

This publication is provided as a guide only. It is not intended as a substitute for the *Employer Health Tax Act* and Regulations.

## Introduction

<b>Definition</b>	Eligible employers are exempt from Employer Health Tax (EHT) on the first \$400,000 of total Ontario remuneration each year. <b>Only one exemption is available for an associated group of employers.</b>
<b>Eligible employers</b>	<p>Eligible employers generally include the following:</p> <ul style="list-style-type: none"><li>• private sector employers</li><li>• organizations that receive financial assistance from any level of government but are not under the control of government</li><li>• Crown corporations that are subject to federal income tax under Part I of the federal <i>Income Tax Act</i> (ITA).</li></ul>
<b>Associated employers</b>	<p>The entire tax exemption amount for the year may be allocated to one member of the associated group or it may be shared among the associated employers.</p> <p>Associated employers are connected by ownership or by a combination of ownership and relationship among the employers. Individuals are related either through blood, marriage or adoption. The rules for associated corporations under section 256 of the federal ITA are used to determine whether or not employers are associated for EHT purposes. Although these rules refer to corporations, their application is extended under the EHT Act to include individuals, partnerships and trusts.</p> <p>Associated employers must enter into an agreement allocating the exemption for the year among the group of employers. Each of the associated employers must complete and file Schedule 2 entitled Associated Employers Exemption Allocation with their EHT annual returns, otherwise none of the employers in the group will qualify for the exemption.</p> <p>For further information, refer to EHT Information Bulletin entitled Associated Employers.</p>
<b>Multiple accounts employer</b>	A multiple account employer has more than one EHT account number set up for the different payroll centres or types of the same entity.

A multiple account employer who is an eligible employer can allocate the exemption to any of their multiple accounts to the extent that it does not exceed the total exemption allowed for the employer for the year. Schedule 1 entitled Multiple Accounts must be completed and filed with the EHT annual return of the employer's designated account.

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**Religious or charitable organizations**

Each location of a registered charity may be treated as a separate employer for EHT purposes with each location entitled to claim a separate exemption.

For further information, refer to EHT Information Bulletin entitled Religious or Charitable Organizations.

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**Part-year employers**

An eligible employer that opened, closed, became bankrupt or amalgamated during the year must prorate the exemption amount for the number of days in the calendar year that the part-year employer has payroll and a permanent establishment (PE) in Ontario.

Example:

The employer organization purchased its assets in March, started conducting business at the same time but did not have any payroll until June. The exemption will be prorated from June because it is from that date that the business had payroll and a PE in Ontario.

In the case of bankruptcy, the exemption must be prorated for the number of days in the calendar year up to, but not including, the date of bankruptcy.

When two or more corporations amalgamate, the new amalgamated corporation is required to prorate the exemption from the date of the amalgamation. The previously closed EHT accounts must prorate the exemption amount by the number of days in the calendar year that the businesses were in operation.

If the part-year employer is part of an associated group of employers, the exemption available to the group is based on the exemption available to the employer within the group who has had payroll and a PE in Ontario for the greatest number of days in the calendar year.

Example:

Employers A and B are associated at December 31, 2001. Employer A was in operation throughout the year; employer B was in operation and was an employer since July 1, 2001 (i.e., 184 days).

The group is entitled to the full \$400,000 exemption as employer A has been in business throughout the year. However, the amount that can be allocated to employer B is restricted to the amount that the organization would have been entitled to had it been a stand-alone employer (i.e.,  $184/365 \times 400,000 = \$201,644$ ). If \$201,644 is allocated to employer B, only \$198,356 (i.e.,  $\$400,000 - \$201,644$ ) can be allocated to A.

**Claiming the exemption**

An eligible employer is not required to remit tax instalments until the cumulative remuneration exceeds the employer's allocated exemption amount for the year.

Final adjustments to the exemption amount claimed during the year should be made at the time of filing the annual return.

Members of an associated group, who amalgamated part way through the year, should contact their local Ministry of Revenue tax office for further information.

**Written interpretations**

To obtain a written interpretation on a specific situation not addressed in this publication, please send your request in writing to:

Ministry of Revenue  
Tax Advisory Services Branch  
Income Tax Related Programs Section  
Employer Health Tax  
33 King Street West, 3<sup>rd</sup> Floor  
Oshawa ON L1H 8H5

**Related publications**

Other publications which provide further details on this topic include:

Associated Employers  
Religious or Charitable Organizations

**More information**

To obtain the most current version of this publication, or additional information, visit our website at [ontario.ca/revenue](http://ontario.ca/revenue) and enter 512 in the find page field at the bottom of the webpage or contact the Ministry of Revenue at:

1 866 ONT-TAXS (1 866 668-8297)  
1 800 263-7776 teletypewriter (TTY)

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© Queen's Printer for Ontario, 2008  
ISBN 978-1-4249-5898-6 (Print)  
ISBN 978-1-4249-5900-6 (PDF)  
ISBN 978-1-4249-5899-3 (HTML)  
Dist #2466E

