Canada: Coverage by carriers not licensed in Canada can lead to unintended tax implications for insureds.

While Canadian federal and provincial regulations are generally viewed to allow the procurement of insurance coverage from foreign insurers which are not licensed in Canada, unintended tax implications can apply to such situations. (Please note that similar tax implications can arise if a Canadian broker is not used.)

- All provinces in Canada charge premium tax on insurance. These taxes apply regardless of the licensing status or domicile of the insurer. For coverage procured from foreign insurers which are not licensed in Canada, federal excise tax may apply in addition to standard provincial premium tax rates. In some provinces, like Alberta, higher premium tax rates may apply to foreign insurers which are not licensed in Canada. These taxes are the obligation of the local insured to determine, file and pay to the applicable authority. Failure to pay or late reporting/payment may result in additional taxes, penalties or fines, with some provinces also applying daily compounded interest to unpaid/late paid tax amounts.

Example: General Liability policy procured from a U.S.-based, unlicensed insurer for Alberta-based premises and products risk generating a risk-based premium of USD 10,000.

Federal Excise Tax	10% (USD 1,000)
Alberta Premium Tax	50% (USD 5,000) (Standard tax rate on premiums paid to licensed insurers is currently 4%)
Alberta Late Reporting Tax	50% (USD 5,000)

In this example, had premium been paid to an insurer licensed in Canada, the tax implication would have been USD 400 (4% payable by the local client to the local broker as part of the standard local invoicing process). However, as the premium for the Alberta-based risk was not paid to an insurer licensed in Canada, the resulting tax implication was USD 6,000 (10% federal excise tax and a 50% Alberta premium tax). In the event that the Alberta premium tax was paid late, an additional 50% tax may be imposed, resulting in an additional USD 5,000 tax implication for the local insured. Failure to pay applicable premium taxes may also jeopardize the status of claim payments made by carriers not licensed in Canada.

- These additional taxes and the administrative burden they generate for the local insured can be avoided through the placement of local policies via a locally licensed insurer. Hartford Fire Insurance Company, Canada Branch is a locally licensed carrier and companion policies can be arranged in Canada as part of the U.S. domestic policy underwriting process.
- The Hartford has agreed with the federal regulator in Canada that Hartford Fire Insurance Company will only provide coverage for Canada-based, locally insurable exposures on a licensed basis via Hartford Fire Insurance Company, Canada Branch. This allows our insureds with Canadian exposures to pay the lower premium taxes applicable to licensed coverages. As a result, The Hartford mandates the placement of local policies whenever a locally insurable interest exists in Canada for one of our clients. This includes Umbrella/Excess coverage scenarios. Again, as a reminder, Canadian law also requires the engagement of a locally licensed broker on all policies issued in Canada in order to avoid the federal excise tax.

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