



Application of the GST/HST to Prepaid Funeral Arrangements

Note: This Technical Information Bulletin supersedes the version dated December 2002.

The information in this bulletin 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 its Regulations, or contact a Canada Revenue Agency (CRA) GST/HST Rulings Centre for more information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. For general information, please visit their Web site at www.revenu.gouv.qc.ca.

Reference in this publication is made to supplies taxable at 5% (the rate of the goods and services tax or GST) or 13% (the rate of the harmonized sales tax or HST). The HST applies to supplies made in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the "participating provinces"). If you are uncertain as to whether a supply is made in a participating province, you may refer to GST/HST Technical Information Bulletin B-078, *Place of Supply Rules Under the HST*.

For information on how to determine the rate of the GST/HST that applies to supplies of funeral services provided under prepaid arrangements entered into before 2008, refer to GST/HST info sheets GI-016 *Applying the GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements* (covering the transition to the initial rate reduction from 7% and 15% to 6% and 14% which took effect on July 1, 2006) and GI-040 *Applying the 2008 GST/HST Rate Reduction to Prepaid Funeral and Cemetery Arrangements* (covering the transition to the second rate reduction from 6% and 14% to 5% and 13% which took effect on January 1, 2008).

Table of Contents

Introduction.....	2
Prepaid funeral arrangements	2
Amounts held in trust.....	3
Amounts not held in trust.....	3
Interest generated by funds held in trust.....	4
Transfer of funds to another arrangement.....	4
Cancellation	4
Insurance policy as funding vehicle.....	5
Excess amounts in trust	5
Deficit in trust amounts	6
Instalment payment charges	6
Application of GST/HST to instalment payment charges	6
Amounts held in trust	6
Amounts not held in trust	7
Effective date	7
Transitional Rules	9
Appendix – Prepaid funeral arrangements entered into before implementation of the GST/HST.....	10



Introduction

This bulletin clarifies the timing of the application of the goods and services tax (GST)/harmonized sales tax (HST) to prepaid funeral arrangements. The application of the tax with respect to cemetery property and services is discussed in GST/HST Technical Information Bulletin B-093, *Application of GST/HST to Interment Rights and Prepaid Cemetery Arrangements*.

Prepaid funeral arrangements

The purpose of a prepaid funeral arrangement is to fund the property (e.g., funeral merchandise) and/or services that will be required in the future because of the death of an individual. Specifically, it is an arrangement under which a supplier of funeral property and/or services contracts with a person to provide specific property and/or services in respect of one or more named individuals upon the death of the individual or individuals. The arrangement is typically financed by placing funds in a trust, or by purchasing an insurance policy. The total amount of the contributions and any interest that has accumulated in the trust or the insurance proceeds generally approximate the value of the consideration and tax that will eventually be payable to the supplier under the arrangement. When the property and/or services are provided, the amounts that have been held in trust or the insurance proceeds are applied against the consideration and tax payable for the property and/or services.

For the purposes of this bulletin, “funeral services” include the provision of a coffin, a headstone or any other property (such as a casket or a monument) relating to the funeral or final disposition of a deceased person (such as burial or cremation).

Funeral services also include the following when provided under an arrangement for the provision of funeral services:

- property or services provided for the care and embalming of the deceased;
- property or services provided in connection with the funeral rite for the deceased; and
- the transportation of the deceased.

For ease of reference only, in this bulletin the supplier of funeral services is referred to as the “funeral home”. Please note that the supplier could also be another entity, such as the supplier of a transfer service, that provides any of the property and/or services, other than cemetery property or services, relating to the funeral or final disposition of a deceased person.

This bulletin applies to written prepaid funeral arrangements to fund funeral services where:

- contributions are made by the purchaser to a funeral home in advance of the funeral services being provided;
- some or all of the contributions, and where applicable, some or all of the compounding interest, are required either by provincial law or by the terms of the arrangement to be held in trust by the funeral home for the purchaser, or are held in trust as a result of the funeral home’s normal business practices; and
- the funeral home is prohibited from withdrawing any of the funds held in trust (unless otherwise allowed under provincial law) until the earlier of the day the amounts become payable to the funeral home for the funeral services, or the day the arrangement is cancelled.

This bulletin also addresses the situation where, under a prepaid funeral arrangement, an insurance policy is purchased. These arrangements are discussed under the heading “Insurance policy as funding vehicle”.

Amounts held in trust

Generally, where there is an agreement to provide property or a service and the agreement specifies that the recipient is required to pay an amount before the property or service is actually provided, the GST/HST in respect of this prepayment is payable at the time the prepayment is paid or becomes due, whichever is earlier.

However, if the funeral home places some or all of the contributions made under the prepaid funeral arrangement in trust in accordance with either provincial law or the terms of the arrangement itself, or as a result of the funeral home's normal business practices, those contributions or parts thereof are not considered to be prepayments, and the funeral home does not account for the GST/HST on them, even where they are held for a short period of time before being segregated in trust.

The funeral home must include GST/HST in respect of any amount distributed from the trust in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier. If the amount paid or due to the funeral home represents the total of the consideration and tax (i.e., the amount is considered to include the tax), the GST/HST portion of the amount must be included in determining the funeral home's net tax for the reporting period in which the amount is paid to the funeral home or becomes due, whichever is earlier.

Any additional amounts payable by the purchaser or the individual's estate at the time the funeral services are provided will also be subject to GST/HST at that time.

Amounts not held in trust

The laws governing prepaid arrangements for funeral services differ from province to province with regard to the amount required to be held in trust.

Any contribution received under a prepaid funeral arrangement and not held in trust is part of the consideration payable for the funeral services provided by the funeral home. As such, the funeral home is required to include GST/HST in respect of the amount in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier.

Where the funeral home charges a purchaser a tax-included amount, the funeral home is required to include the GST/HST portion of that amount in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier.

Example

PQR Funerals ("PQR") enters into a written prepaid funeral arrangement in 2008 with Ms. S who makes a lump sum contribution of \$6,215. The funeral services will be provided in a participating province.

The calculation of the total amount of the contribution includes an estimate of the consideration (\$5,500) and the HST (\$715) that, together with the interest that accumulates in the trust, will be payable at the time the services are provided.

Ninety per cent of the contribution and the compounding interest are required to be held in trust by PQR for Ms. S. The remaining 10% (\$621.50) is not placed in trust. Of that amount, \$550 is consideration and \$71.50 ($\$621.50 \times 13/113$) is HST paid for the funeral services to be provided by PQR under the terms of the arrangement.

PQR must include the HST collectible (\$71.50) in determining its net tax for the reporting period that includes the day the arrangement with Ms. S is entered into. PQR will be required to include HST collectible on the balance of the consideration payable for the funeral services in determining its net tax for the reporting period in which the consideration for the funeral services is paid or becomes due, whichever is earlier.

Interest generated by funds held in trust

Interest may accumulate in the trust over the duration of the arrangement. Any interest generated by funds held in trust and later disbursed to the funeral home is part of the consideration for the funeral services provided by the funeral home. The GST/HST on this part of the consideration becomes payable when it is withdrawn from the trust and is paid to the funeral home or when it becomes due, whichever is earlier. The funeral home is required to include GST/HST in respect of the amount in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier. If, instead, the amount paid represents the total of the consideration and tax (i.e., the total amount is considered to include the tax), it is the GST/HST portion of the amount that must be included in determining the funeral home's net tax for the reporting period in which the amount is paid to the funeral home or becomes due, whichever is earlier.

Transfer of funds to another arrangement

Generally, funds held in trust can be transferred to a prepaid funeral arrangement for the same individual with another funeral home without any GST/HST consequences, provided the transfer is made in trust. For example, one financial institution could transfer funds in trust directly to another financial institution. Alternatively, a financial institution may transfer funds in trust either to the funeral home of the first prepaid funeral arrangement or to the funeral home of the second arrangement.

Where the funds are given to a funeral home, there are no GST/HST consequences if the funeral home continues to hold them in trust and does not have access to them. Similarly, where a funeral home transfers some of the funds in trust there will be no GST/HST consequences with respect to the funds that remain in trust. However, the funeral home will have to account for GST/HST with respect to amounts withdrawn from the trust (e.g., in respect of cancellation fees).

Cancellation

If a purchaser cancels a prepaid funeral arrangement before the funeral services are provided, the funeral home is required to account for the GST/HST on a tax-included basis with respect to any amount that is not either refunded to the purchaser or transferred in trust to another arrangement. The funeral home must account for GST/HST in its net tax for the reporting period in which the amount is paid or forfeited.

The funeral home does not account for the GST/HST in respect of any funds received from the trust and disbursed to the purchaser.

Example

EFG Funerals ("EFG") enters into a written prepaid funeral arrangement in 2008 with Ms. H who makes a lump sum contribution of \$6,215. The funeral services will be provided in a participating province.

The contribution amount includes an estimate of the consideration (\$5,500) and the HST (\$715) that, together with the interest that accumulates in the trust, will be payable at the time the funeral services are provided.

The contribution and the compounding interest are required to be held in trust by EFG for Ms. H. Therefore, EFG does not account for HST on the contribution at the time it is made.

One year later, Ms. H moves to another city in the same province and requests that the contribution made under the original arrangement with EFG be transferred to a prepaid funeral arrangement entered into with IJK Funerals ("IJK"). IJK is also required to hold the funds in trust. The funds are transferred in trust directly from one financial institution to another financial institution, and thus there are no HST consequences as a result of this transfer.

Three months later, Ms. H decides to cancel the arrangement with IJK. Pursuant to the cancellation terms of the arrangement, IJK returns the total amount held in trust to Ms. H (i.e., the \$6,215 contribution and the accumulated interest), less a cancellation fee of \$200.

IJK is required to account for the HST on a tax-included basis with respect to the \$200 cancellation fee. IJK will include HST of \$23.01 ($200 \times 13/113$) in its net tax calculation for the reporting period during which the arrangement was cancelled.

Insurance policy as funding vehicle

The GST/HST applies in the same manner as with amounts held in trust where, under the terms of a prepaid funeral arrangement, the contribution is made by the purchaser to an insurer in respect of an insurance contract between the purchaser and the insurer. Under such a policy, the insurance proceeds are payable to the funeral home for the funeral services provided upon an individual's death. In this case, the funeral home will account for the GST/HST on the value of the consideration for the funeral services to be paid from the insurance proceeds when the proceeds are paid to the funeral home or become due, whichever is earlier.

Example

LMN Funerals ("LMN") enters into a written prepaid funeral arrangement in 2008 with Mr. O. The funeral services will be provided in a non-participating province.

Pursuant to the agreement with LMN, Mr. O enters into an insurance contract with an insurer. The amount of the insurance policy is \$5,500, based on a forecast of the consideration and GST that will be payable when the funeral services are provided.

Under the insurance contract, the proceeds are payable to LMN for the funeral services to be provided upon Mr. O's death.

At the time of Mr. O's death, \$5,500 is payable to LMN under the terms of the insurance contract. The amount charged for the funeral services that Mr. O had requested is \$6,000. GST on that amount is \$300 (5% of \$6,000). Pursuant to the terms of the prepaid funeral arrangement, any additional amounts payable in respect of the funeral services provided will be paid by Mr. O's estate. Consequently, Mr. O's estate is required to pay an additional amount of \$800 [$6,300 (\$6,000 + \$300 \text{ GST}) - \$5,500$] pursuant to the terms of the arrangement.

No GST is payable in respect of the amounts paid by Mr. O to the insurer.

LMN is required to include GST collectible of \$300 in determining its net tax for the reporting period during which the consideration for the funeral services that are provided is paid or becomes due, whichever is earlier.

Excess amounts in trust

In some cases the amount held in trust, including any accumulated interest, may exceed the amount payable to the funeral home, including the GST/HST payable, at the time the funeral services are provided.

The funeral home does not account for GST/HST in respect of excess funds received from a trust, provided that they are disbursed to the purchaser or the individual's estate.

Example

ABC Funerals ("ABC") enters into a written prepaid funeral arrangement in 2008 with Mr. D. The services will be provided in a non-participating province.

Mr. D is required to make initial and monthly contributions totalling \$5,775. The calculation of the total amount of contributions includes an estimate of the consideration (\$5,500) and the GST (\$275) that, together with the interest that accumulates in the trust, will be payable at the time the funeral services are provided.

At the time of Mr. D's death, \$600 interest has accumulated in the trust. ABC charges \$6,000, plus 5% GST, for the funeral services. Any excess funds that remain after the provision of the funeral services are payable to Mr. D's estate.

ABC does not account for GST at the time Mr. D makes the contributions. ABC must include the GST collectible of \$300 (5% x \$6,000) in determining its net tax for the reporting period during which the consideration for the funeral services that are provided is paid or becomes due, whichever is earlier.

There are no GST consequences with respect to the excess of \$75 [$(\$5,775 + \$600) - (\$6,000 + \$300)$] disbursed from the trust to Mr. D's estate.

Deficit in trust amounts

In some cases, the funds held in trust, including accumulated interest, may not cover the amount payable to the funeral home, including the GST/HST payable, at the time the funeral services are provided. If the amount disbursed from the trust represents the total consideration and tax (i.e., the total amount is considered to include the tax), the GST/HST portion of that amount must be included in determining the funeral home's net tax for the reporting period in which the amount is paid to the funeral home or becomes due, whichever is earlier. The funeral home does not account for tax on the difference between the amount held in trust and the fair market value of the funeral services, provided that the funeral home does not recover the difference from the purchaser or the individual's estate.

Example

QRS Funerals ("QRS") enters into a written prepaid funeral arrangement in 2008 with Mrs. G. The funeral services will be provided in a non-participating province.

Mrs. G is required to make initial and monthly contributions totalling \$3,150. The calculation of the total amount of contributions includes an estimate of the consideration (\$3,000) and GST (\$150) that, together with the interest that accumulates in the trust, will be payable at the time the funeral services are provided.

At the time of Mrs. G's death, \$425 interest has accumulated in the trust. However, the price of the funeral services has risen to \$3,500. The GST on that amount would be \$175 ($5\% \times \$3,500$). Consequently, there is a deficit in the trust of \$100. Provincial law prohibits QRS from recovering the deficit from Mrs. G's estate.

The total funds in the trust (\$3,575) are disbursed to pay for the supply of the funeral services and the tax on those supplies. QRS is required to include GST collectible of \$170.24 ($\$3,575 \times 5/105$), not \$175, in determining its net tax for the reporting period during which the consideration for the funeral services is paid or becomes due, whichever is earlier.

Instalment payment charges

A funeral home may allow a purchaser to make periodic instalment payments as opposed to a single lump sum contribution at the time of entering into a prepaid funeral arrangement. In exchange for doing so, the funeral home may charge the purchaser an instalment payment charge. This amount may be described under various names such as a finance charge or service charge.

Application of GST/HST to instalment payment charges

An instalment payment charge is consideration for a taxable supply. However, due to information previously provided by the CRA, some funeral homes may not have been collecting and accounting for the GST/HST on instalment payment charges.

In this regard, the CRA recognizes that some funeral homes may be unable to comply with the requirements for collecting and accounting for tax at the time of this clarification. Consequently, funeral homes that have not been collecting and accounting for GST/HST on instalment payment charges will have until April 1, 2009 to comply with this clarification.

Amounts held in trust

Some or all of the instalment payment charges may be required either by provincial law or the terms of the arrangement to be held in trust by the funeral home for the purchaser, or may be held in trust as a result of the funeral home's normal business practices. In situations where the instalment payment charge is held in trust, the funeral home:

- does not account for the GST/HST on instalment payment charges withdrawn from trust before April 1, 2009; and

- must account for the GST/HST on instalment payment charges withdrawn from the trust on or after April 1, 2009.

These rules apply even where the funeral home holds the amount for a short period of time before it is placed in trust.

Any interest generated on instalment payment charges held in trust and later disbursed to the funeral home is part of the consideration payable for the funeral services provided by the funeral home. The GST/HST on this part of the consideration becomes payable when it is withdrawn from the trust and is paid to the funeral home or when it becomes due, whichever is earlier. The funeral home is required to include GST/HST in respect of the amount in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier.

Amounts not held in trust

In situations where the funeral home does not place the instalment payment charge in trust, the funeral home:

- does not collect and account for the GST/HST on instalment payment charges payable by the purchaser, under a prepaid funeral arrangement, before April 1, 2009; and
- must collect and account for the GST/HST on instalment payment charges payable by the purchaser, under a prepaid funeral arrangement, on or after April 1, 2009.

These rules apply regardless of when the funeral home entered into the prepaid funeral arrangement with the purchaser.

Effective date

The rules outlined in this bulletin on supplies of funeral services provided under prepaid funeral arrangements are effective with the implementation of the GST on January 1, 1991 and the HST on April 1, 1997. However, some prepaid funeral arrangements may be grandfathered as discussed in the Appendix to this bulletin.

The CRA recognized that some funeral homes had not been accounting for the GST/HST on supplies of funeral services provided under prepaid funeral arrangements in accordance with the rules outlined in this bulletin. In this regard, no additional GST/HST will be payable with respect to the consideration for funeral services specified in the original prepaid funeral arrangements that were entered into before April 1, 2003, provided that:

- the contributions that were required to be placed in a trust fund either by provincial law or the terms of the arrangement itself, or in accordance with the funeral home's normal business practices, as the case may be, were placed in trust;
- the funeral home that was the original party to the prepaid funeral arrangement, has, since its registration for the GST/HST, accounted for the GST/HST in respect of the contributions at the time the prepaid funeral arrangements were entered into or, where the contributions were made through a series of payments, at the earlier of the time the payments were paid or due;
- the GST/HST has not been refunded, credited, or rebated to the purchaser; and
- the funeral home has not subsequently claimed an input tax credit or an adjustment for any GST/HST refunded or credited in its net tax.

Where the funeral home has complied with the above requirements and a prepaid funeral arrangement of the type described above is amended, the following rules apply:

- GST/HST will be payable on the value of the consideration of any property or service that is added to the prepaid funeral arrangement at the rate of GST/HST that applies on the date when the consideration for the new property or service is paid or becomes due, whichever is earlier;
- where the prepaid funeral arrangement is amended to increase the value of a particular property or service, GST/HST is payable on the additional value of the consideration for the property or service at the rate of GST/HST that applies on the date when the additional consideration for the property or service is paid or becomes due, whichever is earlier;
- where a supply of funeral services that was to have been provided under the prepaid funeral arrangements is cancelled, the funeral home may refund or credit the contributor for the tax calculated and collected with respect to the consideration for the original funeral services and may deduct a corresponding amount in determining its net tax, provided that the requirements of the Act are met (e.g., a credit or debit note is issued and the refund or credit is provided in, or within four years after, the end of the reporting period in which the consideration was reduced); and
- where the value of the consideration for a particular property or service that is part of the prepaid funeral arrangement is reduced, the funeral home may refund or credit the contributor for the tax calculated and collected with respect to the amount by which the consideration for the original property or service is reduced and may deduct a corresponding amount in determining its net tax, provided that the requirements of the Act are met.

Where additional amounts of GST/HST are payable by the contributor, the funeral home is required to include the GST/HST in respect of the additional amount in determining its net tax for the reporting period in which the amount is paid or becomes due, whichever is earlier.

Note that the above rules only apply when the existing prepaid funeral arrangement is amended. If a new prepaid funeral arrangement were created instead, the GST/HST would apply to that new arrangement in accordance with the applicable rules.

Example

TUV Funerals ("TUV") entered into a written prepaid funeral arrangement on June 24, 2002, with Mr. W for the provision of funeral services upon his mother's death. The funeral services are to be provided in a non-participating province.

Mr. W then gave two cheques to TUV, the first a contribution of \$5,500 to be held in trust and the second in the amount of \$385 for the GST (\$5,500 × 7%, the GST rate in effect at that time). TUV included the \$385 in determining its net tax for the reporting period during which the amount was paid. The contribution and the compounding interest are required to be held in trust by TUV for Mr. W until the amounts become payable for the funeral services provided upon his mother's death or Mr. W cancels the arrangement.

TUV has been accounting for the GST collectible with respect to prepaid funeral arrangements at the time the arrangements are entered into since it registered for the GST. TUV has not refunded or credited the amount collected as or on account of the GST to Mr. W and has not claimed an input tax credit or an adjustment in respect of this amount. Also, Mr. W has not obtained a rebate of the amount.

Upon Mr. W's mother's death in 2008, TUV provides the funeral services as agreed under the terms of the arrangement. Interest of \$275 has accumulated in the trust.

No additional GST is required to be included in TUV's net tax with respect to the funeral services provided for under the arrangement. This means that TUV does not account for the GST with respect to the amount equal to the interest that has accumulated in the trust and that is payable to it as consideration for the funeral services.

Adding funeral services

At the request of the family, an additional funeral service was provided by TUV that was not included in the prepaid funeral arrangement. The charge for this service was \$500 plus GST.

TUV must include GST collectible of \$25 (since the GST rate of 5% applied in 2008) on this additional funeral service in determining its net tax for the reporting period during which the consideration for this additional service is paid or becomes due, whichever is earlier.

Cancelling funeral services

A funeral service that was to have been provided by TUV under the written prepaid funeral arrangement of June 24, 2002, was cancelled at the request of the family, thereby amending the arrangement. The cancelled service was valued at \$500 plus GST.

The funeral home may refund or credit the \$35 GST ($\$500 \times 7\%$) paid for the \$500 service that was cancelled provided that the requirements of the Act are met, that is, the amount of GST that is refunded or credited must be the amount of GST that was paid.

Where TUV has refunded or credited the amount to Mr. W and complied with the requirements of the Act, TUV may deduct \$35 in its next return.

Transitional Rules

The CRA recognized that some funeral homes who were accounting for the GST/HST on supplies of funeral services provided under prepaid funeral arrangements as the contributions were received, may have been unable to comply with the new requirements for collecting and accounting for tax by April 1, 2003. As a result, such funeral homes did not have to comply until January 1, 2004. For prepaid funeral arrangements entered into on or after April 1, 2003, these funeral homes were permitted to account for the GST/HST as follows:

- The amount as or on account of GST/HST for the funeral services to be provided which was separately paid by the purchaser or segregated by the funeral home from the funds held in trust, was required to be included in the funeral home's net tax for the reporting period in which it became collectible or was collected in accordance with the usual rules.
- Interest amounts earned by the trust which were disbursed to the funeral home were to be treated in the manner described in the section entitled "Interest generated by funds held in trust". That is, the amount represents either consideration or both consideration and tax.
- If at the time of the provision of funeral services the consideration payable to the funeral home is greater than the amount on which GST/HST was previously calculated, collected and accounted for, the funeral home will be required to collect and account for the difference between the GST/HST collectible on the value of the consideration and the GST/HST that was previously collected and accounted for in the funeral home's net tax at the rate of GST/HST that applies on the date the additional consideration is paid or becomes due, whichever is earlier. As indicated previously, the value of the consideration paid or payable to the funeral home will include an amount equal to any interest that has accumulated in the trust.

Enquiries by telephone

Technical enquiries on the GST/HST: 1-800-959-8287.

General enquiries on the GST/HST: 1-800-959-5525 (Business Enquiries)

If you are located in Quebec: 1-800-567-4692 (Revenu Québec)

All technical publications related to the GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthsstech.

Appendix – Prepaid funeral arrangements entered into before implementation of the GST/HST

The Act provides relief from the GST for certain supplies of funeral services made under a written prepaid funeral arrangement entered into before September 1990. As well, the Act provides relief from the provincial component of the HST for certain supplies of funeral services made in a participating province, for consumption or use in that province, where the supplies are made under a written prepaid funeral arrangement entered into before April 1, 1997.

The Act defines the term “funeral services”, for the purpose of the relieving provisions, to include the provision of a coffin, headstone, or any other property relating to the funeral, burial or cremation of an individual that is provided under an arrangement for the provision of funeral services.

Where an arrangement to supply funeral services in respect of an individual is entered into in writing before September 1990, no GST is payable in respect of any supply under the arrangement. Similarly, where an arrangement to supply funeral services in a participating province in respect of an individual is entered into in writing before April 1, 1997, the provincial component of the HST (i.e., 8%) is not payable in respect of the supply of funeral services under the arrangement for consumption or use in that province.

These provisions apply only where, at the time the arrangement is entered into, it is reasonable to expect that all or part of the funds required to pay for the funeral services will be paid before the individual's death.

Where a new funeral home is substituted for an original funeral home, and there is a written substitution clause in the existing prepaid funeral arrangement to permit this substitution (or the arrangement is silent with respect to the substitution of a funeral home), the tax relief will continue to apply.

However, where a clause in the existing prepaid funeral arrangement does not permit the substitution of a funeral home, and a substitution occurs, this substitution will create a new arrangement. The tax relief will not apply to the new prepaid funeral arrangement.

There are certain circumstances in which the substitution of one funeral home for another may occur for reasons beyond the control of the purchaser of the prepaid funeral arrangement. For example, if a funeral home changes ownership, a funeral home's prepaid funeral arrangements may be assigned to another funeral home. In situations where the substitution of one funeral home for another is made for reasons beyond the control of the purchaser, and provided that the new funeral home honours the original arrangement, the tax relief will continue to apply.

If another individual is substituted for the original individual who is the object of a prepaid funeral arrangement, the substitution will create a new arrangement. As a result, the tax relief provided under the original arrangement will not apply.

Example

A number of individuals entered into written prepaid funeral arrangements, before September 1990, with OPQ Funeral Home (“OPQ”) for the supply of funeral services in a non-participating province. The funds covering the cost of the funeral services were paid at the time the arrangements were entered into.

OPQ ceased operations and sold the business to RST Funeral Home (“RST”). As part of the agreement for the purchase of the business, RST will honour the prepaid arrangements previously entered into by OPQ.

Provided that RST honours the prepaid funeral arrangements, the grandfathered status of the arrangements will not be affected by the change of funeral homes and the GST relief will continue to apply.