

Frequently Asked Questions (FAQ) - GST/HST Update Related to Group Benefits Plans

(NOTE: Plan sponsors who also have **group retirement plans** with Sun Life Financial should refer to the GRS News Short communication that was distributed electronically. You may also contact your Client Relationship Executive if you have additional questions.)

1. What is changing to the GST/HST legislation?

On February 25, 2010, the Department of Finance (Canada) issued a press release called "Place of Supply, Self-Assessment and Rebate Rules for Harmonized Sales Tax". This document included new Place of Supply rules.

On April 30, 2010 the draft regulations were published under the *Excise Tax Act*, and provide the general Place of Supply legislative framework, introduced by the February press release. On June 9, 2010, the regulations were enacted and are now law.

2. What are the general Place of Supply Rules?

The purpose of the general Place of Supply rules is to determine in which province the supply is deemed to occur and, therefore, which sales tax will apply.

The new Place of Supply rules will rely on the location of the service recipient (i.e. plan sponsor). Previously, the emphasis was on the location of the supplier (i.e. Sun Life) when determining what sales tax rate would apply.

3. Are the draft regulations subject to change?

The regulations were enacted into law on June 9, 2010. We can now finalize our administration processes based on these regulations.

4. When will the new Place of Supply rules become effective?

The legislation on the Place of Supply Rules is effective May 1, 2010. Therefore, since HST has been in place in New Brunswick, Nova Scotia, and Newfoundland and Labrador since April 1, 1997, the new Place of Supply rules became effective May 1, 2010, in these provinces.

The new rules will become effective for **Ontario and British Columbia on services performed following the July 1, 2010 HST implementation date.**

5. When will the QST general place of supply rules changes be announced? It is unknown when Quebec will issue their material. However, we understand from the documents from the Quebec Budget, that the place of supply rules for the QST* will also be effective May 1, 2010.

We continue to monitor any updates that may be released by Quebec to confirm the changes they plan to implement and its effective date.

No changes are expected to the existing QST on insurance premiums (9%) that we need to collect on applicable goods and services.

*Tax Rate: currently 7.5% with an increase to 8.5% effective January 1, 2011 and then 9.5% effective January 1, 2012.

6. When does Sun Life collect GST/HST?

Below is an overview of the applicability of GST/HST to the services and products provided by Group Benefits:

- Services currently exempt of the GST/HST will continue to be exempt. Examples of these exempt financial services include:
 - Group insurance premiums
 - ASO with stop loss insurance
- b. Services where the GST is currently applicable on Sun Life fees may need to have HST charged based on the new Place of Supply rules. Examples of these in Group Benefits include:
 - ASO contracts without stop loss insurance
 - Health spending account (when it is the only ASO arrangement)
 - Healthy RETURNS
 - Early RETURNS
 - Personal spending account

7. What does this change mean to plan sponsors?

While HST has been in place in New Brunswick, Nova Scotia, and Newfoundland and Labrador since April 1, 1997, the new Place of Supply rules became effective May 1, 2010, in these provinces.

The new rules will only become effective for Ontario and British Columbia on services performed following the July 1, 2010 HST implementation date.

Plan sponsors will now have either the GST or HST applied to their fees, when applicable. The current GST rate is 5% and the HST rates are:

British Columbia - 12%

Ontario - 13%

New Brunswick, Newfoundland and Labrador – 13%

Nova Scotia - 13%, 15% effective July 1, 2010, per 2010 budget announcement

8. Is there opportunity for plan sponsors to recover the GST/HST?

Yes. Opportunity exists for many corporations to recover the GST/HST collected through the current input tax credit process available. Plan sponsors should contact their tax department or their advisor for details.

9. How will GST/HST apply on fees?

For the most part, when the Plan sponsor's Canadian contract address is located in one of the participating HST provinces, then HST will apply on all invoices/statements produced for that contract. For the balance of the provinces covered by that contract but where HST is not in place, GST will continue to be collected.

10. Will the Ontario Retail Sales Tax continue to be collected?

Yes. The Ontario Retail Sales Tax (8%) will continue to be collected on insurance premiums and ASO with Stop Loss insurance, based on provincial content.

For ASO without Stop Loss insurance, the ORST will continue to be collected on the claims portion (or contribution portion related to claims), based on provincial content. On Sun Life fees, when the HST is charged, the ORST will no longer apply.

11. When will the GST/HST changes appear on the Invoice/Statements?

Due to the late revision to the GST/HST Technical Information bulletin, which was republished in June 2010 by CRA (B-103 – Harmonized Sales Tax; Place of supply rules for determining whether a supply is made in a province), some of our processes may not be fully implemented for HST calculation purposes for the period beginning July 1st. If this is the case, until our systems are updated, we will continue to calculate the GST and make the appropriate tax adjustments on a future invoice/statement.

12. What is the potential impact on the claims paid as a result of the HST?

Most medical goods and services are exempt from GST/HST and will continue to be exempt after the implementation in ON and BC effective July 1, 2010. Two exceptions are identified as potentially impacting EHC plan costs:

- Massage Therapy Services
- Over-the-Counter (OTC) drugs in BC only

Massage Therapists services that are currently subject to GST, will now be subject to HST in both Ontario and BC. The expected impact to EHC costs is approximately a 0.5% increase. OTC drugs in BC will also be subject to HST (previously GST), impacting the small percentage of EHC plans that cover OTC prescriptions, with an additional 1% increase. Plans that cover OTCs in Ontario are not impacted, as Ontario already applies both GST and PST to OTC drugs.

13. Will SLF fees change as a direct result of the HST being implemented in ON and BC? We do not anticipate any adjustments to Sun Life fees as a direct result of the HST being implemented in these provinces. However as our fees cover our operating expenses they are subject to review on an ongoing basis.

14. Is there a list of items that show what is and is not subject to HST for Ontario and BC?

Yes. There is a list on the Ontario and on the BC websites that may be helpful to you.

15. How can I get more information about the proposed Place of Supply rules? For more information, please refer to the press releases or the regulations issued by the Department of Finance (Canada) regarding the new Place of Supply Rules. These can be found on their website at www.fin.gc.ca.