



Taxation of Group Benefits

Is the premium cost for providing benefits a tax deduction for the Business?

Yes it is. If a Corporation (the "employer") sets up an employee benefits plan and pays the premium on behalf of the employees, then the premium paid by the business is deductible as a business expense.

If a business provides Group Insurance for employees, is it a taxable benefit to employees?

Certain benefits are taxable income, to be T4'd to the employee for any portion the Employer pays. These benefits would be:

- The Life Insurance
- Dependent Life
- Accidental Death & Dismemberment (as of January 1, 2013 this became a taxable benefit)
- Critical Illness Premiums (as of January 1, 2013)

Premiums paid by the Employer for the other Group benefits are tax-free to the employee - and a definite tax advantage results if the Employer pays for these benefits.

Short and Long Term Disability premiums require your special attention. There is a very good reason why you should set your deductions up so that Employees pay for their own disability benefits. The taxation of Disability Income payments is discussed in the next paragraph.

Are Long Term or Short Term Disability payments received by an employee taxable income?

The answer depends on who is paying the premiums. If the premiums for Short Term and/or Long Term Disability benefits have been paid entirely by the employee, then Revenue Canada states that disability income payments received by the employee will be non-taxable income and need not be declared as income.

If the Employer pays any portion at all of the disability premium, then any disability income payment received by the employee is considered a taxable benefit and the Insurance Company will issue a T4A.



If the Employer pays the disability premium, but includes all premiums paid as a taxable benefit on the employee's T4 statement, then by convention CRA has considered that disability benefits received by the employee will be non-taxable income. While this premium treatment is not backed up by legislation, to date Revenue Canada has not challenged it.

If an employee is reimbursed by the Insurer for Health or Dental expenses claimed, is the reimbursement a taxable benefit?

No, the reimbursements received by employees for their Health and Dental expenses are not taxable benefits. If there were no Group plan, employees would be paying these expenses with their after-tax dollars, so this feature is a definite advantage to having a group plan.

You should also know that if you, as an employer, choose not to have a benefits contract, and simply decide to reimburse employees for their routine expenses up to a certain amount, those reimbursements would be considered taxable income to the employee. Putting a Benefits plan in place to pay these expenses avoids taxation on the reimbursements.

Is M.S.P. premium paid by the Employer considered a taxable benefit?

Yes. While Health, Dental, and Disability are not taxable benefits to the employees, any Provincial Medical Services Plan (MSP) premiums paid by the employer are a taxable benefit to the employees.