changes will therefore have no impact on fully insured plans or administrative services only plans (ASOs) with insurance in excess of the stop-loss limit. Ontario has confirmed that its Retail Sales Tax (RST) will continue to apply at the current rate of 8% to group insurance premiums, including certain ASO claims and expenses where no HST has been assessed. BC currently does not apply PST to insured plan premiums.

**Self-insured benefits:** Administrative services for ASOs without risk (without insurance in excess of the stop-loss limit) will be taxable for GST, HST and QST purposes.

### **Frequently Asked Questions**

#### **Have the tax rules been finalized at this date?**

Most of the required legislation governing the application of HST to employee benefit plans has been introduced, although technical issues have been identified by the insurance industry that we are raising with the appropriate government officials.

As such, we understand that employee benefit plans will follow the general place of supply rules that were announced at the end of February and introduced on April 30.

**Are all Group Benefits plans affected by the new Harmonized Sales Tax in Ontario and B.C.?**

Administrative Services Only (ASO) plans without an insurance component and other fee-for-service type of products will continue to attract HST but more plans will be impacted now that the tax will take effect in Ontario and BC. The GST/HST will not apply to insured plan premiums.

**If a benefits plan is charged GST currently, will it be subject to HST?**

Yes, if the billing address is in one of the participating provinces (ON, BC, NS, NB, NL) HST will be applicable.

**If a benefits plan is currently charged Retail Sales Tax in Ontario, will it attract HST?**

No, in general, a benefit plan currently subject to Retail Sales Tax in Ontario will not attract HST. However, this is not the case for a pure ASO plan. Pure ASO plans that are currently subject to Retail Sales Tax in Ontario will attract HST on the administrative fee portion.

It is important to note that the Retail Sales Tax in Ontario will continue to be charged on premiums for insured plans. There are no changes to these rules at this time.

**What changes will B.C. plan sponsors see?**

Based on the information above, B.C. plan sponsors who currently pay GST on some aspect of their plan will attract HST. B.C. does not currently apply PST to insured plans.

**How will the tax apply if a plan has members in more than one province?**

Provinces now have various tax systems and rates. Based on a federal government general rule announced in February and introduced April 30, the tax will be assessed on the billing address associated with any given bill.

Example:

A client with a head office and billing address in Ontario will be charged 13% HST on the ASO fees. A client in Alberta will be charged 5% GST. For a client with multiple billing addresses, each bill will carry its own rate based on province of the individual billing address.

**How many provinces will have HST after July 1?**

HST will be applicable in Newfoundland and Labrador, Nova Scotia, New Brunswick, Ontario and British Columbia. Quebec has its own version of a harmonized tax that results in two taxes being applied - the GST and the Provincial QST (also known as TVQ).

**Will these provinces all work under the same HST billing rules?**

All provinces with HST, as well as Quebec, will apply the billing address rule mentioned above.

**Will tax submission to the government change?**

HST is administered by the federal government. The provincial component of the HST for Ontario and B.C. will now be submitted to the federal government along with other GST and HST.

**Will input tax credits apply?**

Most groups will be able to claim input tax credits or rebates for the new HST. However, since some groups will be unable to claim input tax credits, business owners should contact their tax specialist to understand how these will apply to their business.

We hope you have found this information useful!