



# GST/HST Memoranda Series

## 17.9 Insurance Agents and Brokers

August 1999

Overview	This memorandum explains, for purposes of the Goods and Services Tax/Harmonized Sales Tax (GST/HST), the special provisions of the <i>Excise Tax Act</i> (the Act) that pertain specifically to insurance agents and brokers.
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**Disclaimer**                      The information in this memorandum does not replace the law found in the *Excise Tax Act* and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate Regulation, or contact a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287.

If you are located in the Province of Quebec, please contact Revenu Québec by calling the toll-free number 1-800-567-4692 for additional information.

**Note**                                This memorandum supersedes GST Memorandum 700-5-12, *Insurance Agents and Brokers*, dated May 7, 1992.

**Note - HST**                        Reference in this publication is made to supplies taxable at 7% or 15% (the rate of the HST). The 15% HST applies to supplies made in Nova Scotia, New Brunswick and Newfoundland (the “participating provinces”). If a person is uncertain as to whether the supply is made in a participating province, the person may refer to Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Revenue Canada tax services office.

### Insurance agents and brokers

**General**                            1. Insurance agents and brokers may be either employees of an insurance company or brokerage firm, or self-employed persons. It is necessary to determine the nature of this legal relationship for purposes of the GST/HST since it affects a person’s liability to register for the GST/HST, collect tax, claim input tax credits (ITCs), and report and remit tax. The rules to be used for this determination will be similar to the criteria used for income tax purposes.

### Employed insurance agents and brokers

**GST/HST treatment**            2. The GST/HST treatment of an insurance agent or broker who is an employee is straightforward. Any services supplied to an employer by an employee that relate to the office or employment of that person are excluded from the definition of services for the purposes of the GST/HST. Consequently, there is no obligation on the employer to pay the tax on such services, nor on the employee to collect the tax.

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3. As an employee, an insurance agent or broker may incur travelling or entertainment expenses in the normal course of duties. While these expenses would normally be taxable at 7% or 15%, no ITC may be claimed by either employee or employer since these inputs normally relate to tax-exempt activities.

4. Detailed information on ITC eligibility for expenses will be available in Chapter 9, *ITCs: Taxable Benefits, Allowances and Reimbursements*, and Chapter 12, *ITCs Adjustments*, of the GST/HST Memoranda Series.

Employees and partners  
ss 253(1)

5. Certain employees may claim a rebate for tax on expenses for which the tax has been paid, and which are deductible in computing the employee's income from employment for income tax purposes. However, this rebate is **not** available to an employee of a listed financial institution such as an insurance company, insurance brokerage firm, bank or trust company.

6. An insurance agent or broker who is an employee of an insurance company or brokerage firm cannot register for purposes of the GST/HST, collect tax, claim ITCs nor file a GST/HST return in respect of employment income.

### Self-employed insurance agents and brokers

Listed financial  
institutions  
subpara 149(1)(a)(iii)

7. Insurance agents and brokers are considered listed financial institutions for GST/HST purposes, provided their principal business consists of the sale, renewal, transfer, or arranging for the placement of insurance policies and other financial products and services. Consequently, insurance agents and brokers will be required to follow special rules provided under the Act for financial institutions and/or listed financial institutions.

ss 225.2(1)

8. With the implementation of the HST, some insurance agents and brokers may meet the definition of a "selected listed financial institution" in which case there are special provisions in the Act that apply only to those financial institutions.

9. Detailed information on listed financial institutions will be available in GST/HST Memorandum 17.6, *Definition of "Listed Financial Institution"*. Information may also be obtained by contacting the nearest Revenue Canada tax services office.

### Exempt supplies

Financial service  
ss 123(1)

10. The definition of the term "financial service" includes the following services that are relevant to the activities of insurance agents and brokers:

para (d)

- the issue, granting, allotment, acceptance, endorsement, renewal, processing, variation, transfer of ownership or repayment of a financial instrument;

paras (f) and  
(f.1)

- the settlement or payment of a claim, a benefit or any similar amount (in money or in kind) in respect of an insurance policy;

para (h)

- the underwriting of a financial instrument; and

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para (l)

- the agreeing to provide or the arranging for certain financial services that are relevant to insurance.

11. The most relevant of these services to the activities of insurance agents and brokers is that of agreeing to provide or the arranging for a financial service relevant to insurance. Most of the services provided by insurance agents and brokers to their clients are exempt as they are associated with the service of arranging for the issuance and maintenance of an insurance policy. Commissions and brokerage fees earned by self-employed insurance agents and brokers are considered to be in respect of a financial service and are, therefore, exempt.

12. Normally, insurance commissions compensate self-employed insurance agents for all intermediary financial services provided, including incidental administrative services. However, in some provinces, fees for these administrative services are paid to self-employed insurance agents and brokers separately from the insurance commissions. Such administrative fees are still exempt, provided the fees are received by the insurance agent or broker who sold the particular insurance policy.

13. Insurance premiums for both life and property and casualty insurance policies are exempt. As well, the payment of insurance claims on these policies is exempt.

14. An insurance policy falls within the definition of a financial instrument for GST/HST purposes. This definition is explained in GST/HST Memorandum 17.1, *Definition of "Financial Instrument"*.

### **Taxable supplies**

15. In the course of selling insurance, some agents or brokers may provide other non-financial services such as advice on risk-control programs, insurance evaluation, and financial or estate planning. If such non-financial services are provided by an insurance agent or broker, which are not related to the arranging for insurance coverage and for which a separate fee is charged, they are taxable at 7% or 15%.

## Zero-rated supplies

Sch VI, Part IX

16. Financial services relating to insurance policies issued by a financial institution are zero-rated to the extent that:

- (a) the policy is issued in respect of persons who are, at the time the policy is issued, non-residents who are insured under the policy; or
- (b) the policy relates to risks ordinarily situated outside Canada.

This provision, however, does not apply to intermediary insurance services provided by insurance agents or brokers since they do not issue policies. If these services are provided to a resident insurer in respect of a non-resident person, these services are exempt. However, financial services provided by an insurance agent or broker to a non-resident insurer are zero-rated under the general rule in section 1 of Part IX of Schedule VI. In general, this position is based on the understanding that services are provided by the insurance agent or broker to the insurance company paying the commission.

Exports  
Sch VI, Part V

17. An insurance agent or broker may also render a non-financial service (e.g., financial estate planning, risk management advice) to a non-resident and, under certain circumstances (i.e., rules applicable to exports under the Act), the service would be zero-rated. Detailed information on exported services is available in GST/HST Memorandum 4.5.3, *Exports - Services and Intellectual Property*.

## Registration

Required registration  
ss 240(1)

18. Self-employed insurance agents and brokers are considered to be “persons” for purposes of the GST/HST. Persons who are self-employed insurance agents or brokers are required to register for purposes of the GST/HST if, in the course of their commercial activities, they make taxable supplies in Canada. Exceptions to the requirement for registration include where the person is a small supplier (as defined in paragraph 20) and where the person is a non-resident who does not carry on any business in Canada.

Registration permitted  
ss 240(3)

19. A person who is a self employed insurance agent or broker may apply to become registered voluntarily whether or not the person is making taxable supplies.

Small supplier  
s 148

20. In general, a person who is a self-employed insurance agent or broker is a small supplier if the person and any associates’ taxable supplies (other than supplies of financial services) made inside or outside Canada in the immediately preceding four calendar quarters do not exceed \$30,000. If self-employed insurance agents or brokers are small suppliers and choose not to register voluntarily for purposes of the GST/HST, their requirements with respect to the GST/HST are negligible and are equivalent to those of an insurance agent or broker who is an employee.

21. Detailed information on GST/HST registration is available in Chapter 2, *Registration*, of the GST/HST Memoranda Series.

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All GST/HST memoranda and other Revenue Canada publications are available on Internet at the Revenue Canada site <http://www.rc.gc.ca/> under the heading "Technical Information" in "General Information".