



## Prince Edward Island: Transition to the Harmonized Sales Tax – Prepaid Funeral and Cemetery Arrangements and Interment Property

The Government of Prince Edward Island has proposed a harmonized sales tax (HST) that would come into effect on April 1, 2013.

The HST rate in Prince Edward Island would be 14% of which 5% would represent the federal part and 9% the provincial part.

This info sheet reflects proposed tax changes announced in the Prince Edward Island 2012 Budget and Revenue Tax Guide RTG:185, *Implementation of the Harmonized Sales Tax in Prince Edward Island*.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet explains whether the goods and services tax (GST) or the HST would apply to taxable supplies of funeral services, cemetery services and interment property provided under arrangements entered into before the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

Refer to the following documents for information relating to the timing of the application of the GST/HST to supplies of funeral or cemetery services made under prepaid arrangements where the fee for the service is put in trust:

- GST/HST Technical Information Bulletin B-091, *Application of GST/HST to Prepaid Funeral Arrangements*; and
- GST/HST Technical Information Bulletin B-093, *Application of GST/HST to Interment Rights and Prepaid Cemetery Arrangements*.

The tax status of a supply of a funeral service, cemetery service, or interment property may differ depending upon the person who is making the supply (such as charities, public institutions or public service

bodies). GST/HST Technical Information Bulletin B-093 provide detailed information regarding the supply of interment property and related services provided by such persons.

The information provided in this info sheet does not apply to other types of services or property. For more information, refer to the following GST/HST Info Sheets:

- GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*;
- GI-136, *Prince Edward Island: Transition to the Harmonized Sales Tax – Intangible Personal Property*; and
- *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods* which will be published soon.

### Meaning of significant terms used in this info sheet

Before explaining the rules that determine whether GST or HST would apply to prepaid funeral and cemetery arrangements, and interment property, it is important to understand the meaning of significant terms used in this info sheet.

“Cemetery services” means services that are, or are to be, supplied in respect of places of interment. It includes services such as opening a grave, sealing a tomb, and interring human remains. Also, it includes property such as burial vaults, urns, gravestones, grave liners or markers for use in a cemetery, mausoleum or columbarium, but does not include interment property.

La version française de la présente publication est intitulée *Transition à la taxe de vente harmonisée de l'Île-du-Prince-Édouard – Arrangements de services funéraires payés d'avance, accords de prévoyance pour services de cimetière et biens servant à l'inhumation*.



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**Note:** See the definitions of “cemetery products” and “cemetery services” in Appendix 1 of GST/HST Technical Information Bulletin B-093, *Application of GST/HST to Interment Rights and Prepaid Cemetery Arrangements*, for more examples of property and services included in the definition of “cemetery services” for purposes of this info sheet.

“Funeral services” means services that are, or are to be, supplied in respect of the funeral or final disposition of a deceased individual. It includes property and services such as those provided for the care and embalming of the deceased individual or in connection with the funeral rite of the deceased individual, and the transportation of the deceased individual. Also, it includes property such as coffins, headstones or any other property (e.g., a casket or monument) relating to the funeral or final disposition of a deceased individual (such as burial or cremation).

“Interment property” means real property supplied for the interment, entombment or inurnment of human remains in any of the following: a lot or plot in a cemetery; a tomb, crypt, compartment or vault in a mausoleum; a niche or compartment in a columbarium; or any similar place used for the interment of human remains.

“Operator” means the operator of a funeral home or a place of interment.

“Place of interment” includes a cemetery, mausoleum, or columbarium.

“Prepaid arrangement” means an arrangement under which an operator contracts with a purchaser to supply certain funeral or cemetery services in respect of one or more named individuals upon the death of the individual(s). For purposes of this info sheet, prepaid arrangements must be in writing and may include electronic documents that can be printed.

**Note:** This info sheet uses examples to illustrate the application of the HST transitional rules for supplies of funeral services, cemetery services and interment property. Unless otherwise indicated, in the examples:

- all suppliers are GST/HST registrants;
- all supplies are taxable supplies made in Prince Edward Island; and
- no amount is paid without having become due.

In this info sheet, “taxable” means subject to the 5% GST or to the proposed 14% HST.

## Funeral and cemetery services

To determine whether GST or HST would apply to funeral or cemetery services supplied under prepaid arrangements entered into before the proposed April 1, 2013 implementation date for the HST in Prince Edward Island, operators would have to consider:

- when the prepaid arrangement is entered into;
- whether it is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the amount for the funeral or cemetery services would be paid (or put into trust) before the individual’s death; and
- when the funeral or cemetery services under the prepaid arrangement are provided.

For details on how to determine whether GST or HST would apply to services other than funeral or cemetery services supplied in connection with a prepaid arrangement, refer to “Other services.”

### ***Prepaid arrangements entered into before September 1990***

Regardless of when the funeral or cemetery services are provided, neither GST nor HST would apply to funeral or cemetery services supplied under a prepaid arrangement entered into before September 1990. This rule would apply only if it was reasonable, at the time the prepaid arrangement was entered into, to expect that all or part of the funds for the funeral or cemetery services would be paid (or put into trust) before the individual’s death.

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#### **Example 1**

The operator of a funeral home in Prince Edward Island entered into a prepaid arrangement with a purchaser, in August 1990, to supply funeral services upon an individual’s death. It was reasonable, at the time the prepaid arrangement was entered into, to expect that all or part of the funds for the funeral services would be paid (or put into trust) before the individual’s death. The individual dies in June 2013 and the operator supplies the funeral services pursuant to the prepaid arrangement.

Although the funeral services are provided on or after April 1, 2013, neither GST nor HST would apply to the funeral services because the funeral services are supplied under a prepaid arrangement entered into

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before September 1990, and it was reasonable, at the time the prepaid arrangement was entered into, to expect that all or part of the funds for the funeral services would be paid (or put into trust) before the individual's death.

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### ***Prepaid arrangements entered into after August 1990 and before April 2013***

GST would apply to funeral or cemetery services supplied under a prepaid arrangement entered into after August 1990 and before April 2013.

Regardless of when the funeral or cemetery services are provided, the provincial part of the HST would not apply to funeral or cemetery services supplied under a prepaid arrangement entered into before April 2013. This rule would only apply if it is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the funeral or cemetery services would be paid (or put into trust) before the individual's death.

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#### **Example 2**

The operator of a place of interment in Prince Edward Island enters into a prepaid arrangement with a purchaser, in March 2013, to supply cemetery services upon an individual's death. It is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the cemetery services would be paid (or put into trust) before the individual's death. The individual dies in February 2018 and the operator supplies the cemetery services pursuant to the prepaid arrangement.

The federal part of the HST (i.e., the equivalent to the existing GST) would apply to the cemetery services because the cemetery services are supplied under a prepaid arrangement entered into after August 1990.

The provincial part of the HST would not apply to the cemetery services because the cemetery services are supplied under a prepaid arrangement entered into before April 2013, and it is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the cemetery services would be paid (or put into trust) before the individual's death.

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### ***Prepaid arrangements entered into on or after April 1, 2013***

The HST would apply to funeral or cemetery services supplied under a prepaid arrangement entered into on or after April 1, 2013.

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#### **Example 3**

The operator of a funeral home in Prince Edward Island enters into a prepaid arrangement with a purchaser, in July 2013, to supply funeral services upon an individual's death. It is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the cemetery services would be paid (or put into trust) before the individual's death. The individual dies in January 2023 and the operator supplies the funeral services pursuant to the prepaid arrangement.

The HST would apply to the funeral services because the funeral services are supplied under a prepaid arrangement entered into on or after April 1, 2013.

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### ***Funds paid (or put into trust) before the individual's death***

Generally, at the time an operator enters into a prepaid arrangement with a purchaser, the purchaser agrees to either:

- pay all of the funds for the funeral or cemetery services by making a lump sum payment to the operator before the individual's death;
- pay all or part of the funds for the funeral or cemetery services by making a series of payments (e.g., instalment payments) to the operator before the individual's death; or
- purchase an insurance policy under which the proceeds from the policy, at the time of the individual's death, are payable to the operator for the funeral or cemetery services.

Where the purchaser agrees to do any of the above, the CRA considers it reasonable, at the time the arrangement is entered into, to expect that all or part of the funds for the funeral or cemetery services would be paid (or put into trust) before the individual's death.

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#### **Example 4**

The operator of a place of interment in Prince Edward Island enters into a prepaid arrangement with a purchaser in March 2013 to supply cemetery services upon an individual's death. At the time the prepaid arrangement is entered into, the purchaser agrees to make a lump sum payment to the operator on April 2, 2013. The purchaser makes the lump sum payment to the operator on April 2, 2013 and the individual dies in November 2013. The operator supplies the cemetery services pursuant to the prepaid arrangement.

The federal part of the HST (i.e., the equivalent to the existing GST) would apply to the cemetery services because the cemetery services are supplied under a prepaid arrangement entered into after August 1990.

The provincial part of the HST would not apply to the cemetery services because: (1) the cemetery services are supplied under a prepaid arrangement entered into before April 2013, and (2) by agreeing to make a lump sum payment to the operator before the individual's death, it is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the services would be paid (or put into trust) before the individual's death.

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#### **Example 5**

The operator of a place of interment in Prince Edward Island enters into a prepaid arrangement with a purchaser in February 2013 to supply cemetery services upon an individual's death. At the time the prepaid arrangement is entered into, the purchaser agrees to make an initial payment to the operator on that day, and to make 15 quarterly instalment payments to the operator starting on April 1, 2013. The individual dies in December 2015, and at that time, the purchaser has made 11 of the 15 quarterly instalment payments to the operator on the dates set out in the prepaid arrangement. The deceased individual's estate pays the remaining funds for the cemetery services to the operator, and the operator supplies the cemetery services pursuant to the prepaid arrangement.

The federal part of the HST (i.e., the equivalent to the existing GST) would apply to the cemetery services because the cemetery services are supplied under a prepaid arrangement entered into after August 1990.

The provincial part of the HST would not apply to the cemetery services because: (1) the cemetery services are supplied under a prepaid arrangement entered into before April 2013, and (2) by agreeing to make a series of payments to the operator before the individual's death, it is reasonable, at the time the prepaid arrangement is entered into, to expect that all or part of the funds for the cemetery services would be paid (or put into trust) before the individual's death.

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### **Other services**

Some operators charge fees for other services that are not funeral or cemetery services, but that are supplied in connection with prepaid arrangements. Examples of fees for other services include set up fees, administration fees, cancellation fees, and instalment payment charges (also known as finance charges or service charges).

As these fees are not for funeral or cemetery services, the general transitional rules for services would apply for purposes of determining whether GST or HST would apply to other services performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

To determine whether GST or HST would apply to other services, operators would have to consider:

- when the other service is performed;
- when an amount for the other service becomes due; and
- whether an amount is paid without having become due.

Refer to the Appendix for information on when an amount becomes due and when an amount is paid without having become due.

### ***When 90% or more of the other service is performed before April 2013***

When 90% or more of the other service is performed before April 2013, only GST would apply to any amount that becomes due or is paid without having become due for the service. Operators would account for the GST in their GST/HST returns according to the normal rules.

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## **When more than 10% of the other service is performed on or after April 1, 2013**

The following rules would apply when more than 10% of the other service is performed on or after April 1, 2013:

- GST would apply to any amount that becomes due or is paid without having become due on or before November 8, 2012.
- GST would apply to any amount that becomes due or is paid without having become due after November 8, 2012, and before February 2013. However certain purchasers that are non-consumers would have to self-assess the 9% provincial part of the HST. For more information, refer to “Self-assessing the provincial part of the HST” in GST/HST Info Sheet GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*.
- When an amount becomes due or is paid without having become due on or after February 1, 2013:
  - GST would apply to any amount that relates to the portion of the other service performed before April 2013; and
  - HST would apply to any amount that relates to the portion of the other service performed on or after April 1, 2013.

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### **Example 6**

The operator of a funeral home in Prince Edward Island enters into a prepaid arrangement with a purchaser, in February 2013, to supply funeral services upon an individual’s death. The purchaser agrees to pay quarterly instalments to the operator beginning April 1, 2013, as well as to pay a separate administration fee on April 1, 2013, for a service other than funeral or cemetery services. The other service is performed entirely in April 2013. The purchaser pays the first quarterly instalment and the administrative fee to the operator on April 1, 2013.

HST would apply to the administration fee since the fee became due on or after April 1, 2013, and none of the other service is performed before April 2013.

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## **Accounting for the GST/HST charged on other services**

The previous rules explained whether GST or HST would apply to supplies of services other than funeral or cemetery services. The following rules explain who would account for the tax, and when it would be accounted for, when more than 10% of the other service is performed on or after April 1, 2013.

### **After November 8, 2012 and before February 1, 2013**

When an amount becomes due or is paid without having become due after November 8, 2012, and before February 2013, the operator would charge the purchaser GST and would account for the tax in its GST/HST return according to the normal rules. Certain purchasers that are non-consumers would have to self-assess the 9% provincial part of the HST. For more information, refer to “Self-assessing the provincial part of the HST” in GST/HST Info Sheet GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*.

### **On or after February 1, 2013 and before April 2013**

When GST would apply to the other service or a portion of the other service, the operator would account for the GST in its GST/HST return according to the normal rules.

When HST would apply to the other service or a portion of the other service, the operator would account for:

- the 5% federal part of the HST in its GST/HST return according to the normal rules; and
- the 9% provincial part of the HST in its GST/HST return for the reporting period that includes April 1, 2013.

### **On or after April 1, 2013**

When an amount becomes due or is paid without having become due on or after April 1, 2013, the operator would account for the GST/HST in its GST/HST return according to the normal rules.

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## **Funeral and cemetery services provided at the time of need**

Generally, a prepaid arrangement sets out certain funeral or cemetery services to be supplied by the operator at the time of the individual's death. The relief from the GST and the provincial part of the HST, as explained earlier under "Prepaid arrangements entered before September 1990" and "Prepaid arrangements entered into after August 1990, and before April 2013" would only apply to the funeral or cemetery services included in the prepaid arrangement, and not to other funeral or cemetery services provided at the time of need. The general transitional rules for services explained earlier under "Other services" would apply for purposes of determining whether GST or HST would apply to the funeral or cemetery services provided at the time of need (that are not included in the prepaid arrangement) where the services are performed during the period that includes the proposed April 1, 2013 implementation date for the HST in Prince Edward Island.

### ***Upgrading or adding services***

It is common for a deceased individual's estate to request that the operator either upgrade some of the funeral or cemetery services included in the prepaid arrangement or supply additional funeral or cemetery services that were not included in the prepaid arrangement.

Regardless of when a prepaid arrangement is entered into, if at the request of a deceased individual's estate the operator:

- substitutes, on or after April 1, 2013, a certain funeral or cemetery service included in the prepaid arrangement with a similar kind or class of funeral or cemetery service, but of an increased value, HST would apply to the amount that is the difference between the amounts for those services; or
- adds, on or after April 1, 2013, new funeral or cemetery services that are supplied in connection with the prepaid arrangement, HST would apply to any amount payable for those new services.

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#### **Example 7**

The operator of a funeral home in Prince Edward Island entered into a prepaid arrangement with a

purchaser, in April 2007, to supply funeral services upon an individual's death. At the time the prepaid arrangement was entered into, the purchaser agreed to make an initial payment to the operator on that day, and to make 15 quarterly instalment payments to the operator starting on July 1, 2007. The purchaser made all of the quarterly instalment payments to the operator on the dates set out in the prepaid arrangement. The individual dies in May 2013, and at the request of the deceased individual's estate, the operator substitutes the original casket specified in the prepaid arrangement with one of a higher value and supplies the remaining funeral services pursuant to the prepaid arrangement.

The federal part of the HST (i.e., the equivalent to the existing GST) would apply to the funeral services because the funeral services are supplied under a prepaid arrangement entered into after August 1990.

The provincial part of the HST would not apply to the funeral services because: (1) the funeral services are supplied under a prepaid arrangement entered into before April 2013, and (2) by agreeing to make a series of payments to the operator before the individual's death, it was reasonable, at the time the prepaid arrangement was entered into, to expect that all or part of the funds for the funeral services would be paid (or put into trust) before the individual's death.

HST would apply to the amount that is the difference between the amount for the new casket and the amount for the original casket that was to be supplied under the prepaid arrangement.

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### ***Cancelling prepaid arrangements***

At the time of an individual's death, some operators cancel the prepaid arrangement and replace it with an at-need arrangement. Where this happens, the funeral or cemetery services are no longer supplied under a prepaid arrangement.

Regardless of when a prepaid arrangement is entered into, if a prepaid arrangement is cancelled on or after April 1, 2013, and replaced with an at-need arrangement, HST would apply to any amount for the funeral or cemetery services supplied under the at-need arrangement.

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If an at-need arrangement is entered into on or after April 1, 2013, only for the purpose of fulfilling a prepaid arrangement under which the funeral or cemetery services would not be subject to the provincial part of the HST, and converting the prepaid prices to prevailing retail prices at the time of the individual's death, the provincial part of the HST would not apply to the funeral or cemetery services included in the prepaid arrangement. However, if at the request of a deceased individual's estate the at-need arrangement includes:

- a substitution of a certain funeral or cemetery service included in the prepaid arrangement with a similar kind or class of funeral or cemetery service, but of an increased value, HST would apply to the amount that is the difference between the amounts for those services; or
- new funeral or cemetery services that are supplied in connection with the prepaid arrangement, HST would apply to any amount for those new services.

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#### **Example 8**

The operator of a funeral home in Prince Edward Island entered into a prepaid arrangement with a purchaser, in December 2011, to supply funeral services upon an individual's death. At the time the prepaid arrangement was entered into, the purchaser made a lump sum payment to the operator to pay for the funeral services. At the time of the individual's death in April 2013, the operator cancels the prepaid arrangement and enters into an at-need arrangement with the deceased individual's estate. The at-need arrangement is not entered into for purposes of fulfilling the prepaid arrangement and converting the prepaid prices to prevailing retail prices at the time of the individual's death.

Since the prepaid arrangement was cancelled, HST would apply to the amount payable for the funeral services supplied under the at-need arrangement.

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## **Interment property**

Interment property is a form of real property for GST/HST purposes. Operators of places of interment generally provide interment property by way of lease, licence or similar arrangement. Given the specific use and purpose of the lot, plot, crypt, etc., and the fact that the purchaser may have little or no control over it, supplies of such real property are generally supplies made by way of licence.

**Note:** The tax status of a supply of interment property may differ depending upon the person who is making the supply (such as charities, public institutions or public service bodies). GST/HST Technical Information Bulletin B-093, *Application of GST/HST to Interment Rights and Prepaid Cemetery Arrangements*, provides detailed information regarding the supply of interment property and related services provided by such persons.

GST would apply to a taxable supply of interment property made by way of lease, licence or similar arrangement where the written agreement for the supply is entered into before April 2013, regardless of when the amount payable for the interment property becomes due or is paid without having become due.

HST would apply to a taxable supply of interment property made by way of lease, licence or similar arrangement where the written agreement for the supply is entered into on or after April 1, 2013, regardless of when the amount payable for the interment property becomes due or is paid without having become due.

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#### **Example 9**

The operator of a place of interment in Prince Edward Island supplies interment property to an individual by way of licence under an agreement in writing entered into in March 2013.

Since the interment property is supplied under a written agreement entered into before April 1, 2013, GST would apply to amount(s) payable for the supply of interment property.

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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.

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.

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).



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## **Appendix – When an amount becomes due or is paid without having become due**

The following rules explain when an amount becomes due and when an amount is paid without having become due. These rules apply to services and supplies of tangible and intangible personal property.

### ***Amount becomes due***

An amount payable for a supply becomes due on the earliest of the following days:

- the date of an invoice for that amount;
- the day the supplier first issues that invoice for the amount;
- if there is an undue delay in issuing that invoice, the day the supplier would have issued the invoice; and
- the day the purchaser is required to pay that amount under a written agreement.

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#### **Example 1**

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount on January 31. On January 15, the supplier issues an invoice which is dated January 15.

The amount becomes due on January 15 because it is the earliest of the date of the invoice, the day the invoice was issued, and the day the client is required to pay the amount under the written agreement.

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### ***Amount is paid without having become due***

An amount is paid without having become due when a purchaser pays an amount for a supply:

- before the date of an invoice, or before a supplier issues, or would have issued, the invoice; or
- before the purchaser is required to pay the amount under a written agreement and no invoice has been issued.

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#### **Example 2**

A supplier enters into a written agreement with a client. Under the agreement, the client is required to pay the total amount due on January 31. No invoice is issued. The client pays the amount due on January 15. In this case, January 31 is the day the amount becomes due and January 15 is the day the amount is paid without having become due.

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### ***More than one invoice or payment***

Sometimes, more than one amount becomes due or is paid without having become due. This could happen when, for example, a supplier issues more than one invoice or when the purchaser is required to make more than one payment under a written agreement. In this case, for each amount, the supplier must determine whether GST or HST applies. The supplier cannot, for example, just apply the HST on the final amount or on the total amount payable for the supply.

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#### **Example 3**

A supplier enters into a written agreement with a client for a supply. Under the agreement, the client is required to make two payments. The supplier has to consider each payment separately to determine whether GST or HST applies to the amount paid.

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