

The New BC Employer Health Tax and Its Intersection with Medical Services Plan Premium

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In Budget 2018, the BC NDP announced that it would be replacing the current system of subsidizing the health care system through collecting individual Medical Services Plan (MSP) premiums with a new Employer Health Tax (EHT), effective January 2019.

Under the current MSP system, every person or family is responsible for paying MSP premiums, the amount of which depends on income level. Many employers pay MSP premiums for their employees and their families as part of employment benefits, but they are not required to do so.

In contrast, the EHT is an annual payroll tax that will apply to all employers with “BC payroll” (*i.e.*, employers of employees who report to work at a permanent establishment in BC, or of employees who are paid from a permanent establishment in BC) exceeding \$500,000. In effect, the EHT shifts the responsibility for subsidizing the cost of the health care system from individuals to employers.

Employers with an annual BC payroll over \$500,000 will be subject to the EHT, with rates varying on a sliding scale starting at 0.98 per cent to a maximum of 1.95 per cent (for employers with a BC payroll exceeding \$1.5 million). “Payroll” includes all employment income and taxable benefits under the *Income Tax Act* (Canada), and includes salary and wages, bonuses, signing bonuses, non-compete payments, commissions, vacation payments, gratuities and tips paid through the employer, taxable allowances and benefits, top-up payments, stock option benefits, employer-paid contributions to an employee’s RRSP, employer-paid group life insurance premiums, etc. “Payroll” does not include:

- 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
- Pension, annuity or superannuation payments paid by an employer to a retired employee
- Fees paid to independent contractors

Registration for filing and paying the EHT will start in January 2019. It will be paid via quarterly instalments on June 15, September 15, December 15, and March 31.

The Ministry of Finance released an [Employer Health Tax \(EHT\) Tax Notice](#) in July 2018. The Tax Notice includes proposed implementation information, including information on effective rates, the definition of “payroll” and “BC payroll”, rules regarding instalment payments, and other implementation details. Draft legislation is expected to be introduced this fall, which will provide further information and definitively establish EHT liability.

As mentioned above, the EHT will take effect in January 2019. However, while MSP premiums were reduced by 50 per cent commencing in January 2018, they will not be eliminated until January 1, 2020. As such, there will be a period of one year during which both MSP premiums and the EHT will be payable, and employers who pay MSP premiums for their employees and their families will have to pay both MSP (albeit at a discounted rate) and the new EHT if applicable.

How Employers Can Adapt

Before the new EHT comes into effect, employers may want to consider:

- Reducing their payroll to less than \$500,000, in order to be exempt from paying the EHT
- Revising their budgets for 2019 to take into account the new EHT (and, for some employers, the requirement to pay both MSP and the EHT)
- Reducing or eliminating their coverage of MSP premiums for employees and their families (subject to any limitations imposed by individual employment contracts, collective agreements in the unionized context, and concerns over employee morale)
- For individuals who are employed by a corporation of which they are a shareholder, changing the compensation model from salary (which would be subject to the EHT) to dividends (which would not be subject to the EHT)

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