

**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.130 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.23 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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2. *When more than one industry classification has been assigned, how are insurable earnings allocated for administration staff who perform work in more than one business?*

When the earnings for administrative, clerical and management support staff (administrative earnings) are not directly attributed in the accounts and records to a specific business, those earnings must be prorated between businesses. The proration is based on the earnings that can be directly attributed to all assigned industries (see Policy 06-03, Premiums).

For example, ABC Ltd. has a road building business and a welding business. The insurable earnings directly attributed to each are \$200,000 per year. ABC Ltd. has administration staff earning a total of \$50,000 per year. One half, or \$25,000 of administrative earnings is prorated to each industry classification.

3. *What happens when an employer operates in both a compulsory industry and an exempt industry?*

If the conditions set out in Q1 are met, the employer may apply for optional coverage in the exempt industry. The appropriate industry classification will be assigned according to the business being conducted. If the employer chooses not to purchase optional coverage, the workers dedicated to the exempt business will not be covered (see Policy 06-02, Optional Coverage). However, administrative staff who are interchangeable between businesses will be covered as workers of the compulsory business.

If the conditions set out in Q1 are not met for separate businesses, then the entire business will be considered compulsory and assigned a single industry classification (see Policies 06-01, Employers & Workers and 06-03, Premiums).

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4. *Is a separate classification assigned when employers use their own workers for capital construction?*

Capital construction that is not normally associated with the main business being conducted will be assigned a separate classification when an employer uses its own workers. This ensures that the employer pays a premium which reflects the construction activities undertaken and claim costs are assigned to the appropriate industries.

For example, a trucking business uses its own workers to build a storage and maintenance facility for its own trucks. The construction is not a common activity of the trucking industry and is classified separately from the trucking business. Once it is constructed, the operation or use of the facility becomes part of the trucking business.

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APPLICATION 3: CHANGES TO AN EMPLOYER'S CLASSIFICATION

1. *When does the WCB change an employer's industry classification?*

The WCB changes an employer's industry classification when:

- the business changes and the industry classifications assigned are inappropriate, or
- the business has not changed but the employer has been assigned to the incorrect industry classification.

Depending on the circumstances, the WCB may:

- assign a different industry classification to the entire business
- add an industry classification, or
- delete an existing industry classification (see Application 2, Q1).

2. *When a business changes and the industry classification assigned is no longer appropriate, when is the change in classification effective?*

Generally, the change is effective the date the business changes. However, when there is a gradual change in the business and the exact date cannot be determined, the change in classification will be effective January 1 in the year the change is brought to the WCB's attention.

3. *When a business has not changed but the employer has been assigned to the incorrect industry classification, when is the change in classification effective?*

Generally, when the business has not changed but the employer has been assigned to an incorrect industry classification, the effective date of the change depends on whether the change results in a premium rate increase or decrease.

If the change results in a premium rate decrease, the change will be effective January 1 in the year the review is requested by the employer or the WCB reviews the employer's business, whichever is earlier.

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*Business has not changed
but employer has been
assigned to the incorrect
industry classification
(continued)*

If the change results in a premium rate increase, the change will be effective January 1 in the year following the review.

4. *Are there any exceptions to the effective dates assigned to a change in classification?*

Generally, exceptions are made only when an employer misrepresents or fails to disclose the details of the business, and this resulted in a industry classification with a lower premium rate being assigned. In these cases, the WCB will backdate a classification change for up to six years prior to the year in which the classification was reviewed.

The WCB may consider other circumstances based on the facts presented to determine if other exceptions are warranted, (see Application 1, Q1).

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