



## Insurance – Appraisals of Damage Caused to Property

An insurer must determine the amount of loss that has occurred in order to settle a damage claim under an insurance policy. Some services associated with determining the amount of loss under an insurance policy could be exempt under the GST/HST if they satisfy certain requirements.

### Services of insurance adjusters

The service of investigating and recommending the compensation in satisfaction of a claim under an insurance policy is as an exempt financial service to which GST/HST does not apply if:

- the claim is made under a marine insurance policy, or
- the claim is made under an insurance policy that is not in the nature of accident and sickness or life insurance, and
  - the supply of the service is made by an insurer, or by a provincially licensed adjuster, or
  - the supply of the service is made to an insurer or a group of insurers by a person who is permitted by provincial laws to provide adjustment services without holding a licence for that purpose.

In this info sheet, the term “insurance adjustment service” means the service of investigating and recommending the compensation in satisfaction of a claim where the service complies with the conditions listed above.

### Appraisal services

The service of providing an appraisal that relates to a claim under a property insurance policy is an exempt financial service to which GST/HST does not apply if the following conditions are met:

- the service is provided to an insurer or an adjuster who provides insurance adjustment services (as described above);

- the service is in respect of either damaged property or property loss;
- if the service is in respect of damaged property, the supplier of the service inspects the property and provides an appraisal of the damage caused to the property;
- if the service is in respect of property loss, the supplier of the service inspects the last-known place where the property was situated before the loss and provides an appraisal of the value of the property; and
- the service is not provided by an accountant, actuary, lawyer or notary in the course of a professional practice.

### Example 1

An insurance company (Insurer Co.) enters into a contract with a company of insurance adjusters (Adjuster Co.). Under the terms of the contract, Adjuster Co. will investigate and recommend to Insurer Co. the compensation in respect of a property damage claim under an insurance policy resulting from a fire at a Toronto business location. Adjuster Co. is licensed by the province of Ontario to provide this service. Adjuster Co. enters into a contract with an appraisal firm (Appraiser Co.). Under that contract, Appraiser Co. agrees to provide an appraisal of the damage caused to the property. To provide the appraisal, Appraiser Co. inspects the damaged property and prepares an estimate of the damage caused to the building, equipment and inventory.

The service supplied by Adjuster Co. to Insurer Co. is an exempt supply to which GST/HST does not apply since

- the service Adjuster Co. is providing is the service of investigating and recommending the compensation in satisfaction of a claim under an insurance policy that is not in the nature of accident and sickness or life insurance, and

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- the service is provided by a person who is licensed under the laws of a province to provide such a service.

The supply by Appraiser Co. to Adjuster Co. is an exempt supply to which GST/HST does not apply since Appraiser Co. inspected the damaged property and provided an appraisal of the damage caused to property to a provincially licensed adjuster who is acquiring the appraisal as part of the process of investigating and recommending the compensation in satisfying a property insurance claim.

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### **Example 2**

An airplane is insured under an insurance policy supplied by an insurance company (Insurer Co.) that is located in Toronto. The airplane is damaged while it is in the Yukon Territory and a claim is made under the insurance policy. In determining the compensation to settle the claim, Insurer Co. enters into a contract with an appraisal company (Appraiser Co.) that is located in Toronto for an appraisal of the damage caused to the property. Appraiser Co. subcontracts with another appraisal company (Appraiser2 Co.) that is closer to the physical location of the airplane to inspect the property and appraise the damage.

The supply of the appraisal service from Appraiser2 Co. to Appraiser Co. is not an exempt supply since Appraiser2 Co. is not supplying the appraisal service to an insurer or to a provincially licensed insurance adjuster. Consequently, GST/HST applies to the fee for the service from Appraiser2 Co. to Appraiser Co.

The supply of the appraisal service from Appraiser Co. to Insurer Co. also is not an exempt supply since Appraiser Co. (the supplier of the appraisal to Insurer Co.) has not itself inspected the damaged property. Consequently, GST/HST applies to the fee for the service from Appraiser Co. to Insurer Co.

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### **Example 3**

An insured residential property suffers damage in a wind storm and the property owner makes a claim with the insurance company (Insurer Co.). Insurer Co. contracts with a restoration company (R. Co.) to obtain an estimate to repair the wind-damaged property. Employees from R. Co. visit the property and prepare a detailed estimate of how much it would

cost to repair the damage. The estimate sets out what tasks must be undertaken to repair the damage, the materials costs, labour costs, other fees, overhead and profit. R. Co. charges a \$100 fee for the estimate.

R. Co.'s service of supplying an estimate to Insurer Co. is an exempt supply since R. Co. inspected the damaged property and provided an appraisal of the damage caused to the property to an insurer. Consequently, GST/HST does not apply to the fee for the estimate service.

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### **Example 4**

An insurance company (Insurer Co.) contracts with a company specializing in real estate valuations (X Co.) to appraise the value of a business property situated in Canada. Insurer Co. is seeking the appraisal to determine how much insurance would be required to insure the property adequately.

The real estate appraisal supplied by X Co. to Insurer Co. is not an appraisal of damage caused to property. It is a taxable supply and GST/HST applies to the fee for this service.

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### **Example 5**

A damaged vehicle is towed to Car Repair Co. (CR Co). The insurer of the vehicle (Insurer Co.) asks CR Co. to inspect the vehicle, itemize the damage, and estimate the cost of repairing the vehicle. Insurer Co. will use the estimate to determine if the vehicle is repairable or if it is a total loss. CR Co. charges Insurer Co. a \$75 fee for this estimate service.

CR Co.'s service of supplying an estimate to Insurer Co. is an exempt supply since CR Co. inspected the damaged property and provided an appraisal of the damage caused to the property to an insurer. Consequently, GST/HST does not apply to the fee for this estimate service.

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### **Example 6**

An insurance adjuster company (Adjuster Co.), which is licenced under the laws of a province to investigate and recommend the compensation in satisfaction of insurance claims, asks a professional accounting firm (Accountants LLP) to appraise the value of the remaining inventory in a vehicle-parts business located in Canada that had been damaged by fire. Adjuster Co. requires this information to recommend

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the compensation in satisfaction of a property insurance claim. Accountants LLP visits the site of the damaged property and prepares an appraisal of the remaining inventory.

Although Adjuster Co. is acquiring this inventory appraisal to recommend the compensation in

satisfaction of a property insurance claim, the appraisal service is provided by accountants in the course of a professional practice and therefore is excluded from the exempting provision. GST/HST applies to the fee for this service.

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This info sheet 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 CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation* explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

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, 15% in Nova Scotia, and 12% in British Columbia. 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, you may refer to GST/HST Technical Information Bulletin B-103, *Harmonized Sales Tax – Place of Supply Rules for Determining Whether a Supply is Made in a Province*.

Effective April 1, 2013, the 12% HST in British Columbia will be replaced by the 5% GST and a provincial sales tax. It is also proposed that, effective April 1, 2013, the provincial sales tax and the 5% GST currently in effect in Prince Edward Island will be replaced by a 14% HST.

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 at 1-800-567-4692. You may also visit the Revenu Québec Web site to obtain general information. However, if you are a selected listed financial institution located in Québec, call 1-855-666-5166.

All technical publications related to GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthstech](http://www.cra.gc.ca/gsthstech).