

Tax Exemption

Effective January 1, 2014, the amount of annual Ontario payroll that may be exempt from Employer Health Tax (EHT) is increased from \$400,000 to \$450,000. To better target EHT relief, the exemption is eliminated for private-sector employers with annual Ontario payrolls over \$5 million. Registered charities, including those with payrolls over \$5 million, continue to be eligible for the exemption.

Basic rules

Eligible employers are exempt from EHT on the first \$450,000 of total Ontario remuneration each year. This exemption will be adjusted for inflation every five years using the Ontario Consumer Price Index. Employers with annual Ontario payroll over \$5 million cannot claim the exemption.

Only one annual exemption is available for an associated group of employers. Employers that are associated at any time during the year must take into account the total Ontario remuneration of each associated entity in determining whether they can claim the exemption. When the combined total Ontario remuneration of all the employers that are associated exceeds \$5 million, these employers are not eligible for the exemption.

Eligible employers

Eligible employers generally include:

- private-sector employers
- organizations that receive financial assistance from any level of government but are not under the control of government
- Crown corporations that are subject to federal income tax under Part I of the federal Income Tax Act.

Employers may be corporations, individuals, partnerships or trusts.

Claiming the exemption

The exemption is normally claimed by reducing tax instalments made during the year by the exemption amount allowed. Eligible employers are not required to remit tax instalments until the cumulative remuneration exceeds the employer's allocated exemption amount for the year. No exemption amount should be taken by an employer if the employer expects to exceed its exemption threshold, or is a member of an associated group of employers of which the total combined payroll exceeds \$5 million for the year, or a prorated amount if no employer in the group operated for the full year.

Final adjustments to the exemption amount taken during the year should be made at the time of filing the annual return.

Registered charities

Eligible employers that are registered charities may claim the tax exemption regardless of the amount of their payroll.

Each location of a registered charity may be treated as a separate employer for EHT exemption purposes. Each location may separately claim the exemption, regardless of payroll size.

An employer that is associated with a registered charity is not required to include the payroll of the registered charity for the purpose of determining whether the associated group has payroll of \$5 million or less.

For more detailed information on the EHT rules for registered charities, please refer to the publication **Registered Charity**.

Example one: Charity associated with employer

Boss Co and Daycare are associated with each other. Boss Co is an eligible employer for the full year with annual payroll of \$3 million. Daycare is a registered charity for the full year with annual payroll of \$6 million.

	Jan			Apr			Jul			Oct			Total Payroll
Boss Co													\$3 million
Daycare													\$6 million

Since Daycare is a registered charity for the full year, it is eligible for a \$450,000 exemption regardless of the amount of remuneration it paid during the year.

Boss Co is not required to include Daycare's payroll for the purpose of determining exemption eligibility. Boss Co is eligible for a \$450,000 exemption since its payroll of \$3 million is below the \$5 million threshold.

Associated employers

Members of an associated group of employers must share the tax exemption. To be eligible, the combined total Ontario remuneration of the associated group must be equal to or less than \$5 million.

The tax exemption may be allocated to just one member of the associated group, or it may be shared with the other members.

Employers are associated if they are associated with each other at any time in the year.

Associated employers are connected by ownership or by a combination of ownership and relationships between individuals. Individuals are related either through blood, marriage or adoption. The rules for associated corporations under section 256 of the federal Income Tax Act are used to determine whether or not employers are associated for EHT purposes. Although these rules refer to corporations, their application is extended under the Employer Health Tax Act to include individuals, partnerships and trusts.

Eligible employers that are members of an associated group of employers are required to enter into an agreement to allocate the tax exemption for the year. At least one member of the group is required to complete the **Associated Employers Exemption Allocation form** and submit it to the ministry by the return due date. The exemption amount for all members of the group will be denied if a completed form is not received. More information on **Associated Employers** is available on the ministry's website at ontario.ca/ehf.

Example two: Over the exemption threshold

Kings Ltd and Queens Ltd are associated with each other. Both are eligible employers for the full year. Kings Ltd's payroll is \$3 million for the year. Queens Ltd's payroll is \$4 million for the year.

	Jan			Apr			Jul			Oct			Total Payroll
Kings Ltd													\$3 million
Queens Ltd													\$4 million
Total													\$7 million

Kings Ltd and Queens Ltd are not eligible for the \$450,000 exemption because their combined total Ontario remuneration of \$7 million exceeds the exemption threshold of \$5 million.

Example three: Below the exemption threshold

Drums Co, Flutes Co and Horns Co are associated with each other. All are eligible employers for the full year. Drums Co, Flutes Co and Horns Co each has payroll of \$1 million.

	Jan			Apr			Jul			Oct			Total Payroll
Drums Co													\$1 million
Flutes Co													\$1 million
Horns Co													\$1 million
Total													\$3 million

Drums Co, Flutes Co and Horns Co are eligible for the \$450,000 exemption because the combined total Ontario remuneration of the group is \$3 million. Drums Co, Flutes Co and Horns Co may share the exemption in accordance with their agreed upon allocation.

Example four: Part-year new employers

If a part-year employer is a member of the associated group, the calculation of the exemption threshold for the group is based on the group member that has been an eligible employer the longest in the year.

Sweet Ltd, Spicy Ltd and Sour Ltd are associated with each other. Sweet Ltd is an eligible employer for the full year. Spicy Ltd is also an eligible employer and begins operations on April 1. Sour Ltd becomes an eligible employer on September 1. Sweet Ltd's payroll is \$2 million. Spicy Ltd's payroll is \$1.5 million. Sour Ltd's payroll is \$1 million.

	Jan			Apr			Jul			Oct			Total Payroll
Sweet Ltd													\$2.0 million
Spicy Ltd													\$1.5 million
Sour Ltd													\$1.0 million
Total													\$4.5 million

The exemption threshold for the group would be based on Sweet Ltd's exemption threshold that is \$5 million since Sweet Ltd has been an eligible employer for the entire year.

Total allowable exemption for the group = \$450,000

Maximum exemption for Sweet Ltd = \$450,000

Maximum exemption for Spicy Ltd = \$339,041 ($\$450,000 \times 275/365$ days)

Maximum exemption for Sour Ltd = \$150,411 ($\$450,000 \times 122/365$ days)

Sweet Ltd, Spicy Ltd and Sour Ltd are eligible for the exemption because the combined total Ontario remuneration of the associated group is \$4.5 million. Sweet Ltd, Spicy Ltd and Sour Ltd may share the \$450,000 exemption but cannot allocate all of the exemption to either Spicy Ltd or Sour Ltd. Since Spicy Ltd and Sour Ltd are part-year eligible employers, the maximum that Spicy Ltd can claim is \$339,041 and the maximum that Sour Ltd can claim is \$150,411. However, regardless of the individual maximum amounts, the total claim for the associated group cannot exceed \$450,000 for the year.

Example five: Ceasing business

Pie Co and Apple Co are associated with each other. Apple Co ceases operations on March 31. Pie Co’s payroll is \$3.5 million for the year. Apple Co’s payroll is \$1 million for the period January through March.

	Jan			Apr			Jul			Oct			Total Payroll
Pie Co													\$3.5 million
Apple Co													\$1.0 million
Total													\$4.5 million

The exemption threshold for this group is \$5 million since Pie Co is an eligible employer for the entire year.

Total allowable exemption for the group = \$450,000

Maximum exemption for Pie Co = \$450,000

Maximum exemption for Apple Co = \$110,959 (\$450,000 × 90/365 days)

Pie Co and Apple Co are eligible for the exemption because the combined total Ontario remuneration of the associated group is \$4.5 million. Pie Co and Apple Co may share the \$450,000 in accordance with their agreed upon allocation. Since Apple Co is a part-year employer, the maximum exemption that it can claim is \$110,959.

Note: Apple Co cannot claim any exemption on its Final Return, which is due within 40 days of it ceasing operations, because it will not know at that time if the combined total Ontario remuneration of the group will exceed the \$5 million exemption threshold. However, Apple Co may file an amended return if any exemption is allocated to it by the group at year end.

Part year employers

An eligible employer that commenced or ceased operations, amalgamated, or filed for bankruptcy after the beginning of the year must prorate the \$5 million exemption threshold and the \$450,000 exemption amount, based on the number of days in the calendar year that the part-year employer is an eligible employer and has a permanent establishment in Ontario.

In the event of bankruptcy, the proration calculation does not include the date of bankruptcy.

When two or more corporations amalgamate and there are no other associated employers, the new amalgamated corporation is required to prorate the exemption threshold and the exemption amount from the date of the amalgamation. The predecessor corporations must also prorate the exemption threshold and the exemption amount. The prorations are based on the number of days in the calendar year that the corporations were eligible employers and have a permanent establishment in Ontario.

Members of an associated group that amalgamate during the year should contact their local Ministry of Finance tax office for further information.

Example six: Part-year eligible employer

Apple Pie Enterprises is an eligible employer that is not associated with any other employer. Apple Pie Enterprises begins operating in March but did not have any payroll until July 1. Its payroll from July 1 to December 31 is \$2 million.

The exemption threshold and the exemption amount will be prorated from July 1.

	Jan			Apr			Jul			Oct			Total Payroll
Apple Pie Enterprises													\$2 million

Exemption threshold = \$2,520,548 ($\$5,000,000 \times 184/365$ days)

Maximum exemption = \$226,849 ($\$450,000 \times 184/365$ days)

Apple Pie Enterprises is eligible for a maximum exemption in the amount of \$226,849 because its total payroll of \$2 million during the period July through December is below its allowable exemption threshold of \$2,520,548.

Example seven: Amalgamation

Rob Ltd and Bert Ltd are eligible employers. Rob Ltd and Bert Ltd are not associated with each other or any other employer. On March 31 Rob Ltd and Bert Ltd amalgamated to form Robert Ltd. Robert Ltd is not an associated employer. Rob Ltd's payroll for the period January through March is \$1 million. Bert Ltd's payroll for this same period is \$1.5 million. Robert Ltd's payroll for the period April through December is \$3.5 million.

	Jan			Apr			Jul			Oct			Total Payroll
Rob Ltd													\$1.0 million
Robert Ltd													\$3.5 million
Bert Ltd													\$1.5 million

Exemption thresholds for both Rob Ltd and Bert Ltd = \$1,232,876 ($\$5,000,000 \times 90/365$ days)

Maximum exemptions for both Rob Ltd and Bert Ltd = \$110,959 ($\$450,000 \times 90/365$ days)

Exemption threshold for Robert Ltd = \$3,767,123 ($\$5,000,000 \times 275/365$ days)

Maximum exemption for Robert Ltd = \$339,041 ($\$450,000 \times 275/365$ days)

Rob Ltd is eligible for a maximum exemption of \$110,959 because its total payroll of \$1 million is below its allowable exemption threshold of \$1,232,876.

Bert Ltd is not eligible for the exemption because its total payroll of \$1.5 million exceeds its allowable exemption threshold of \$1,232,876.

Robert Ltd is eligible for a maximum exemption of \$339,041 because its total payroll of \$3.5 million is below its allowable exemption threshold of \$3,767,123.

Multiple account employers

A multiple account employer is an employer that has more than one EHT account number set up for the same legal entity.

A multiple account employer that is an eligible employer and whose total Ontario remuneration is less than the exemption threshold can allocate the exemption to any of its multiple accounts, as long as it does not exceed the total exemption amount allowed for the employer for the year.

Tax exemption rules (before January 1, 2014)

Eligible employers were exempt from EHT on the first \$400,000 of total Ontario remuneration each year. There was no exemption threshold.

Request for written interpretations

To obtain a written interpretation on a specific situations not addressed in this publication, please send your request in writing to:

Ministry of Finance
Advisory Services, Employer Health Tax
33 King Street West, 3rd Floor
Oshawa ON L1H 8H5

Related publications

Other publications providing further details on this topic include:

- **Associated Employers**
- **Registered Charity**

For more information

Visit ontario.ca/ehf or contact the Ministry of Finance at 1 866 ONT-TAXS (1 866 668-8297) or 1 800 263-7776 for teletypewriter (TTY).

Cette publication est disponible en français sous le titre « Exonération fiscale - Impôt-santé des employeurs ». Vous pouvez en obtenir un exemplaire en appelant le 1 866 ONT-TAXS 1 866 668-8297 ou en visitant ontario.ca/finances.

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