



GMS INSURANCE

Employee Benefits
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Corporate Buy-Sell
Funding Arrangements

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Ontario & British Columbia Harmonize Sales Taxes

Ontario and British Columbia announced late last year that effective July 1, 2010, they will be moving to a harmonized sales tax (HST) system. The HST will combine the current provincial sales tax (PST) and the federal goods and service tax (GST). HST is already being used in Newfoundland & Labrador, Nova Scotia, and New Brunswick and the federal government is continuing to encourage non-participating provinces to make the change.

This change is predicted to help provinces become more competitive. Under the current tax structure provincial sales tax is applied at each stage of production and on the end product. This leads to paying a tax on tax pushing the price of the end product up. The HST on the other hand is rebated at each stage of production so that the tax is only charged on the end product thereby reducing the overall cost and increasing our ability to compete nationally and internationally.

HST will be 13% in Ontario and 12% in BC. GST makes up 5% of the total tax with provincial tax representing the remainder. While legislation has yet to be released, it is expected that any product or service that currently attracts the GST will be subject to HST come July 1st.

Insurance plans are not subject to

GST and therefore are expected to be exempt from the new HST. Ontario will continue to charge PST and BC will continue with their practice of not charging PST on insurance plans. Most plans on an administration services only (ASO) funding format include some element of insurance such as stop loss protection or out of country insurance. As such, these plans should be HST exempt.

Overall you should not see an increase to your monthly bill due to the new HST. However, as you know, the cost of your plan is based in part on the total cost of your claims. It is possible that claim costs will rise due to the HST. In Canada, there are three ways that goods and services are taxed with respect to the GST/HST: taxable, zero rated, and exempt.

Taxable goods and services including things like clothing, haircuts, furniture and are taxable to the consumer but the businesses that make these goods and services can claim an input tax credit (ITC) on the items used to provide the end product.

Zero-rated goods and services are not subject to tax by the consumer and the business that provides the goods and services can claim the ITC. Zero-rated goods include prescription drugs, drug dispensing fees and medical devices.

Exempt goods and services are not taxable to the consumer but businesses supplying the good or service cannot claim the ITC.

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Most medical and dental services and services provided by financial institutions and insurance companies fall into the exempt category.

For the most part goods and services that fall under the taxable or zero-rated categories will not have an impact on your claim costs. However, there is a concern that exempt goods and services will. Overhead expenses such as heat, electricity, paper, computers, etc. used by dental and medical offices and insurance companies will attract the HST. However, because of their exempt status, the businesses cannot claim the ITC. When overhead expenses rise, they tend to get passed on to the end consumer. Cost increases for medical and dental offices may be passed on to patients resulting in higher claim costs. Costs increases for insurance companies may lead to an increase in administration fees and therefore premiums. Insurance companies are not expected to raise their rates right away. It is their discretion as to how they are going to recoup their increased costs but it is likely that this will be a factor when analyzing the renewal terms.

GMS will continue to monitor the situation and advise you as more information becomes available.

Ontario Dispensing Fees

When you pick up a prescription at a pharmacy, there are generally two charges that you pay. One is for the drug itself and the other is a fee paid to the pharmacy for filling the prescription. This filling fee is

known as the dispensing fee. The amount a pharmacist can charge for the ingredient portion of the drug is limited. However, the amount of the dispensing fee is left to the discretion of the pharmacy. Insurance companies typically include a reasonable and customary maximum for dispensing fees to eliminate overbilling by pharmacists. Notices have been recently sent out to policyholders from some insurance carriers announcing that they will now be using a reasonable and customary amount of \$11.99 in Ontario.

If your plan already includes a dispensing fee maximum or a dispensing fee deductible, this change will not impact you at all. The impact to plans that cover 100% of the dispensing is expected to be negligible. A survey of over 3,300 Ontario pharmacies showed that only 35 charge dispensing fees in excess of \$11.99 and those pharmacies have been notified of this new reasonable and customary charge. Pharmacists are required to post their dispensing fees so to

avoid any unexpected out of pocket costs, plan members are encouraged to take notice of the posted dispensing fees and shop elsewhere if it exceeds \$11.99.

Changes to the METC

The federal medical expense tax credit (METC) provides tax relief to Canadians who have higher than average medical and disability-related expenses. Procedures and treatments purely for cosmetic reasons will no longer qualify under the METC.

GMS' Cost Plus program and some Health Care Spending Accounts (HCSAs) use the METC as a basis for determining the eligibility of claims. As a result, expenses incurred after March 4, 2010 for cosmetic reasons will no longer be covered through these plans.

Sources:

www.rev.gov.on.ca/en/taxchange/
www.gov.bc.ca/hst
<http://www.cra-arc.gc.ca/gncy/hrmnztn/menu-eng.html>

Quiz Corner

Put your mental mettle to the test and a \$50 prize in your pocket!

A father is four times as old as his son. In 20 years, he will be twice as old as his son. How old are they now?

Answers can be sent to: info@gmsinsurance.com or by fax to 905-670-4146. We will draw a winner from the correct answers.