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## **Benefit Facts**

### **Taxation in the Area of Group Benefits in Ontario**

At the present time premiums paid by an employer for a group insurance plan, for any and all coverages, is a business expense and tax deductible by the business. Prior to 1998 a business required to be incorporated in order to be eligible to do this but this is no longer the case.

Generally, employees pay for their share of coverage with after-tax dollars. Their share of premium is not tax deductible by the employees for any benefit, with one exception. When an employee who pays premiums into a "taxable" group disability policy receives claim payments, they can deduct the amount of premiums paid from the claim amount when determining income tax for the year claim payments are received. Also, should an employee's total health care expenses, including group health and dental premiums, in a particular tax year either equal \$1,614, or exceed 3 percent of net income, then those premiums may be considered as a tax deduction.

A "taxable" group disability policy (either weekly indemnity/short term disability or long term disability) is one in which the employer pays any portion of the disability premium even if it's just one cent per year. Canada Revenue Agency allows a disability benefit to be "non-taxable" when received, if employees pay 100% of the premium for that benefit. It is possible to set up a non-taxable short term disability benefit and a taxable long term disability benefit or vice versa.

Employer contributions to group life insurance premiums for an employee are considered a taxable benefit to the employee. Prior to the Conservative Government's Federal 1994 Budget, Canadians were allowed up to \$25,000 group life coverage as a non-taxable benefit.

When a life insurance claim payment is made to an employee's beneficiary the life benefit amount is tax free money. There is however tax payable on the interest earned by the life insurance proceeds after the date of death.

Interestingly, an employer is allowed to pay up to \$10,000 as a death benefit to an employee's family outside the group insurance plan as it is allowed as a deduction by Canada Revenue Agency. The amount paid to the family is treated as a life insurance benefit, and as such, is not taxable upon receipt. Employers may also deduct expenses incurred and claims paid out under self-insured group plans.

Extended Health Care and Dental benefits are not included in employee income as taxable benefits unless there isn't a contracted plan, an insured plan or a union agreement in place.

GST is payable on Broker consulting fees only and PST was applied to group benefit plan premiums in 1993 by the NDP Government. The Ontario Government assess a "hidden" tax on all group insurance premiums. It's called hidden because most people are not aware it exists. The charge in Ontario is 2%, is built into the premium and paid to the Government by the insurance companies. (This hidden tax is not applicable to the health and dental premiums provided by non-profit benefit plan providers, such as the Chambers of Commerce Group Insurance Plan.)