Manulife Financial

For your future™

Understanding Taxation of Long Term Care Insurance

Individual policy structured to provide an employee benefit

Purpose of Insurance

- To provide an employee with a monthly cash benefit in the event he/she is:
  - – functionally dependent, and
  - – satisfies the waiting period.
- The benefit can provide financial flexibility so the individual can be cared for in a manner desired by them. Needs may include:
  - – care costs or medical expenses not covered under government plans
  - – payments on mortgage debt, credit card debt, or personal lines of credit
  - – home renovations required to make living space suitable
  - – replacing caregiver's (e.g., spouse) lost income

Structure

- **Insured:** Employee
- **Owner:** Corporation or employee, depending upon the structure
- **Premium Payor:** Corporation
- **Benefits Payable to:** Employee would receive the monthly cash benefit under the contract.

Tax Treatment

Note: The tax treatment detailed here would not apply if the benefit were provided to a shareholder (who may also be an employee) in his/her capacity as a shareholder.

Employee Owned

If the corporation pays the premium on an employee-owned policy, the premium would be:

- – included in the employee's income as an employee benefit
- – deductible to the employer as a business expense.

Any monthly cash benefit paid to an employee would be non-taxable.*

Corporate Owned – Employee Payee

The premium would be:

- – included in the employee's income as an employee benefit
- – deductible to the employer as a business expense.

Any monthly cash benefit paid to an employee would be non-taxable.*

Planning Points

In the employee owned context, the employer may consider grossing up the employee benefit for the premium, for tax purposes, so the employee has no tax cost for the benefit.

A Direction to Pay can be used for the benefits from a Return of Premium on Death Rider only if the insured person is NOT the policy owner. In the corporate owned context, if the corporation intends to receive the Return of Premium on Death benefit (that is, does not execute a direction [or beneficiary designation in provinces that permit this] in favour of the employee) it should consider whether deducting the Rider premium is appropriate.

Carefully consider if Return of Premium on Death Rider is added to the plan.

*Provided the policy is accident and sickness insurance.

The CRA has confirmed that it views critical illness insurance policies providing no Return of Premium benefits as accident and sickness insurance. It has not confirmed this view for policies containing Return of Premium on death benefits outside Quebec. Like critical illness insurance, the taxation of long term care insurance is not black and white. It is Manulife's view that LivingCare with Return of Premium on Death should be viewed as accident and sickness insurance.

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