



INDIRECT TAX

B.C. and Ontario Sales Tax Harmonization—How Will It Affect Property and Casualty Insurance Companies?

KPMG LLP

Property and Casualty (P&C) insurance companies need to get ready for British Columbia and Ontario's new harmonized sales tax (HST), to take effect on July 1, 2010. The time to start developing your HST implementation strategy is now as you plan your 2010 financial budgets, capital expenditures, and human resource allocations.

B.C. and Ontario intend to harmonize their provincial sales taxes with the 5 percent federal Goods and Services Tax (GST) to create a 12 percent B.C. harmonized sales tax (HST) and a 13 percent Ontario HST on most GST-taxable goods and services provided in these provinces.

What You Should Know

Though details are still pending, the B.C. and Ontario HST are expected to apply in a fashion similar to the current HST in the Atlantic provinces of New Brunswick, Nova Scotia, and Newfoundland and Labrador. The HST tax base and general rules are expected to be similar to the GST, with some exceptions. GST-exempt financial services should remain exempt from HST. However, Ontario proposes to retain an 8 percent tax on the same types of insurance currently taxed under the provincial sales tax (PST) system, but notes that automobile insurance premiums would maintain their sales tax exemption.

Due to the broader GST/HST tax base, many items previously not subject to PST will become HST-taxable, such as many services. As such, you will have to collect HST, instead of GST, on these taxable sales.

Most HST implementation strategies will likely include a review of the "place of supply" rules. P&C insurance companies will have to determine whether their taxable sales and purchases will attract B.C. or Ontario HST, Atlantic HST, GST, or GST and PST/Quebec Sales Tax (QST). For this reason, among others, significant system changes will be required to deal with the HST.

B.C. and Ontario released general HST transitional rules on October 15, 2009 to help determine which taxes apply to transactions straddling July 1, 2010. These rules also include new HST self-assessment requirements for some entities. You should review those transitional to determine how they apply to your transactions.

The GST/HST tax status of some services supplied in the financial sector is not clear, and may be questioned by the tax authorities. As such, the cost of a tax status error could potentially increase to 12 percent in B.C. or 13 percent in Ontario (from 5 percent GST) of the sale price. P&C insurance companies may wish to include in their HST implementation strategies a review of the GST/HST status of their services.

Also, P&C insurance companies should consider in their budgets the additional unrecoverable tax they may incur. The B.C. and Ontario HST may increase costs for most P&C insurance companies and certain other financial institutions since their B.C. and Ontario HST net tax liability may be based on a complex formula known as the special attribution method (SAM). A key component of the method involves multiplying the unrecoverable GST incurred by a factor (anticipated to be 7/5 in B.C. and 8/5 in other HST provinces) and the provincial allocation to harmonized provinces, less the actual HST incurred.

Contact Us

KPMG can help your business effectively manage a smooth transition to B.C. and Ontario PST-GST harmonization.

For details, please contact your KPMG adviser.

As part of your HST implementation strategy, have you considered:

- How the additional costs of B.C. and Ontario HST will affect your operating budgets
- The potential effect of the SAM formula on your company and related entities or self-assessment requirements
- The increase HST cost of claims
- Whether your business systems are prepared to deal with the effect of tax rate changes on sales tax matrices
- The effect of the B.C. and Ontario HST on tax-inclusive existing contracts
- The effect of the B.C. and Ontario HST on investments (e.g., residential and commercial properties)
- Reviewing your significant upcoming purchases for opportunities to reduce the effect of the proposed harmonization.

How Can You Manage Indirect Tax Effectively?

Your KPMG adviser can help you manage the impact of the new B.C. and Ontario HST on your business. The following KPMG professionals lead our Indirect Tax teams for insurance companies in Canada:

David Schlesinger
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Dave is the Partner-in-Charge of KPMG's Greater Toronto Area Indirect Tax practice and is responsible nationally for indirect tax services for financial institutions. With more than 32 years of tax and accounting experience, Dave has assisted several of the largest life, P&C, and other types of insurance companies with complex indirect tax issues, including the new indirect tax rules for financial institutions. He is currently assisting financial institutions with implementation issues relating to the proposed B.C. and Ontario HST.

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John has more than 17 years of indirect tax experience both in Canada and the European Union. He advises a wide array of clients on domestic and international sales tax issues, principally focusing on the finance and manufacturing sectors. John worked five years in Europe on VAT issues and is a member of KPMG International's Global Financial Services VAT Network. John is a former senior policy officer with the Department of Finance, where he was responsible for GST/HST policy and legislation for services, and the cross-border movement of goods. He has participated in working groups at the OECD and the WTO on cross-border issues.

Cliff Lee
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Cliff advises clients in a broad range of indirect tax areas, with a special focus on GST issues for financial institutions. Cliff provides Canadian and foreign-based banks, insurance companies, and investment dealers with tax planning and tax recovery ideas to help manage their GST obligations. Cliff has also advised numerous financial institutions on the impact of proposed legislation and on issues related to the special attribution method.

Tim Mathis
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Tim has 10 years of indirect tax experience, during which he has played the lead role in GST recovery engagements at more than 20 financial institutions, including insurance companies, banks, securities dealers, reinsurance companies, leasing/finance companies, and surety and credit card companies. These engagements included reviewing indirect tax models and identifying improvement opportunities to help clients manage indirect tax costs including special attribution method calculations.

Information is current to November 10, 2009. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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