



Board of Funeral Services Conseil des services funéraires

SPECIAL NOTICE TO MANAGERS

June 29, 2006

RE: Reduction in GST from 7% to 6%

You are likely wondering how to treat the Goods and Services Tax (GST) on prepaid contracts since the GST will be reduced to 6% as of July 1, 2006.

The following explains the Board of Funeral Services' position and its understanding of the Canada Revenue Agency's (CRA) position on how to handle the GST on prepaid contracts. While the positions, in general, are consistent, the CRA and the Board are responsible for their respective legislation, i.e. the *Excise Tax Act* and the *Funeral Directors and Establishments Act* (FDEA).

The following are the answers to the questions that you most likely may have about how the CRA and the Board expect licensees to handle the GST.

What is Revenue Canada's Position?

As of April 2003, GST on prepaid contracts was to be placed in trust and the GST remitted to CRA only at the time of need (some exceptions apply). Please review GST/HST Information Bulletin B-091, *Timing of the Application of the GST/HST to Prepaid Funeral Arrangements* at:

<http://www.cra-arc.gc.ca/E/pub/gm/b-091r/README.html>

This means there are generally two scenarios: the GST has already been remitted or it is in trust. The CRA has issued a GST/HST Info Sheet called *Applying the GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements* issued in June 2006. You may view it at:

<http://www.cra-arc.gc.ca/E/pub/gi/gi-016/README.html>

Prepaid contracts where the GST has been remitted to CRA will be considered complete (Exceptions may apply to ongoing multiple payment contracts). The CRA will not issue a refund of the 1% at the time of need. However, the GST may, in some cases such as cancellation, be recovered from CRA.

For prepaid contracts where the estimated GST was placed in trust with the principal, if the contract is fulfilled (i.e. the death occurs) prior to July 1, 2006, the rate of 7% will apply and if the contract is fulfilled after July 1, 2006, the rate of 6% will apply. Where ongoing multiple payments for contracts straddle July 1, 2006, those payments that are due on or after that date should be adjusted so that the estimate of the GST in those payments is calculated at 6%.

Note: This is a brief explanation of the Board's understanding of the CRA's position. In all cases, the CRA recommends that you consult with the Bulletin and Info Sheet to determine how the GST rate reduction applies to a particular prepaid contract. If you have any questions regarding the CRA's position, please call a GST/HST Rulings Centre at 1 (800) 959-8287.

For more general information about the impact the change may have on how you run your business, visit the CRA site and review a very thorough set of Questions and Answers.

<http://www.cra-arc.gc.ca/agency/budget/2006/gstrateqa-e.html>

What is the Board's position?

Simply put, licensees are asked to fulfill prepaid contracts as they usually would, but charge the GST at 6%, rather than 7%. If there is excess, as always, it will have to be refunded to the estate of the beneficiary. The Board does not expect licensees to calculate the income earned on the original amount paid in respect of GST in order to determine a shortfall or overage.

What if I remitted the GST to CRA when it was prepaid?

Since the CRA has said that licensees will not be eligible for a refund of the GST that has already been remitted to the CRA, the Board does not expect licensees to refund the money from their own pocket.

What if the consumer requests a refund now?

Licensees are prohibited from removing the money from the trust or insurance product until the contract is cancelled or the beneficiary has died. That means that where the contract is still in force, i.e. the beneficiary is still alive, licensees would not be permitted to withdraw the GST. Again, the Board would not expect licensees to make the payment to consumers from their own pocket.

What if the consumer requests a refund at the time of need?

It will be the licensee's choice whether to refund the 1% difference in the GST as a separate refund before calculating the account. Provided the account is calculated properly using 6% GST, then the Board will not require a licensee to carry out a separate calculation for the 1% GST reduction.

If I choose to refund the 1%, how do I calculate the amount?

The Board recommends the refund be equivalent to the 1% difference in the GST and does not expect licensees to calculate the income earned on the GST to determine a shortfall or overage.

The calculation: Calculate the GST as if it was still 7%, then as if it was 6%. The refund would be the difference between the two amounts. See the three examples below.

<u>Example:</u>	<u>#1</u>	<u>#2</u>	<u>#3</u>
Services and Supplies	\$5,000	\$7,500	\$2,000
GST at 7%	\$350	\$525	\$140
GST at 6%	\$300	\$450	\$120
Refund owing	\$50	\$75	\$20

For additional assistance, please contact the inspector for your region.

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Yours truly,

Joseph Richer

Registrar