

Tax alert

B.C. Tax Updates – Employer Health Tax, the replacement for B.C.’s MSP.

November 14, 2018

Introduction

Recently the BC government released additional information pertaining to the upcoming Employer Health Tax (“EHT”), which will be replacing MSP in B.C.

What’s changing?

Beginning in 2019, employers with B.C. remuneration greater than the exemption amount in a calendar year must register for the EHT. The exemptions amounts are:

- \$1,500,000 for registered charities and not-for-profit organizations (“NFPOs”); and
- \$500,000 for all other BC employers.

This exemption amount must be shared amongst employers that are associated with one another according to the Income Tax Act (Canada) (the “Act”). In the case of individuals, partnerships and trusts, each is considered to be a corporation with a single class of voting shares for the purpose of applying the association rules.

1. Remuneration

EHT will be applicable on B.C. remuneration paid by an employer to employees or former employees in a calendar year. For the purposes of the EHT calculation the payroll dollar amount on which the tax will apply, remuneration consists of:

- All payments, benefits or allowances that must be included in the income of an employee under sections 5, 6, or 7 of the Act (generally the same amounts that would be included when calculating source deductions, however some special circumstances may apply); and
- Specifically *excluded* from remuneration are employer paid contributions or premiums to: Registered pension plans, private health service plans, supplemental unemployment benefits, deferred profit sharing plans, and retirement compensation arrangements. Pensions and annuities paid to retired employees and contributions by an employer to a plan or trust (if the payment was already included as remuneration) are excluded.

The employment relationship is determined based on the rules set out in the Act, and the administrative policies already employed by the Canada Revenue Agency (“CRA”).

The EHT will be applied on B.C. remuneration:

- Of \$500,000 or less – no EHT applies
- Between \$500,000.01 and \$1,500,000 – $2.95\% \times (\text{B.C. remuneration} - \$500,000)$
- Greater than \$1,500,000 – $1.95\% \times \text{total B.C. remuneration}$

2. Registration

Registration for the EHT is done online through the employer's eTaxBC account, for which the employer will need to register if they have not already done so, and an EHT account number will be assigned. Deadlines for EHT registration are:

- May 15, 2019 – if the employer is required to pay instalments for EHT in the 2019 calendar year (see below); or
- December 31, 2019 – for all other employers.

In order to register for an EHT account, corporate employers will need:

- i. A federal business number;
- ii. Mailing address and business location;
- iii. Permanent establishment date (date the employer became established in B.C.); and
- iv. Incorporation number and date (additional documents are applicable for charities, NFPOs and partnerships).

3. Filing and Payments

Filing an EHT return and payment of amounts owing is done online through eTaxBC. The first return is due March 31, 2020. Instalment payments must be made if in the previous calendar year an employer's EHT exceeded \$2,295. **Instalment payments are required for the 2019 calendar year.** The previous year's EHT is considered to be the amount of tax that would have been payable if the EHT was in effect January 1, 2018. Instalments must be made quarterly and are based on the lesser of:

1. 25% of the prior year's tax; or
2. 25% of the current year's estimated tax.

If an employer chooses to pay instalments based on 25% of the current year's estimated tax and the instalments are less than 25% of both the current year's and the prior year's actual tax, they will be charged interest on the difference.

Instalments are due during the calendar year on June 15, September 15 and December 15, with the remainder due upon filing the EHT return with eTaxBC. If instalments are not required, the balance owing must be paid on or before the due date of EHT return for that calendar year.

Payment is made to the Province of British Columbia either online through eTaxBC or through the employer's financial institution. Some payroll providers may have options for calculating and remitting this tax on behalf of their clients.

Key consideration

The EHT is a potentially complicated issue that will increase the reporting requirements for many B.C. employers. MSP is currently set to be phased out on January 1, 2020, however during 2019 both EHT and MSP may apply.

We can help

For a more in-depth discussion of how EHT may affect you, please contact your WMCB advisor or any of the individuals listed below.

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