

Practice Directive 30:20:20 Multiple Classifications

Background

The following practice directive accompanies amendments to Assessment Policy 30:20:20, Multiple Classification, that was approved by the Panel of Administrators in December 2001. The policy is effective January 1, 2002. This policy deals with the criteria by which an employer can be assigned to more than one classification. Each classification has its own assessment rate and employers who qualify for multiple classification pay different rates for each of their industrial activities.

Multiple Classification Criteria

In order for an employer to qualify for more than one classification unit (CU), two or more of the employer's industrial activities must be able to stand on their own as independent business operations. It is the responsibility of the employer to notify the Board of its industrial activities and any changes to them when they occur. Once the Board is aware of the employer's industrial activities it will determine whether multiple classifications should apply to or be removed from an employer account. (Please see Assessment Operating Policy 30:20:40, Change of Classification for a more complete discussion).

The Board may consider an industrial activity to be separate if it is performed by specific personnel as their sole function and no personnel is engaged in more than one industrial activity simultaneously.

Sole employment function means that personnel are engaged in each industrial activity exclusively at one time. The same personnel cannot be engaged in two industrial activities simultaneously. This does not mean that a person who sometimes works in one activity can never work in another activity of the employer's business. It simply means that the activities and the associated risks, must be segregated, carried out in a different space and time for the employer to be eligible for multiple classification. The employer must account for the labour costs of each activity separately.

Further, the policy states that each industrial activity must not "be ancillary to" the employer's main industry. The policy explains this by stating that the "activity in question should not simply be to assist, support or service the employer's main industry". The term "simply" here is significant. This means that, for the purpose of this policy, the activity in question must be a necessary and integral part of the firm's main operations, and have no independent scope of its own.

The Board has developed a list of "ancillary" activities. These activities will normally not receive a separate classification. However, the particular circumstances of a case may show that the activity in question is not "simply" to assist, support or service the employer's main industry:

- clerical;
- accounting;
- management;
- marketing;
- sales;
- drafting, engineering, or design related to the development or production of a firm's own goods;
- maintenance and repair of a firm's own equipment;
- inventory control;
- packaging of a firm's own products;
- printing or lithographing on a firm's own products;
- distribution of goods manufactured by a firm;
- internal transporting or warehousing of a firm's own goods;
- administrative operations and administration of a firm's operations by owners or executive officers;
- warranty repairs or services carried out by a firm on goods manufactured or sold by the firm.

The above list is not exhaustive – other operations may be considered ancillary.

For a firm to be considered for multiple classification, each industrial activity that may possibly receive its own classification unit must sell at least 50 percent of its product or service to customers who are not affiliated with the firm. This means that an industrial activity must generate outside sales or revenue.¹

The 50 percent test can also be used where a firm's activity would normally be considered ancillary but where some of its productivity or service derives from a separate firm or firms.

Example:

Company A has two main departments. The “development” department buys land and constructs houses on the land. The “sales” department sells the houses built by Company A as well houses built by Company B. If at least 50% of Company A's revenue is derived from selling houses for Company B, multiple classification may be considered. While sales is often considered an ancillary operation, in this example the sales activity for Company A does not exist simply to assist, support or service its own construction activity.

Employers should be able to provide proof of revenue breakdown at the time they request multiple classification.

Minimum assessable payroll/revenue is another standard that a Board officer uses to help establish whether or not an employer is eligible for multiple classification. Policy 30:20:20 states that each industrial activity must meet at least one of the following criteria:

¹ If sales or revenue figures are not an appropriate measure, volume of annual output (such as units of production or time spent) could also be used.

- (i) generate an annual assessable payroll equal to at least four times the maximum wage rate; or
- (ii) generate an annual assessable payroll that is at least 25 percent of the gross annual assessable payroll of all the employer's industrial activities; or
- (iii) generate an annual revenue that is at least 25 percent of the gross annual revenue of all the employer's industrial activities.

Example:

Employer X has a pub, a marina and a campground. The total annual assessable payroll for all undertakings is \$825,000.

Activity	Payroll	% of Total	Revenue	% of Total
Pub	450,000	55	900,000	55
Marina	250,000	30	500,000	30
Campground	125,000	15	250,000	15
Total	825,000	100	1,650,000	100

All three undertakings have specific personnel and offer more than 50 percent of their product to the public. The pub and the marina each generate more than 25 percent of the employer's total annual assessable payroll and therefore would be eligible for multiple classification. The campground does not meet any of the three criteria for payroll or revenue and therefore the campground CU would not be considered.

The unassigned payroll from the campground activity would be added to the CU of the main industrial activity of the employer. The main industrial activity of an employer can be measured using payroll, revenue, units of production or any other basis which the Board feels best represents a true picture of the firm's activity. The pub is viewed as the main industrial activity in this example because it has substantially more payroll than the other activities.

At the time of request for more than one classification an employer must report payroll information for each classification unit. Employers should submit evidence to show that payroll for the operations in question are separate from other firm activities.

Special Hazards

The policy designates several high-risk industrial operations as special hazard operations. When these activities are considered significant (where the payroll is at least four times the maximum wage rate per annum, or \$238,400 for 2002), the Board adds the special hazard classification to the employer's registration. If the employer is not eligible for the special hazard classification initially but surpasses the payroll amount at some point during the year, the Board will treat this as inadvertent misrepresentation and backdate the special hazard classification. (See policy 30:20:40, part 5, Change of Classification).

Example:

Company Y is a road construction company. If, as part of a road construction contract, the firm builds a bridge, and the assessable payroll for that portion of the contract is \$240,000, the firm should have the bridge building classification unit added to its account. Bridge building is deemed a special hazard activity and therefore all payroll associated with it is assessed at the higher rate, while road construction activities may still be reported under the appropriate classification unit.

Residential Employers and Multiple Classifications

A residential employer is an individual (proprietorship) or family (partnership) who employs workers in or around a private residence, other than for the purpose of the owners' or occupiers' trade or business. The multiple classification criteria applied to industry are not applied to residential employers because residential employers do not generate revenue. Residential employers clearly have specific personnel for the activities undertaken at their home. The Board cannot use other criteria, such as revenue, to establish multiple classifications, as a homeowner does not produce a product or service.

(For the policy on residential employers and exemption for coverage see Assessment Operating Policy 20:10:20.)

Where the Board registers a partnership or proprietorship to cover industrial (revenue-producing) activity, and the same partnership or proprietorship operates as a residential employer, the Board may add additional classifications to the existing registration to cover workers employed with the residential employer.

Example:

A proprietor has a registration for the law office she operates. She hires a person full-time to provide at-home childcare. In this case, the Board assigns the law office CU (762022) to her registration. A separate classification, child caregivers in-home (764029) should be added effective the date she employs the caregiver.

Please see Assessment Operating Policy 30:20:11 for a discussion on private individuals who renovate their properties.

Non-reporting of Payroll and Claims Information

To maintain multiple classifications on an account, employers must report claims to the Board in the correct classifications in which the claims occur. In addition, firms must maintain separate payroll figures for each classification unit assigned to their account, and report those figures at the Board's request.

When an employer fails or refuses to respond to the Board's request to separate and report claims and payroll information for each classification unit, the Board may, after

reasonable notice, either decline to allow multiple classification or classify the unreported industrial activity, estimate the payroll, levy an assessment on the estimate, and impose a percentage of the assessment as a penalty for the default.

Multiple Classification and Personal Optional Protection

Multiple classification criteria as outlined in 30:20:20 will be applied to Personal Optional Protection coverage.

If a person either applying for or already having Personal Optional Protection indicates that he or she is involved in two or more separate business activities, a determination should be made as to whether or not they should be assigned multiple classifications. Once multiple classification has been applied, the payroll for the two industrial activities is pro-rated accordingly.

For example, Proprietor Z has two business activities. He works in logging 40 percent of the time and retail 60 percent of the time. In this case, the Personal Optional Protection should be pro-rated over the two activities accordingly. His compensation in the event of an injury would still be calculated at 75 percent of total requested monthly coverage.