Aon Hewitt
Consulting Canada | Health and Benefits

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Saskatchewan Provincial Sales Tax Extended to Insurance Premiums

As announced in Saskatchewan's, *Meeting the Challenge Provincial Budget 2017-18 March 2017* budget document, the Provincial Sales Tax (PST) increased from 5% to 6%, and effective August 1, 2017, will be extended to insurance premiums in the province.

This new tax obligation will put additional financial pressure on benefit plan costs. The effect will be felt by the plan sponsors themselves, and in cases where premium cost-sharing is in place, by both retirees and active plan members. The unexpected cost increase in Saskatchewan is yet another reminder of the fluidity of the benefits environment, and employers should continue to vigilantly monitor their programs to ensure that they are fulfilling planned strategic objectives, remaining cost effective, and continuing to satisfy employee needs.

The material in this bulletin is based on information released by the Saskatchewan government to date and key points are summarized below. Many areas require further legislative clarification. Updates will be provided as more specific information about the application of PST to group benefits programs becomes available.

Provincial Sales Tax (PST) – General Increase

Effective March 23, 2017, the Provincial Sales Tax (PST) rate increased from 5% to 6%. The new rate of 6% applies to all taxable sales or leases made on or after March 23, 2017 and will affect the price of all taxable goods and services. The information below pertains to the PST as it affects insured and uninsured employee benefit programs.

Application to Insurance Premiums and Other Benefit Arrangements

Effective August 1, 2017 (extended from original July 1, 2017 effective date) PST of 6% will apply to premiums, fees and charges for most insurance coverage including individual and group insurance such as life, disability and supplemental health care (e.g. drugs, dental, vision or hearing care). PST will also apply similarly to benefits plans including Administrative Services Only (ASO) arrangements, funded and unfunded benefit plans and qualifying trusts.

Group Insurance

Group insurance policies typically cover participants in a specified group under a master policy. Associated premiums may be fully paid by either a plan sponsor or plan members, or premium costs may be shared by the plan sponsor and plan members.

Employer Premiums

Effective August 1, 2017, employer premiums under group insurance plans are taxable depending on the place of employment, not on employee residency.

Employee Premiums

Effective August 1, 2017, employee premiums under group insurance plans are taxable depending on both the place of employment and residency. An employee must live and work in Saskatchewan for the employee premiums to be taxable.

Taxability of Group Insurance Premiums

Where the employee lives	Where the employee works	Employer premiums	Employee premiums
Saskatchewan	Saskatchewan	Taxable	Taxable
Outside Saskatchewan	Saskatchewan	Taxable	Exempt
Saskatchewan	Outside Saskatchewan	Exempt	Exempt

Benefits Plans

Benefits plans, whether fully insured or not, provide protection against risk to an individual that could otherwise be obtained by taking out a contract of insurance. Protection against risk to an individual includes any undertaking to pay on death, disability and supplemental health care (e.g. drugs, dental, vision or hearing care).

Administrative Services Only (ASO) agreements

Where there is an ASO agreement (a contract between an employer and a third-party administrator), the premiums or payments to claimants can include dues, assessments, administrative costs and fees paid for the administration of the plan. PST will be collected on these charges and also on the premium or the payment of benefits amounts.

Funded and unfunded benefit plans

The PST levy hinges on the funded status of the plan. A funded benefits plan is a plan where the amounts paid into the fund from which benefits are to be paid, exceed the amounts required for payment of the benefits foreseeable and payable within 30 days after such amounts are paid into the fund. PST is payable at the time amounts are deposited into a funded plan, or when the claims are paid from an unfunded plan. PST will also apply to administrative fees payable by the members.

Qualifying trusts

Plans that are considered "qualifying trusts"; i.e., life and health trusts that meet prescribed requirements under the *Income Tax Act (Canada)*, and hold contributions that exceed three years' worth of benefits payable to members, are required to pay PST on amounts paid out as benefits and on administrative fees payable by the members.

Remittance and other considerations

The administrator will rely on the plan sponsor's election of funded or unfunded status to determine how to charge, collect and remit PST. Where a plan sponsor self-administers a plan or where a third-party administrator provides "adjudication only" services; i.e., has no responsibility under the plan for the payment of the benefits or for the collection of amounts used to pay benefits, the liability for the remittance of PST remains with the plan sponsor. In this case, the plan sponsor may be required to register with the government and remit taxes accordingly.

The information released by Saskatchewan's Ministry of Finance appears to indicate a structure that would in certain situations support double taxation; we believe this is not the intent. As the definitions provided are nearly identical to those found in respect of the Retail Sales Tax (RST) rules in Ontario for insurance and benefit plans, the actual administrative practice in Saskatchewan will likely mirror that of Ontario. Legislative clarification will be required to confirm that this is indeed the intent.

The obligations related to PST will begin on August 1, 2017. Payroll systems will need to be modified accordingly in advance of that date and communications should be drafted to inform employees of changes that will be reflected in their pay statements beginning in August.

A taxable benefit to the employee is generated in certain cases (e.g. life, accidental death and dismemberment, and critical illness) where the premiums are paid by the employer. The application of PST to premiums for these products will add to their cost and will mean a higher taxable benefit to the employee. Employers should provide notice to employees who will be affected by taxable benefit increases that may appear in individual pay statements after August 1, 2017 or in year-end T4 reporting.

Group Insurance Taxation in Canada

The application of PST to insurance products in Saskatchewan adds to the growing list of tax obligations that must be observed by benefit plan sponsors across the country that, along with PST, can include other insurance premium taxes, Goods and Services Tax (GST) and Harmonized Sales Tax (HST).

Goods and Services Tax

For self-insured plans without stop-loss coverage, GST (5%) is calculated on administration fees and the portion of insurance tax imposed on administration fees. However, GST does not apply to fully insured group insurance plans or to self-insured plans with stop-loss coverage or any financial arrangement that provides a limitation of risk. QST (9.975%) and HST (where applicable) apply in the same situations noted for GST. For Administrative Services Only (ASO) benefits, QST is applicable to administration fees and the portion of insurance tax imposed on administration fees for Quebec resident employees.

Provincial Insurance and Sales Tax

	Insured Plans[1]		Self-insured Plans		
Jurisdiction	**Insurance Tax[2] %**	**Sales Tax %**	**Insurance Tax[2,3] %**	**Sales Tax %**	**Harmonized Sales Tax %**
Alberta	3.00	N/A	N/A	N/A	N/A
British Columbia	2.00	N/A	N/A	N/A	N/A
Saskatchewan	3.00	6.00[7]	N/A	6.00[8]	N/a
Ontario	2.00	8.00	2.00	8.00[4]	13.00
Quebec	3.48	9.00	3.48	9.00[5]	N/A
Manitoba	2.00	8.00[6]	N/A	N/A	N/A
New Brunswick	2.00	N/A	N/A	N/A	15.00
Nova Scotia	3.00	N/A	N/A	N/A	15.00
Prince Edward Island	3.75	N/A	N/A	N/A	15.00
Newfoundland and Labrador	5.00	N/A	5.00	N/A	15.00
Northwest Territories and Nunavut	3.00	N/A	N/A	N/A	N/A
Yukon	2.00	N/A	N/A	N/A	N/A

1. The sales tax is applicable to the premium (less any refund).

2. This tax is sometimes referred to as a "Premium Tax".

3. This tax applies to paid claims, administration fees and interest charges. In Quebec and Newfoundland and Labrador,it applies to the paid claims, administration fees, interest and insurance tax (since insurance taxes are considered expenses like administration fees). However, for unfunded disability insurance plans in Ontario that are not fully paid by employees, the insurance tax does not apply.

4. In Ontario, the sales tax is calculated on the total claims and administration fees. Where there is no stop-loss coverage, the sales tax applies only to total claims.

5. In Quebec, the sales tax is calculated on the total claims, administration fees and insurance tax where there is stop-loss coverage. Where there is no stop-loss coverage, the sales tax applies only to total claims.

6. In Manitoba, the sales tax is applicable to premiums for life, accidental death & dismemberment, critical illness and disability insurance.

7. Effective August 1, 2017.

8. Effective August 1, 2017. In Saskatchewan, the sales tax is calculated on total claims and administration fees. There are currently no distinctions relative to the presence of stop-loss coverage.

Key Contacts

Should you wish additional information on this topic, please contact your local Aon Hewitt Consultant, or send an email to **canada.hbknowledge@aonhewitt.com**.

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