

**Alberta WCB
Policies &
Information**

Chapter:

PRICING

Subject:

CLASSIFICATION

Authorization:

BoD Resolution 98/03/13

Date:

March 24, 1998

APPLICATION 1: GENERAL

1. *What responsibilities do employers have to ensure their business is correctly classified?*

Employers must provide the WCB with a detailed description of their business at registration. If there is a gradual or abrupt change in the nature of the business, a change in the classification may be required. An employer must notify the WCB of any such changes. This will ensure the employers are included in the correct classification for their business and are paying the appropriate premium rate (see Application 3, Changes to an Employer's Classification).

To ensure the correct classification has been assigned, the WCB may examine a business at the employer's request, or the WCB may initiate the review at its own discretion (see Application 3, Q4 & Policy 06-03, Premiums).

2. *What information does the WCB consider when assigning an industry classification to an employer's business?*

The WCB considers the following information when assigning an industry classification to an employer's business:

- products / services sold
- raw materials, equipment and processes used
- occupational mix of the workers
- work contracted out
- work locations
- customers and competitors
- ownership
- work performed by other companies at non-arms length
- any other information the WCB requires to gain a complete understanding of the employer's business.

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3. *What is an arms-length relationship?*

An arms-length relationship is one between unrelated persons each acting in their own self interest. A related person includes but is not limited to those:

- defined in s.134 of the Act, and
- legal entities under the de facto control of the same person or persons.

It is a question of fact in each case whether persons are dealing with each other at arms length at a particular time.

4. *Why does the WCB classify businesses by industry rather than the workers' occupations?*

Classification by industry provides collective liability among employers with the same kind of business. The rates established represent the composite experience of all occupations employed by businesses within the industry classification. This method of classification reduces administrative complexity for the employer and the WCB, as well as promoting consistency in the classification of similar businesses. Ultimately, this allows businesses to control and pass on the costs of workers' compensation which are principally related to their own industry.

5. *What happens when an employer's business activities do not match an existing industry classification?*

The WCB prepares and regularly updates industry descriptions to provide general guidelines for classifying businesses. These descriptions include activities that are common to most businesses in the industry and are not intended to fully describe every detail or unique process in each employer's business. An employer's business is assigned an industry classification which provides the most appropriate description, or "best fit" based on information provided by the employer.

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6. *What if the business activities are split between separate legal entities?*

When related entities contribute to the production of common goods and services, the WCB considers the activities as a whole. When separate legal entities in a non-arms length relationship contribute to one business, the WCB assigns the same industry classification to each entity. This allows for consistency in classification regardless of the business structure.

For example, ABC Sales Ltd, in a non-arms length relationship, was established for the sole purpose of selling the products manufactured by ABC Manufacturing Ltd. Sales is an integral activity related to the manufacturing process. ABC Sales Ltd. is therefore classified in the same industry as ABC Manufacturing Ltd.

When an employer restructures a business, either establishing or consolidating separate legal entities operating at non-arms length to carry on the existing business, the industry classification will be determined in accordance with Application 2, Q1.

7. *Will an employer's business activities outside of Alberta affect the industry classification?*

The WCB determines the employer's industry classification based on the employer's business being conducted within Alberta. When workers are covered under s.28 of the Act and these activities comprise an integral activity for the employer, the WCB will consider business activities performed outside of Alberta when determining the industry classification to be assigned (see Policy 06-01, Employers & Workers, Application 4, Coverage Outside of Alberta).

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APPLICATION 2: EMPLOYERS OPERATING IN MORE THAN ONE INDUSTRY

1. *Can more than one industry classification be assigned to an employer's business?*

Most employers' businesses are assigned only one industry classification. However, when a single classification does not adequately cover all the business activities being conducted, and the activities are not common or incidental to the employer's existing industry classification, the WCB may assign more than one industry classification provided all of the following conditions are met:

- the separate business activity does not support, and is not an extension of the employer's other business
- each business activity is capable of operating independently of the other(s) with separate and distinct sources of revenue
- each business activity has separate equipment, inventory and work locations
- the services of one business are not provided primarily for the benefit of the other business(es)
- with the exception of administrative staff, no workers are assigned to work in more than one business simultaneously, and
- the employer uses an accounting system that easily distinguishes earnings paid to each worker in each business. Percentages derived from revenues or sales are not acceptable.

If all of these conditions are not met, the WCB normally assigns the industry classification that provides the "best fit" (see Application 1, Q4). However, when all conditions are met but the employer refuses to separate insurable earnings for each business, the WCB may assign a single industry classification based on the business which would have the highest rate.

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