

CONSULTATION CONCERNING THE APPLICATION OF THE GST/HST TO HOSPITAL AUTHORITIES

Issue:

In response to ongoing changes to the delivery of health care services in Canada, Canada Customs and Revenue Agency (CCRA) is undertaking a review of the application of the GST/HST to hospital authorities. CCRA have requested comments from stakeholders firstly, on the administrative criteria used by CCRA to determine which organizations qualify as “hospital authorities,” and secondly, to examine the various activities carried on by hospital authorities in order to see whether they are entitled to the partial rebate of the GST/HST.

Background:

In the province of Newfoundland and Labrador, as in most of the rest of Canada, the health system has adopted a client-centred continuum of services approach, intended to facilitate the provision of services inside a health facility or out in the community according to the client/patient/resident’s needs. In adopting a wellness approach that takes into account all health determinants, social services to children, adults, families and youth are included in the health services continuum. The province is divided into regions and health services are delivered regionally by 14 health boards. Over the past decade the delivery of health services has undergone considerable change, so that many services that used to be offered in facilities only can now be found in outpatient clinics, for example. Hospital stays are shorter and there is an increase in day surgery, so that aftercare for many procedures takes place at home through a visiting health professional. Health boards are actively pursuing innovative ways of offering health services that may or may not involve hospitals.

Against this background the provisions of the *Excise Tax Act* (ETA) as they apply to hospital authorities and the associated criteria are no longer entirely relevant and consequently application is not only difficult but results in extra costs and anomalies in today’s health system. It is difficult to address the two areas of concern identified by CCRA without calling for an examination of the underlying policies in the light of the rapidly changing nature of the modern health system. In this province, health services are delivered by Institutional Health Boards, that deliver health services in their regions in a variety of institutional settings and facilities, Health and Community Services Boards, that deliver health services in their regions in various ways and facilities in the community, and Integrated Health Boards, that deliver all services in their regions in an integrated manner. The narrow definition of “hospital authorities” and their activities means that the number of health facilities that fall within the definition will shrink in direct proportion to the changes due to reform, as health services move out of the

facilities, more surgical procedures are done in day clinics and fewer patients are admitted to hospitals for care.

The Four Criteria for a “public hospital”

The first two criteria, being designated as a hospital and being publicly funded, present few problems for the current system. The third and fourth criteria are, however, difficult, in that client-centred integrated health care with an emphasis on early intervention and prevention can encompass more than medical and surgical procedures in its health facilities and receivers of health services can be patients, clients or residents. In addition, providing and maintaining in-patient beds and services, as discussed above, is also no longer a defining criterion of the health facilities in this province.

It is noted that it is a “long-standing position” that hospitals must be defined as excluding day clinics and residential care. It is our position that this definition was formulated for the earlier health system, built on the medical model of doctors, hospitals and nurses. As such it is difficult to apply to the modern health system. Difficulties are created and administrative costs incurred as administrators try to place health services delivered in an innovative manner into these categories. The new proposal that “the activities of the operation of a public hospital are activities related to patient care” simplifies matters, but does not address the root problem of trying to fit a square peg into a round hole. We therefore do not agree with the distinction between health services delivered in a hospital and health services delivered in the community for the purposes of the ETA.

Recommendation

To address the questions in the CCRA Consultation Document, since the scope of the legislation is very narrow, we would argue that health services carried out in the community and in other health facilities should be regarded as “hospital activities,” in the broadest sense. This would avoid health authorities (health boards, as they are known in this province) going to considerable trouble to separate one type of health services from another in order to try and fit into categories that no longer correspond to reality. We are also clear that the 50 per cent rebate of HST, currently applicable to non-hospital health services, should apply to these broad “hospital activities,” in the expectation that this will develop towards a zero rating or a 100 per cent rebate of taxes for all publicly-funded, non-profit health services.

Comment: We are investigating the possibility of a different arrangement with the provincial government on provincial taxes, to avoid the current situation where the provincial government provides funding to health boards, some of which is immediately returned in the form of taxes. In this province, hospital services receive a rebate of 83 per cent of the 7 per cent GST, while other health services receive a rebate of 50 per cent of the 15 per cent HST. This confusing situation would be best resolved between the federal and provincial governments to result in either a zero rating or a 100 per cent rebate of taxes for health services.

Advantage

If the aim of the ETA is to avoid publicly-funded health organizations having to use scarce health funds to pay federal taxes rather than to deliver health services, then the broadest possible definitions should be used to fulfill that policy.

Disadvantage

Less GST funds would be collected. However, this would be better than the current situation resulting from federal tax policy, where health authorities are returning health funding provided by one part of the federal government to another part of the federal government in the form of taxes.

Policy Recommendation

We note that M. Bertrand has committed to bringing policy matters to the attention of the Department of Finance, who are conducting their own consultations on tax policy in this area. The NLHBA recommends that publicly-funded, non-profit health services of all kinds either be zero-rated or be 100 per cent rebatable for the purposes of the GST/HST. It makes little sense to be moving public money back and forth through the tax system, both at the federal and provincial level, when it is intended to be used for the benefit of the public in delivering health services. The assumption is that 83 per cent of the GST was originally rebatable for hospitals in recognition of this fact. Public funds were gathered from the Canadian population through the tax system in the first place and should not be partially returned to governments as taxes when the funds are meant to be used for a public purpose, namely the Canadian health system. Tax policy should support the financial stability and further development of the health system, not work against it.

