



British Columbia Employer Health Tax Legislation Introduced

British Columbia's February 2018 budget confirmed the previously announced elimination of Medical Services Plan (MSP) premiums effective 1 January 2020. It also announced a premium revenue replacement strategy that includes an Employer Health Tax (EHT) that will come into effect on 1 January 2019.

The parameters of the new EHT were released in a 4 July 2018 Ministry of Finance Employer Health Tax Notice. Legislation confirming the framework was introduced on 16 October 2018 and is expected to pass before the end of the year. When passed, **Bill 44, the Budget Measures Implementation (Employer Health Tax Act), 2018** will impose the new tax, effective for the 2019 calendar year, on the remuneration paid by employers to or on behalf of employees that report for work in British Columbia.

Registration for filing and paying employer health tax will start in January 2019. Those paying the tax in instalments must apply to be registered for tax payment on or before 15 May 2019. Employers will be required to pay by instalments if their 2018 payroll indicates an EHT payment of over \$2,925. If so, the first installment is due on or before 15 June 2019.

Who will pay B.C. EHT?

The EHT is an annual payroll tax that will apply to employers beginning in January 2019.

The EHT will only apply to employers with B.C. payroll, which includes:

- Remuneration paid to employees who report to work at a permanent establishment of the employer in B.C., and
- Remuneration paid to employees who do not report to work at a permanent establishment of the employer, but are paid from or through a permanent establishment in B.C.

It does not include any remuneration paid to employees who report for work at a permanent establishment of an employer that is outside B.C.

What are the EHT Tax Rates?

Employers with B.C. payroll:

- Of \$500,000 or less will not pay EHT
- Between \$500,000.01 and \$1,500,000 will pay the tax as calculated:
 - $2.925\% \times (\text{Payroll} - \$500,000)$
- Greater than \$1,500,000 will pay 1.95% on their total payroll:
 - $1.95\% \times \text{Payroll}$

Different rates apply to charitable and non-profit employers.

What is included in the payroll calculation?

For the purposes of the EHT, payroll is defined as employment income and taxable benefits under the Income Tax Act (Canada) and includes:

- Salary and wages
- Advances of salary and wages
- Payments for casual labour
- Bonuses, commissions and other similar payments
- Vacation payments
- Gratuities or tips paid through an employer
- Taxable allowances and benefits
- Directors' fees paid to directors of corporations
- Amounts paid by an employer to top up benefits (e.g. top up for maternity or paternity leave)
- Stock option benefits
- Employer-paid contributions to an employees' Registered Retirement Savings Plan
- Employer-paid group life insurance premiums

Are there exclusions?

Employer paid contributions or premiums that are not subject to the employer health tax:

- Registered pension plan contributions
- Private health services plan (i.e., extended health) contributions
- Supplementary unemployment benefit plan contributions
- Deferred profit sharing plan contributions
- Retirement compensation arrangement contributions

Additionally, pension, annuity or superannuation payments paid by an employer to a retired employee are not included in payroll.

How will the EHT be paid?

Employers with B.C. payroll greater than \$500,000 and charity and non-profit employers with B.C. payroll over \$1,500,000 at one location in the year will be required to file and pay employer health tax online.

Employers with B.C. payroll over \$600,000 and charity and non-profit employers with B.C. payroll over \$1,600,000 at one location will be required to make quarterly instalment payments. Taxes will be assessed per calendar year based returns filed annually.

What is the Impact for employers with B.C. payroll?

The elimination of MSP premiums in 2020 may signal cost savings for employers who currently pay all or a portion of MSP premiums on behalf of their employees. However, the introduction of the EHT may reduce the effect of these savings. Additionally, for the calendar year 2019, it appears that these employers may be responsible for both MSP premium contribution obligations and amounts payable under the new payroll tax. For employers with payroll over \$500,000 who do not currently contribute to MSP premiums, the employer health tax introduces a new budget obligation that must be factored into 2019 operations and beyond.

For employers who pay for employee MSP premiums, the new EHT will likely cost those with payroll over \$500,000, more than what they paid for the MSP. For employers with over \$1.5M in annual B.C. payroll, the 1.95% payroll tax would have equated to \$450 (the individual MSP rate) for salaries of \$23,100 and \$900 (the family MSP rate) for \$46,150. Thus, larger organizations will pay more under the EHT for salaries that exceed these threshold salaries.

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