



Expenses Related to Pension Plans

[This version replaces the one dated August 2011.](#)

The information in this publication does not replace the law found in *the Excise Tax Act* (the 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 any GST/HST rulings centre for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. GST/HST Memorandum 1.4, *Excise and GST/HST Rulings and Interpretations Service*, explains how to obtain a ruling and lists the GST/HST rulings centres.

Reference in this publication is made to supplies that are subject to the GST or the HST. The HST applies in the participating provinces at the following rates: 13% in Ontario, New Brunswick and Newfoundland and Labrador, 14% in Prince Edward Island and 15% in Nova Scotia. The GST applies in the rest of Canada at the rate of 5%. If you are uncertain as to whether a supply is made in a participating province, see GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

If you are located in Quebec, you are not a selected listed financial institution and wish to request a ruling related to the GST/HST, please contact Revenu Québec at 1-800-567-4692. You may also visit the Revenu Québec website at www.revenuquebec.ca to obtain general information.

Generally, where a person who is a GST/HST registrant acquires, imports or brings into a participating province property or a service and the GST/HST in respect of the property or service becomes payable or is paid by the person without having become payable, that person is entitled to claim an input tax credit (ITC) in respect of the tax to the extent the property or service is acquired, imported or brought in for consumption, use or supply in the course of the person's commercial activities. All of the conditions for claiming an ITC under section 169 of the *Excise Tax Act* (the Act) have to be met.

Where an employer incurs an expense related to a pension plan to which the employer is party, the employer may be entitled to claim an ITC provided that all of the conditions of section 169 of the Act are met. An expense, including a pension-related expense, is incurred by an employer where the employer is liable to pay consideration to a third party supplier under an agreement for a supply.

Where a pension-related expense incurred by an employer has been paid for out of plan trust assets, the CRA generally considers the amount of the payment made by the plan trust to be consideration for a supply of property or a service made by the employer to the plan trust where any of the following occurs:

- the plan trust paid the third party supplier directly,
- the employer invoiced the plan trust for the expense,
- the plan trust reimbursed the employer.

If the employer is a GST/HST registrant, it would be required to charge and collect GST/HST on the supply to the plan trust where the supply is not exempt and include that tax in its net tax calculation.

If the plan trust is a GST/HST registrant, it is entitled to claim an ITC in respect of the GST/HST payable, or paid without becoming payable, to the employer to the extent that the property or service has been

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acquired, imported or brought into a participating province by the plan trust for consumption, use or supply by the plan trust in the course of its commercial activities provided that all of the conditions for claiming an ITC have been met. Otherwise the plan trust may not claim an ITC. However, if an ITC is not available to the plan trust, it may be entitled to claim a rebate of up to 33% of eligible amounts incurred by the plan trust, subject to section 261.01 of the Act.

Example

An employer who is a GST/HST registrant provides a pension plan for its employees. The employer enters into an agreement with a third party (investment manager) to provide taxable investment management services in relation to the assets of the plan. The employer is liable to pay the consideration under the agreement with the investment manager and is the recipient of the taxable supply. The employer forwards the invoice from the investment manager to the plan trust, which pays the amount stated on the invoice directly to the investment manager. Since the pension-related expense incurred by the employer (i.e., the person liable to pay the consideration under the agreement for the supply) has been paid for out of the pension plan trust assets, the payment by the plan trust is consideration for a taxable supply of an investment management service made by the employer to the plan trust. The employer is required to charge and collect tax in respect of the taxable supply made to the plan trust and include that tax in its net tax calculation.

As explained above, the employer is entitled to claim an ITC in respect of the tax payable to the investment manager to the extent the investment management service is acquired for supply to the plan trust in the course of the employer's commercial activities, provided that all of the conditions of section 169 of the Act are met.

For information on the pension entity rebate, supplies that are deemed to be made by the employer in respect of pension related expenses and other pension related matters, please consult GST/HST Notice257, *The GST/HST Rebate for Pension Entities*.

Further information

All GST/HST technical publications are available on the CRA website at www.cra.gc.ca/gsthstech.

To make an enquiry on the GST/HST by telephone:

- for general GST/HST enquiries, call the **Business Enquiries** line at 1-800-959-5525;
- for technical GST/HST enquiries, call 1-800-959-8287.

If you are located in Quebec, contact **Revenu Québec** at 1-800-567-4692 or visit their website at www.revenuquebec.ca.

If you are a **selected listed financial institution** (whether or not you are located in Quebec) and require information on the GST/HST or QST, call one of the following numbers:

- for general enquiries, call 1-800-959-5525;
- for technical enquiries, call 1-855-666-5166.