

**RESPONSE TO THE DISCUSSION PAPER BY FINANCE CANADA, *REVIEW OF
THE GST/HST HEALTH CARE REBATE***

Issue:

In response to ongoing changes to the delivery of health care services in Canada, Canada Customs and Revenue Agency (CCRA) undertook a review of the application of the GST/HST to hospital authorities. A paper was drafted by the Tax Policy Branch of Finance Canada, setting out two options for discussion purposes developed in response to the review findings.

Background:

In the original presentation to Finance Canada, the Newfoundland and Labrador Health Boards Association (NLHBA) had argued for an examination of the underlying tax policies for health in the light of the rapidly changing nature of the modern health system. The eventual response from Finance Canada, however, took a focused perspective and offered two options for change in the existing structure. After a meeting with representatives of the Newfoundland and Labrador Departments of Finance and Health and Community Services, a working committee of health boards' representatives developed a recommendation in response to Finance Canada's draft discussion paper.

There were two options for expanding the hospital rebate applications, both of which will negatively affect the provincial health and community services system in one respect. The services for which an HST rebate is claimed would receive a smaller rebate than at present, since there would be no rebate on the provincial portion of the HST. It is recognized that, from the provincial government perspective, there would be an increase in the amount of the federal rebate under both options, which would be a net gain to the province. Health boards are assuming that the provincial government would adjust the budget allocation to health boards/Regional Integrated Health Authorities to reflect the increase in the federal rebate to the province and neutralize the effect of the smaller rebate to health boards. With this assumption in mind, health boards would support the expansion of the hospital rebate in principle.

The two options set out in the discussion paper for implementation of the expansion are:

1. Expand the rebate to other non-profit health facilities
2. Expand the rebate to services devolved from hospitals

Recommendation

Option 1 was recommended as the preferred option.

Advantages. The administrative burden would be considerably more manageable under Option 1. It was determined that staff processing HST on daily transactions would find it easier to establish the appropriate rebate application based on facilities rather than on programs or services and also that the Materials Management and Account Payable Modules of Meditech would be better managed by facility than by programs or services. The second reason for supporting Option 1 was the observation that the list of services that was suggested for Option 2 is not comprehensive from the perspective of this province's health and community services system. A quick review of the list shows that Addiction Services, Social Services, Health Promotion/Prevention, Behaviour Management and Child Management Services and Child, Youth and Family Services are not included. We believe that in the future a new facility that has only a local impact will be more likely to be successfully designated by CRA under Option 1 than a new service that potentially has a national impact on HST revenues under Option 2.

Disadvantages. Some transactions would still require prorating under Option 1 since some services would not qualify for the hospital rebate under the expanded definition of facilities. However, it is felt that these amounts could potentially be managed through an organization-wide adjustment process rather than a day-to-day transaction process. It is recognized that expanding the hospital rebate application under Option 1 would give rise to a sudden increase in applications in the administrative CRA designation process. However, when the designation process is complete, the administrative burden would be minimal and focused on maintenance.

Conclusion

Based on the above discussion and consultation with experts in the current health boards, the Newfoundland and Labrador Health Boards Association therefore recommends that the Department of Finance support Option 1 in their submission to Finance Canada. We emphasize again that this recommendation is based on the assumption that the requisite adjustments to the budgets of the new Regional Integrated Health Authorities would be made to offset the negative impacts on health budgets of the change in HST rebates.¹

¹ A table is attached that summarizes the impact to the health system of expanding the application of the non-profit rebate percentage to hospital rebate percentage. Long term care and community-based programming will be most affected and will require the necessary budget adjustments to neutralize the impact of the proposed HST rebate changes.