

# Insurance Industry: Key Dates and Other Essentials Canada 2004–2005



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# Insurance Industry: Key Dates and Other Essentials Canada 2004–2005

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**Contents** *Click on a Contents heading to connect to the required page*

Recent Tax Changes: Selected Highlights ..... 1  
    Federal Changes ..... 1  
    Provincial Changes ..... 3  
Recent Tax Cases ..... 6  
Recent Federal Regulatory Changes ..... 6  
Insurance Software Available ..... 11  
Publications ..... 11  
Key Tax Dates and Rates ..... 13  
Canadian Premium and Fire Tax – Rates and Deadlines ..... 14  
Sales and Commodity Tax – Rates and Deadlines ..... 15  
Selected Regulatory Dates for Canada, the U.K. and the U.S. .... 16  
Corporate Income Tax Rates for 2004 ..... 17  
Capital Tax Rates for 2004 ..... 18

**Some Cautions**

Rates and other information may change as a result of legislation or regulations issued after this booklet went to print.

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## Recent Tax Changes: Selected Highlights

### Corporate income tax rates for 2004

See page 17 for 2004 combined federal and provincial/territorial corporate income tax rates.

### Status of changes for accounting purposes

For accounting purposes, knowing which income tax changes are considered substantively enacted for Canadian purposes and enacted for U.S. purposes can be important. The tables of corporate tax rate changes provided below show which rate changes that are effective after 2002 are recognized for accounting purposes as of August 18, 2004.

## Federal Changes<sup>1</sup>

### General Corporate Tax Rate

The general federal corporate tax rate (before the surtax) is decreasing:

		Rate		Recognized for accounting purposes?	
		Before surtax	After surtax	Canada	U.S.
Effective date	Before January 1, 2003	25%	26.12%	Yes	
	January 1, 2003	23%	24.12%		
	January 1, 2004	21%	22.12%		

### Large Corporations Tax

The Large Corporations Tax is being eliminated and the exemption has increased:

		Rate	Exemption
Effective date	Before January 1, 2004	0.225%	\$10 million
	January 1, 2004	0.200%	\$50 million*
	January 1, 2005	0.175%	
	January 1, 2006	0.125%	
	January 1, 2007	0.0625%	
	January 1, 2008	Nil	

\* The \$50 million exemption applies to taxation years ending after 2003.

### Automobile Deduction Limits and Benefit Rates

The 2004 prescribed rates will remain at their 2003 levels for purposes of determining:

- automobile deduction limits on employer- and employee-provided cars; and
- taxable benefits on automobile operating expenses.

For a complete description of the tax rules governing automobile expenses and benefits, see our publication *Car Expenses and Benefits – A Tax Guide* on [www.pwc.com/ca](http://www.pwc.com/ca).

<sup>1</sup> Federal tax measures that have not been enacted may be subject to change.

## Deductibility of Interest and Other Expenses

Draft rules affect the deductibility of interest and other expenses effective for tax years beginning after 2004. However, refinements to the rules are anticipated. See our *Tax Memo* "Deductibility of Interest and Other Expenses: What the New Rules Mean" on [www.pwc.com/ca](http://www.pwc.com/ca).

## Interests in Foreign Investment Entities and Non-Resident Trusts

Draft rules, intended to ensure that Canadian residents cannot defer tax on investment income earned outside Canada through investments in foreign entities and trusts, apply to taxation years beginning after 2002. Revisions to the rules were released on October 30, 2003. See our *Tax Memos* "New Rules for Foreign Investment Entities (February 2004 Update)" and "New Rules for Non-resident Trusts (February 2004 Update)" on [www.pwc.com/ca](http://www.pwc.com/ca).

## Cross-Border Share-for-Share Exchanges

Federal proposals will be released pertaining to tax-deferred share-for-share exchanges when a Canadian-resident shareholder exchanges shares of a domestic corporation for shares of a foreign corporation.

## Non-Resident's Mutual Fund Investments

New measures are intended to ensure that non-residents that invest in taxable Canadian property through Canadian mutual funds are subject to Canadian tax.

## Income Trusts

New measures will limit a pension fund's investment in business income trusts.

## Capital Cost Allowance (CCA)

CCA rates increased for the following assets acquired after March 22, 2004:

		Existing rate	Proposed rate
<b>Asset</b>	Computer equipment	30%	45%
	Broadband, Internet and other data network infrastructure equipment	20%	30%

## Non-Capital Losses and Unused Foreign Tax Credits

The carry-forward period for the following losses and tax credits arising in taxation years ending after March 22, 2004 has been extended from seven to ten years:

- non-capital losses (under Parts I and IV);
- unused foreign tax credits; and
- a life insurer's taxable Canadian life investment losses (under Part XII.3).

## Retirement Savings Plans and Profit Sharing Plans

Retirement savings plan and profit sharing plan contribution limits are increasing:

	Registered Retirement Savings Plans (RRSPs)	Money Purchase Registered Pension Plans (RPPs)	Deferred Profit Sharing Plans (DPSPs)
<b>2003</b>	\$14,500	\$15,500	\$7,750
<b>2004</b>	\$15,500	\$16,500	\$8,250
<b>2005</b>	\$16,500	\$18,000	\$9,000
<b>2006</b>	\$18,000	\$18,000*	\$9,000*
<b>2007</b>	\$18,000*		

\* Indexed.

## Defined Benefit Registered Pension Plans (RPPs)

The maximum pension benefit that may be paid from defined benefit RPPs is increasing:

	Pension benefit (per year of service)
2003	\$1,722
2004	\$1,833
2005	\$2,000
2006	\$2,000*

\* Indexed.

## Non-Resident Director's Fees

After 2003, withholdings on director's fees paid to non-residents must be made at graduated tax rates, rather than at a 15% flat rate.

## Provincial Changes

### Alberta

#### General corporate tax rate

Alberta's general corporate tax rate is decreasing:

Effective date	Rate	Recognized for accounting purposes?	
		Canada	U.S.
Before April 1, 2003	13.0%	Yes	
April 1, 2003	12.5%		
April 1, 2004	11.5%		
No date announced*	8%	Not as of August 18, 2004	

\* Alberta has indicated that it intends to reduce the rate to 8% when doing so is affordable.

### British Columbia

#### Premium tax rate

Commencing January 1, 2004, British Columbia's premium tax rate on property insurance and automobile insurance increased from 4% to 4.4%.

### Manitoba

#### General corporate tax rate

Manitoba's general corporate tax rate is decreasing:

Effective date	Rate	Recognized for accounting purposes?	
		Canada	U.S.
Before January 1, 2003	16.5%	Yes	
January 1, 2003	16%		
January 1, 2004	15.5%		
January 1, 2005	15%		
After 2005*	14.5%	Not as of August 18, 2004	

\* The effective date of this change is uncertain.

### Capital tax rate

For taxation years commencing after January 1, 2004:

- all corporations will pay no capital tax on the first \$5 million of taxable capital on an associated basis; and
- for insurance corporations, a rate of 0.3% will apply if taxable capital is between \$5 million and \$5.015 million; reduced rates will no longer apply.

### Northwest Territories

#### General corporate tax rate

The Northwest Territories' general corporate tax rate decreased:

Effective date		Rate	Recognized for accounting purposes?	
			Canada	U.S.
	Before January 1, 2004	12%	Yes	
	January 1, 2004	14%		

### Payroll tax rate

On January 1, 2005, the Northwest Territories' payroll tax rate will increase from 1% to 2% of employment income.

### Nova Scotia

#### Capital tax rate

Nova Scotia's general capital tax rates increased from:

- 0.5% to 0.6% on taxable capital under \$10 million; and
- 0.25% to 0.3% on the remainder.

The capital tax will expire on March 31, 2006, two years later than previously announced.

### Ontario

#### General corporate tax rate

Planned reductions to Ontario's general corporate tax rate were repealed and the rate was increased:

Effective date		Rate		Revised rate recognized for accounting purposes?	
		Planned	Revised	Canada	U.S.
	Before January 1, 2004	12.5%		Yes	
	January 1, 2004	11%	14%		
	January 1, 2005	9.5%			
	January 1, 2006	8%			

### Retail sales tax rate

Ontario's retail sales tax on motor vehicle insurance premiums is being phased out:

Effective date	Rate
Before April 1, 2003	2%
April 1, 2003	1%
April 1, 2004	Nil

### Health care premium

Starting July 1, 2004, Ontario imposes a health care premium that is payable by individuals and, for employees, is remitted through payroll withholdings. The maximum premium is \$450 for 2004 (\$900 commencing 2005).

## Québec

### Corporate tax rates

Québec's corporate tax rates decreased:

Effective date	Rate	Recognized for accounting purposes?		
		Active/eligible income	Other income	Canada
Before March 15, 2003	9.04%*	16.51%*	Yes	
March 15, 2003	8.9%	16.25%		

\* The rates include the 1.6% Youth Fund surtax that applied from March 15, 2000 to March 14, 2003, inclusive.

### Corporate tax returns

Québec now requires all corporate tax returns and forms to be filed in French only.

### Deductibility of investment expenses

Effective March 30, 2004, new Québec rules limit the deductibility of investment expenses to the income from such investments earned in a taxation year. The rules do not apply to expenses incurred to earn active income, such as business or rental income. Expenses not deductible in a year may be carried back three taxation years or forward indefinitely to reduce investment income.

### Deductibility of meals and entertainment expenses

Meal and entertainment expenses are 50% deductible for income tax purposes. Québec introduced a ceiling on this deduction of 1% of gross sales on June 12, 2003. On March 30, 2004 the ceiling was increased and depends on annual sales as shown.

		Ceiling
Annual sales*	< \$32,500	2%
	\$32,500 to \$52,000	\$650
	> \$52,000	1.25%

\* Adjusted for short taxation years.

## Saskatchewan

On April 1, 2004, Saskatchewan's sales tax rate increased from 6% to 7%.

## Yukon

On July 1, 2004, the First Nation Goods and Services Tax (FNGST) replaced the GST for eight First Nations in the Yukon. The FNGST will apply at a rate of 7% and will be administered by the CRA.

## New Brunswick, Newfoundland and Labrador, Nunavut and Prince Edward Island

No significant changes were made to the rules that apply to insurers in New Brunswick, Newfoundland and Labrador, Nunavut and Prince Edward Island.

## Recent Tax Cases

In **European Marine Contractors Limited v. The CCRA** and **Saipem Luxembourg S.A. v. The CCRA**, the Federal Court Trial Division required the non-resident taxpayers to provide the Canada Customs and Revenue Agency (now the Canada Revenue Agency) with foreign-based financial information for years during which they carried out contracts in Canada.

In **BJ Services Company Canada v. The Queen**, the Tax Court of Canada ruled that financial advisory and white knight fees incurred by a target company in connection with a takeover were deductible.

In **Pat Hayes et al. v. The Queen**, the Tax Court of Canada ruled that a convertible hedge is a separate identifiable property for income tax purposes. Therefore, the components of the convertible hedge (i.e., the “short” and “long” positions) had to be combined when determining the income or loss from the hedge at the time the hedge was unwound, preventing the taxpayers from realizing income or losses on the components of the convertible hedges separately.

In **Canadian Forest Products Ltd. v. The Queen**, the Tax Court of Canada ruled that outstanding cheques were not loans or advances for purposes of calculating taxable capital subject to the Large Corporations Tax.

## Recent Federal Regulatory Changes

The Office of the Superintendent for Financial Institutions (OSFI) continues to update and revise the guidelines and advisories affecting Canadian insurers. Below are highlights of some of the material changes. The full text is available on the OSFI Web site ([www.osfi-bsif.gc.ca](http://www.osfi-bsif.gc.ca)); specific URLs are provided below.

### Revised Guidelines

#### **Guideline A – Minimum Continuing Capital and Surplus Requirements (MCCSR)**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/mccsrrev03\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/mccsrrev03_e.pdf)

This guideline, which applies to life insurers, was revised for year-end 2003. The most significant changes relate to requirements for participating policies, negative reserves and lapse risk, intangible assets, segregated fund guarantee risk and ratings for commercial paper. In addition, now a full set of reports must be filed quarterly.

#### **Guideline A – Minimum Capital Test (MCT)**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/MCT\\_Guideline\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/MCT_Guideline_e.pdf)

Property and casualty insurance companies were required to file the MCT return with the first interim return due in 2003. In July 2003, the guideline was amended so that assets subject to a 100% capital factor will be deducted from Capital Available, rather than included in Capital Required.

#### **Guideline B-10 – Outsourcing of Business Activities, Functions and Processes**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/b10\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/b10_e.pdf)

OSFI updated the existing guideline to ensure that it remains current in an environment in which reliance on outsourcing by financial institutions is increasing. Revisions from the May 2001 guideline include more clarity about how subsidiaries of provincially or foreign regulated financial institutions are expected to manage the risks associated with services provided by the parent or third parties. Outsourcing of certain internal audit and actuarial services to its external auditor must be in accordance with auditor independence standards issued by the Canadian Institute of Chartered Accountants (CICA).

Other significant changes include the following:

- Institutions will be expected to apply more comprehensive criteria for determining the materiality of outsourcing arrangements and to ensure that the robustness of risk management is commensurate with the materiality of the arrangements.
- Institutions are expected to maintain a centralized list of material outsourcing arrangements and generally to exercise more centralized control over outsourcing.
- Processing Information Outside Canada applications will be assessed taking into account factors that are consistent with the expectations in the Outsourcing Guideline. As a result, Guideline E-3, *Processing Information Outside Canada*, will be revoked on December 15, 2004.

A one-year transition period for compliance with the revised guideline was granted. All outsourcing arrangements signed on or after December 15, 2004 are expected to comply fully with the revised guideline.

### **Guideline C-1 – Impaired Loans**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/C1\\_Final\\_Jul04\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/C1_Final_Jul04_e.pdf)

In July 2004, the Foreclosed Assets section of Guideline C-1, *Impaired Loans*, was revised to reflect a change made to CICA Handbook Section 3025 regarding the accounting treatment of foreclosed assets. The reference to revoked Guideline C-4, *Exposures to Designated Countries*, has also been removed.

### **Guideline D-1B – Annual Disclosure Requirements for Property and Casualty Insurance Enterprises**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/D1b\\_Annual\\_Disclosure\\_June2004\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/D1b_Annual_Disclosure_June2004_e.pdf)

In June 2004, OSFI revised this guideline, effective for fiscal years ending on or after December 31, 2004. As a result of stakeholder consultations after the release of the previous guideline in December 2001, OSFI has decided not to specify the quantitative measures on sensitivity to interest rates. However, OSFI continues to support the disclosure of interest rate sensitivity, as outlined in CICA Handbook Section 3860.

### **Guideline E-12 – Inter-Segment Notes for Life Insurance Companies**

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/E-12\\_Notes\\_July2004\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/E-12_Notes_July2004_e.pdf)

Guideline E-12 outlines the conditions necessary for companies to use inter-segment notes (“Notes”). The revised guideline permits greater flexibility in the allowable structure of Notes to make them more useful to companies. Because the integrity of the valuation of policyholder liabilities under the Canadian Asset Liability Method is highly dependent on the asset and liability cash flows, including those from Notes, OSFI expects that companies using Note programs will formally incorporate them into their investment policy framework.

### **Guideline E-14 – Role of the Independent Actuary**

<http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/e14e.pdf>

This guideline sets out the responsibilities and duties of the Independent Actuary in the preparation of a report for amalgamations, sale of all or substantially all the assets, business transfers, purchases and reinsurance not in the ordinary course of business, or in any special situation as required by OSFI.

The revised guideline modifies and clarifies OSFI's position regarding the appointment and the role of the Independent Actuary and provides guidance on the report and the opinion that are expected. The principal changes are:

- when the legal requirements provide for voting and/or other proprietary rights that extend to non-participating policyholders, the report should take into account the effect of the transaction on the rights of these policyholders; and
- when closed blocks of business are part of the transaction, the report should consider the effect of the transaction on the operating rules of these blocks and on the policyholders' benefits and expectations. The actuary should ensure that current and future rules for the closed blocks are not changed, or, if they are, that they are appropriately converted, with initial and future monitoring, certifications and approvals remaining in place to protect the interests of policyholders adequately.

## Draft Guidelines

### Draft Revised Guideline B-5 – Asset Securitization

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/b5\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/b5_e.pdf)

OSFI issued for discussion a revision of the current guideline to introduce a more flexible approach to the capital treatment of securitization transactions, to incorporate improvements as a result of its 2001 Asset Securitization Review and to expand and clarify the guideline by providing definitions. The consultation period for the draft guideline ended March 2004. The potential capital treatment resulting from recent changes to accounting rules governing the consolidation of Special Purpose Entities will be addressed in a separate guidance, expected in 2004.

## Advisories

### Section 1100 of the CICA Handbook and Regulatory Reporting for Deposit-Taking Institutions

[http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory\\_S1100\\_Apr\\_26\\_2004\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory_S1100_Apr_26_2004_e.pdf)

CICA Handbook Section 1100, "Generally Accepted Accounting Principles (GAAP)," which was effective for fiscal years beginning on or after October 1, 2003, establishes standards for financial reporting in accordance with GAAP and describes what constitutes Canadian GAAP and its sources.

OSFI's requirements for regulatory reporting and capital adequacy calculations follow GAAP except where otherwise stated in reporting instructions or guidelines. A number of deposit-taking institutions have identified industry accounting practices that do not comply with the requirements of Section 1100, and have pointed out that the final accounting treatment and materiality of some of the changes have not yet been determined.

In the context of its ongoing review of other recent changes to GAAP in Canada, OSFI will review the effect of adopting Section 1100 and determine whether exceptions to the GAAP basis for regulatory reporting are warranted.

### Section 3860 of the CICA Handbook and the Regulatory Capital Treatment of Preferred Shares and Innovative Tier 1 Instruments

[http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory\\_3860\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory_3860_e.pdf)

In accordance with the final revisions to CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation," certain outstanding Tier 1 – qualifying preferred shares having features that provide for their potential conversion into common shares will be accounted for as liabilities under Canadian GAAP. The revisions to Section 3860 will also affect the accounting treatment of outstanding capital instruments having similar conversion features and currently qualifying for innovative Tier 1 capital recognition.

OSFI confirms that any such preferred shares outstanding as of January 31, 2004 will continue to be eligible for core Tier 1 treatment for as long as they remain outstanding. However, no such preferred shares issued after January 31, 2004, will be afforded core Tier 1 treatment.

Innovative Tier 1 instruments outstanding as of January 31, 2004 will continue to be eligible for innovative Tier 1 treatment for as long as they remain outstanding. Pending the outcome of a review to determine the eligibility for innovative Tier 1 or Tier 2 capital treatment, OSFI states that: (i) no such capital instruments issued after January 31, 2004, will be afforded innovative Tier 1 treatment; and (ii) innovative instruments issued after January 31, 2004, must be accounted for as minority interest or recorded in shareholders' equity on consolidation in accordance with GAAP – taking into account the effect of Accounting Guideline AcG15 – and meet all other conditions for innovative Tier 1 treatment.

Insurers interested in raising Tier 1-qualifying preferred share capital or capital qualifying for innovative Tier 1 treatment are encouraged to consider the potential effect of the Section 3860 revisions on the ability of those instruments to meet the applicable requirements for regulatory recognition.

### **MCT and BAAT Supervisory Targets**

[http://www.osfi-bsif.gc.ca/eng/documents/practices/docs/Advisory\\_PC\\_Target\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/practices/docs/Advisory_PC_Target_e.pdf)

This Advisory explains OSFI's approach to supervisory targets for federally regulated property and casualty (P&C) insurers and addresses the subject of how the assessment of capital levels fits within the context of OSFI's supervisory framework. The approach is the result of extensive discussion between OSFI and the P&C industry over the course of developing the Minimum Capital Test and Branch Adequacy of Assets Test.

OSFI requires each P&C insurer to establish an internal target capital level at no less than the supervisory target of 150%. OSFI may, case-by-case, establish an alternative supervisory target level based on a company's risk profile, in consultation with the company.

### **Substantial Investments – Insurance Companies and Insurance Holding Companies**

[http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory\\_JCA\\_2003-07\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory_JCA_2003-07_e.pdf)

This Advisory provides an overview of how OSFI administers and interprets the substantial investment regimes for insurance companies.

### **Moderate Step-ups in Tier 2A Capital; Automatic Conversion Triggers in Tier 2A-Qualifying Debentures**

[http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory\\_Tier2A\\_Step-ups\\_June04\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Advisory_Tier2A_Step-ups_June04_e.pdf)

This Advisory amends and clarifies OSFI's policy regarding the inclusion of moderate step-ups in Tier 2A-qualifying capital instruments and introduces an additional acceptable trigger for initiating the automatic conversion of a Tier 2A-qualifying subordinated debenture to common or perpetual preferred shares.

The Advisory is effective June 2004 and applies to federally incorporated life insurance companies.

## Other Guidelines, Rulings and Discussion Papers

### Reinsurers now Subject to Filing of Quarterly Returns

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/2004\\_02\\_25\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/2004_02_25_e.pdf)

Historically, OSFI assumed that reinsurers generally did not have adequate systems in place for quarterly filing and allowed them to file semi-annually. As well, in recognition of the normal delays that reinsurers experience in obtaining actual results from their cedants, reinsurers were permitted more time than direct writers to file both interim and annual returns.

OSFI has determined that the underlying reasons for granting reinsurers special consideration have substantially disappeared, because most reinsurers now have systems in place to facilitate quarterly financial reporting. As a result, OSFI has removed the special requirements for reinsurers.

Effective January 1, 2004, all reinsurers are required to file interim financial returns quarterly, in the same format and within the same 45-day period as other insurers. However, until the applicable legislation can be changed, the deadline for filing annual returns remains unchanged.

### Transaction Instructions

<http://www.osfi-bsif.gc.ca/eng/documents/guidance/pages/index.asp?id=regop>

OSFI has initiated a review of all Transaction Instructions with a view to providing additional guidance on factors that are taken into account in assessing applications. The additional guidance should further assist federally regulated financial institutions in formulating applications for regulatory approvals.

### Ruling on Physically Settled Commodity Trading

[http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Physically\\_Settled\\_Commodity\\_Trading\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/advisories/docs/Physically_Settled_Commodity_Trading_e.pdf)

OSFI issued a ruling on whether federally regulated financial institutions are permitted to engage directly in physically settled commodity trading and related activities.

### Discussion Paper – Holding Company Capital Regime for Insurers

[http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/2004\\_05\\_28\\_HoldCo\\_e.pdf](http://www.osfi-bsif.gc.ca/eng/documents/guidance/docs/2004_05_28_HoldCo_e.pdf)

The discussion paper, "Holding Company Capital Regime for Insurers," issued in May 2004, sets out a framework for assessing the capital adequacy of insurance holding companies and non-operating insurance companies.

In designing this framework, OSFI took into account the needs of insurers and other market participants, with the aim of ensuring that capital in the consolidated group is adequate to cover unexpected losses. The discussion paper makes disclosure recommendations with the intention of ensuring that investors, financial analysts and policyholders have information relevant to making informed decisions. The proposed approach is not unlike the new Basel framework for banks. Both consider the adequacy of capital across the group, are more risk-sensitive and promote good disclosure practices.

## Insurance Software Available

Software templates in popular spreadsheet formats are available for:

- completion of Annual Statement and Interim Return forms by life and property and casualty insurance companies and branches;
- computing income replacement benefits under the Statutory Accident Benefits Schedule (SABS), including pre- and post-accident net weekly income; and
- calculating interest payable on overdue payments under SABS.

For more information, contact any of the PricewaterhouseCoopers partners listed on the inside front cover.

## Publications

PricewaterhouseCoopers issues numerous thought-leadership publications for the Canadian and global insurance industry, including those listed below. Copies can be obtained from our Web site ([www.pwc.com](http://www.pwc.com)) or by contacting any of our Canadian Insurance Industry Group partners listed on the inside front cover.

### Insurance Review

*Insurance Review* is a periodic publication discussing matters of interest to Canadian insurance industry executives.

July 2004 issue topics:

- Reputational Risk – keeping executives awake at night
- International Financial Reporting Standards: progress towards global harmonization

March 2004 issue topics:

- Privacy – satisfying legislative requirements and your clients' expectations
- Focus on restructuring: the drivers shaping the financial services sector

### Insurance Digest

This publication is dedicated to providing thought-provoking insights into some of the key strategic issues facing the insurance industry in separate editions for the Americas, Asia Pacific and Europe.

#### Americas Insurance Digest

June 2004 issue topics include:

- Corporate governance and Sarbanes-Oxley – Boon or bust for D&O insurers?
- International Financial Reporting Standards continue to progress
- Managing insurer asbestos risks
- Managing General Agents and the implications of Sarbanes-Oxley – Legislating good business practices
- Supervision in insurance-affiliated broker dealers: Yesterday's leading practices are today's expected practices

#### Asia Pacific Insurance Digest

April 2004 issue topics include:

- Risk-based regulatory capital for life insurers
- Economic capital: At the heart of managing risk and value
- Value management in insurance companies
- Industry restructuring in Asia
- The Malaysian offshore insurance market

## European Insurance Digest

April 2004 issue topics include:

- More effective reporting for insurance companies and their stakeholders – the developing role of XML and XBRL
- A Winter's Tale – continuing dissent as IFRS 4 emerges
- Get set for IFRS
- The VAT impact of EU enlargement on insurance businesses
- The insurance market in Central and Eastern Europe accession countries
- Corporate responsibility – fundamental to success
- The importance of priority

## PwC/EIU briefing programme

These briefings, written in association with the Economist Intelligence Unit, address key issues that financial services organizations face.

The 8th briefing, issued in May 2004, entitled *Governance: From compliance to strategic advantage*, argues that with regard to governance, the financial services industry is focusing too much on compliance with the regulatory minimum. To realize the business advantages that good governance can bring, companies need to raise the bar.

## IFRS – Global Reporting Revolution

International Financial Reporting Standards (IFRS) are much more than just a technical issue and, based on the current proposals, will result in fundamental changes to the way in which the industry does business. Recognizing this, the Global Insurance leadership team of PricewaterhouseCoopers is sponsoring a program of client seminars and briefing papers on the key commercial and technical challenges, delivering the information the industry needs to respond to the IFRS revolution.

## Bridging the information gap – Insurance analysts' perspectives on the move to IFRS

May 2004

This paper examines insurance analysts' views on the effect of IFRS on performance and profitability. It includes feedback from the third in a series of annual seminars for insurance analysts, which was hosted by PricewaterhouseCoopers in February 2004. The results suggest that analysts are calling for more detailed and timely information than insurance companies currently provide.

## IFRS 4 – The future of insurance reporting – for now

April 2004

This paper provides an overview of IFRS 4, the International Accounting Standards Board's finalized framework for the transitional Phase I of the move to IFRS. IFRS 4 is effective for years beginning on or after January 1, 2005. While the more fundamental changes will follow under Phase II, the effect of Phase I will be significant. This includes changes to the definition of an insurance contract, new disclosure requirements and some required modifications to the existing accounting practices for insurance contracts.

## IFRS and Risk Management

April 2004

This paper discusses the implications of IFRS for risk management. Significant new disclosure requirements will increase the transparency on risk management. Companies will also need to manage the possible balance sheet risks arising from IFRS, including the potential for earnings volatility and mismatches between assets and liabilities. At the same time, IFRS could act as a catalyst for a more effective, enterprise-wide approach to risk management.

## Key Tax Dates and Rates

The following Canadian tax dates for insurance companies are based on a December 31 fiscal year end. Deadlines falling on holidays or weekends may be extended to the next business day. (Filing dates for miscellaneous matters affecting insurers in Canada, such as provincial taxes, licences, fees, permits and municipal taxes, are not covered.)

Federal Tax Dates		Payments		Returns
		Instalments	Balance	
<b>Corporate Income Tax; Large Corporations Tax and Tax on Capital of Financial Institutions</b>	Some Canadian-controlled private corporations	Last day of each month	March 31	June 30
	All other insurers		February 28	
<b>Life Insurer's Investment Income Tax</b>				
<b>Branch Tax</b>		June 30 for remittances		
<b>Non-Resident Tax</b>	(T2016)			
<b>Transactions with Non-Residents</b>	(NR4) <sup>1</sup>	N/A		March 31
	Related-party transactions (T106)			June 30
(T1135, T1141 and 1142)				
<b>Foreign Property Reporting</b>	(T1134-A and T1134-B)			15 months after year end
<b>Federal Excise Tax – Unlicensed Insurance</b>		April 30 for returns and remittances		
<b>Insurers Not Registered for GST that Import Taxable Supplies</b>		1 month after month of importation for returns and remittances		

Provincial Tax Dates		Payments		Returns
		Instalments	Balance	
<b>Corporate Income Tax (Alberta; Ontario; Québec)</b>	Some Alberta and Ontario Canadian-controlled private corporations	Last day of each month	March 31	June 30
	All other insurers		February 28	
<b>Capital Tax</b>	Manitoba	15th of March; June; September; December	June 30	
	Nova Scotia	Same as federal corporate income tax		
	Ontario; Québec; (life insurers only)	Same as provincial corporate income tax		

1. The payer is required to remit withholding tax on or before the 15th of the month following the month the amount was paid or credited to the non-resident.

## Canadian Premium and Fire Tax – Rates and Deadlines

Rates			Deadlines			
Life, Accident and Sickness	Premium Tax			Instalments		Return and Balance Due
	Property and Casualty	Fire Tax		Premium Tax	Fire Tax	
2%	3%	Nil	<b>Alberta</b>	Not required		75 days after year end
	4.4%		<b>British Columbia<sup>1</sup></b>	If prior year's tax payable exceeds \$25,000, 15th of June; September; December		March 31
	3%	1.25%	<b>Manitoba</b>	Last day of April; July; October; January		
		1%	<b>New Brunswick</b>	Last day of June; September; December		March 15
4%	Nil	<b>Newfoundland and Labrador</b>	Not required		March 20	
3%	1%	<b>N.W.T. &amp; Nunavut</b>			March 15	
	4%	1.25%	<b>Nova Scotia</b>	60 days after end of each quarter		Premium: 60 days after last quarter Fire: March 31
2%	3% or 3.5%	Nil	<b>Ontario<sup>2</sup></b>	Same as provincial income tax (page 13)		
3.5%		1%	<b>Prince Edward Island</b>	Last day of each quarter		3 months after year end
2.35%	3.35%	Nil	<b>Québec<sup>3</sup></b>	Same as provincial income tax (page 13)		
3%	4%	1%	<b>Saskatchewan<sup>4</sup></b>	Not required		March 15
2%			<b>Yukon</b>			

1. Commencing January 1, 2004, British Columbia's premium tax rate on property insurance and automobile insurance increased from 4% to 4.4%. A rate of 4% continues to apply to most other types of insurance not referred to in the table.
2. Ontario levies a premium tax rate of 3.5% on property insurance.
3. Québec rates include 0.35% compensation tax on insurance premiums.
4. Saskatchewan imposes an additional 1% tax on gross premiums in respect of motor vehicle insurance. Saskatchewan's premium tax rate on hail insurance is 3%.

## Sales and Commodity Tax – Rates and Deadlines

	Tax	Rate	Filing conditions		Balance and Returns	
					Reporting period	Due after
Federal	GST	7%	Default		Fiscal year end	3 months <sup>1</sup>
			Elected		Fiscal quarter	1 month
				Fiscal month		
Alberta	No sales tax					
British Columbia		7.5%	Default		Calendar month	15 days
			Approved		Approved period	
Manitoba	PST	7%	Monthly payment	< \$200	Calendar year	20 days
				\$200 to \$499	Semi-annual calendar period	
				\$500 to \$999	Calendar quarter	
				≥ \$1,000	Calendar month	
New Brunswick	HST	15%	Same as federal GST <sup>2</sup>			
Newfoundland and Labrador	PST <sup>3</sup>		Default	Calendar month	20 days	
Northwest Territories	No sales tax					
Nova Scotia	HST	15%	Same as federal GST <sup>2</sup>			
Nunavut	No sales tax					
Ontario	PST	8% <sup>4</sup>	Semi-annual payment	< \$2,000	Semi-annual calendar period	23 days
				\$2,000 to \$3,999	Calendar quarter	
				\$4,000 to \$6,000	2 calendar months	
				> \$6,000	Calendar month	
Prince Edward Island		10% <sup>5</sup>	Default		Calendar month	20 days
Québec	QST	7.5%, 5% or 9% <sup>6</sup>	Elected		Fiscal year end	3 months <sup>1</sup>
					Fiscal quarter	1 month
				Fiscal month		
Saskatchewan	PST	7% <sup>7</sup>	Annual payment	< \$3,600 <sup>8</sup>	Calendar year	20 days
				\$3,600 <sup>8</sup> to ≤ \$7,200	Calendar quarter	
				> \$7,200	Calendar month	
Yukon <sup>9</sup>	No sales tax					

GST = Goods and Services tax

HST = Harmonized sales tax

PST = Provincial sales tax

QST = Québec sales tax

1. Instalments are due one month after each quarter.
2. For monthly or quarterly filers that are specified financial institutions with December 31 year ends, the final HST return is due March 31.
3. Newfoundland and Labrador has a 15% provincial sales tax on property and casualty insurance premiums.
4. Ontario's general retail sales tax rate is 8%. Ontario's retail sales tax on automobile premiums was eliminated on April 1, 2004. (See page 4.) Ontario also imposes a retail sales tax of 8% on other insurance premiums with certain exceptions, e.g., individual life and health.
5. In Prince Edward Island the 10% PST rate is imposed on GST.
6. Québec's general sales tax rate is 7.5%. This rate is imposed on GST. Québec also imposes a retail sales tax of 5% on automobile premiums and 9% on insurance premiums, with certain exceptions, e.g., individual life and health.
7. On April 1, 2004, Saskatchewan's sales tax rate increased from 6% to 7%.
8. Administratively, Saskatchewan may permit annual reporting if the annual PST payment is under \$3,600.
9. On July 1, 2004, a 7% First Nation Goods and Services Tax (FNGST) replaced the GST for eight First Nations in the Yukon.

## Selected Regulatory Dates for Canada, the U.K. and the U.S.

		Domestic	Foreign Branches
<b>Insurance Companies Act (Canada)</b>	<b>Fiscal year ends</b>	October 31 or December 31	
<b>Office of the Superintendent of Financial Institutions</b>	<b>Annual Financial Returns<sup>1</sup></b>	60 days <sup>2,4</sup>	Same as domestic
	<b>Report of the Actuary</b>		
	<b>Auditors' Report</b>	90 days <sup>2,4</sup>	May 31
	On financial statements		
	<b>Quarterly Financial Returns</b>	45 days <sup>2</sup>	
<b>Financial Services Commission of Ontario</b>	<b>Annual Return<sup>1</sup></b>	60 days <sup>2,4</sup>	Same as domestic
	<b>Report of the Actuary</b>		
	<b>Auditors' Report</b>		May 31
<b>Ontario Securities Commission</b>	<b>Annual Financial Statements</b>	90 days <sup>2</sup>	
	<b>Interim Financial Statements</b>	45 days after end of interim fiscal period	
<b>United Kingdom</b>	<b>Returns to the Financial Services Authority</b>	3 months <sup>2</sup> if filed electronically or under rule 9.36A; otherwise, 2 months and 15 days <sup>2</sup>	
<b>United States of America</b>	<b>Annual Convention Blank</b> (State Insurance Commissioners)	Generally February 28	
	<b>10K Regular Annual Report</b> (Securities and Exchange Commission)	March 31 (applies to companies listed in the U.S.)	

1. Annual return deadlines for provinces and territories may differ. In particular, for reinsurers some filing deadlines are earlier than the 105-day OSFI deadline for annual financial returns referred to in footnote 4.
2. Days or months after year end.
3. MCCR = Minimum Continuing Capital and Surplus Requirements  
BAAT = Branch Adequacy of Assets Test
4. Filing deadlines for annual reports of reinsurers are grandfathered (105 days for financial returns, 135 days for MCCR/BAAT returns) until the applicable legislation is changed.

## Corporate Income Tax Rates for 2004

The following rates, which have been pro-rated for a December 31, 2004 year end, apply to insurance companies. For Canadian-controlled private property and casualty insurers, lower rates may apply on up to \$300,000 active business income. Higher thresholds apply in Alberta, Manitoba, New Brunswick and Ontario.

<b>Basic federal rate</b>	38%
<b>Provincial abatement</b>	-10%
<b>Rate after abatement</b>	28%
<b>4% federal surtax</b>	1.12%
<b>General rate reduction</b>	-7%
<b>Total federal rate</b>	<b>22.12%<sup>1</sup></b>

	<b>Provincial</b>	<b>Provincial + 22.12% Federal</b>
<b>Alberta</b>	11.75% <sup>1</sup>	33.87%
<b>British Columbia</b>	13.5%	35.62%
<b>Manitoba</b>	15.5% <sup>1</sup>	37.62%
<b>New Brunswick</b>	13%	35.12%
<b>Newfoundland and Labrador</b>	14% H	36.12%
<b>Northwest Territories</b>	14% <sup>1</sup>	36.12%
<b>Nova Scotia</b>	16%	38.12%
<b>Nunavut</b>	12% <sup>1</sup>	34.12%
<b>Ontario<sup>2</sup></b>	14% <sup>1</sup>	36.12%
<b>Prince Edward Island</b>	16%	38.12%
<b>Québec</b>	Active/eligible	8.9% <sup>1</sup> H
	Other	16.25% <sup>1</sup> H
<b>Saskatchewan</b>	17%	39.12%
<b>Yukon</b>	15%	37.12%

H Tax holidays are available to certain corporations.

1. Recent and future income tax changes are outlined on pages 1 to 5.

2. Ontario corporations that, on an associated basis, have either gross revenues over \$10 million or total assets over \$5 million, may have a corporate minimum tax based on adjusted book income. The minimum tax is payable to the extent that it exceeds the regular Ontario income tax liability.

## Capital Tax Rates for 2004<sup>1</sup>

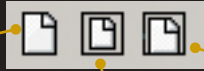
			Life <sup>1</sup>	Non-Life <sup>1</sup>	
<b>Federal</b>	Large Corporations Tax (LCT) <sup>2,3</sup>	On first \$50 million taxable capital	Nil		
		On taxable capital > \$50 million	0.2%		
	Part VI Financial Institutions Capital Tax <sup>4</sup>	On first \$200 million taxable capital	Nil		
		On taxable capital > \$200 million and ≤ \$300 million	1% (1.2% including LCT)		
On taxable capital > \$300 million	1.25% (1.45% including LCT)				
<b>Alberta</b>			No capital tax		
<b>British Columbia</b>					
<b>Manitoba<sup>2</sup></b>	If taxable capital < \$5 million		Nil		
	If taxable capital ≥ \$5 million and ≤ \$5.015 million		Reduced rates		
	Otherwise	On first \$10 million taxable capital	0.3%		
		On taxable capital > \$10 million	0.5%		
<b>New Brunswick</b>			No capital tax		
<b>Newfoundland and Labrador</b>					
<b>Northwest Territories</b>					
<b>Nova Scotia<sup>2</sup></b>	If taxable capital ≤ \$10 million	On first \$5 million taxable capital	Nil		
		On taxable capital > \$5 million	0.58%		
	If taxable capital ≥ \$10 million		0.29%		
<b>Nunavut</b>			No capital tax		
<b>Ontario and Québec<sup>5,6</sup></b>	On taxable capital ≤ \$10 million		Nil		
	On taxable capital > \$10 million and ≤ \$50 million		0.625%		
	On taxable capital > \$50 million and ≤ \$100 million		0.9375%		
	On taxable capital > \$100 million and ≤ \$200 million		1.25%		
	On taxable capital > \$200 million and ≤ \$300 million		0.625%		
	On taxable capital > \$300 million		0.3125%		
<b>Prince Edward Island</b>			No capital tax		
<b>Saskatchewan</b>					
<b>Yukon</b>					

1. Rates are for a December 31, 2004 year end and taxable capital of all companies in a group is considered when applying the thresholds.
2. Future changes are outlined on pages 1 to 4.
3. LCT is reduced by the portion of the federal surtax liability that is the corporation's Canadian surtax liability. Any unused Canadian surtax liability can be applied to reduce the LCT for the previous three years and next seven. After 2003, the unused surtax credits are calculated as if the LCT rate and capital tax thresholds were 0.225% and \$10 million, respectively.
4. Part VI Financial Institutions Capital Tax is reduced by the corporation's federal income tax liability, net of any federal surtax claimed against the LCT liability. Any unused federal income tax liability can be applied to reduce the Part VI Tax for the previous three years and the next seven.
5. Ontario capital tax may be reduced by the Ontario income tax and corporate minimum tax payable for the year.
6. Québec capital tax may be reduced by the Québec income tax payable for the year.

## Quick guide to easy viewing

Navigating and zooming are easy in Insurance Industry: *Key Dates and Other Essentials*, with a few basic controls:

On the toolbar at the top of the page, click on this icon to see the actual size of your page OR press the CTRL key and 1 at the same time



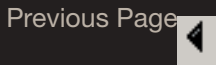
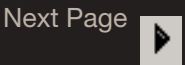
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The Contents page has links to each topic, and the bottom of every page has a link to Contents.

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