

TAXATION OF INDIVIDUAL DISABILITY INSURANCE (DI) PREMIUMS AND BENEFITS

RBC Insurance [®] Disability	Insurance		Premiums and tax	Benefits and tax		Refunds and tax		
	Type of insurance	Owner	Payor	Deductibility	Payee	Tax status	Payee	Tax status
PERSONAL PROTECTION								
	Insured	Insured	No (personal expense)	Insured	Tax-free	Owner	Tax-free	
	Insured	Employer	Yes (taxable benefit)	Insured	Tax-free	Owner	Tax-free	
	Employer	Employer (1)	Yes (taxable benefit)	Insured	Tax-free	Owner	Taxable	
WLRP	Employer	Employer	Yes (no tax benefit)	Insured	Taxable (2)	Owner	Taxable	
RETIREMENT PROTECTION (3)								
	Insured	Insured	No (personal expense)	Trustee	Tax-free	Owner	Tax-free	
	Insured	Employer	Yes (taxable benefit)	Trustee	Tax-free	Owner	Tax-free	
	Employer	Employer (1)	Yes (taxable benefit)	Trustee	Tax-free	Owner	Taxable	
WLRP	Employer	Employer	Yes (no tax benefit)	Trustee	Taxable (2)	Owner	Taxable	
KEY PERSON PROTECTION (4)								
	Employer	Employer	No (capital outlay)	Employer	Tax-free	Owner	Tax-free	
DISABILITY BUY SELL								
Cross purchase (5)	Individual	Individual	No (capital outlay)	Individual	Tax-free	Owner	Tax-free	
Redemption — entity purchase (5)	Business	Business	No (capital outlay)	Business	Tax-free	Owner	Tax-free	
OFFICE APPLICATIONS								
Overhead expense	Business	Business	Yes (business expense)	Business	Taxable	Owner	Taxable	
Loan protection	Business	Business	No (capital outlay)	Business	Tax-free	Owner	Tax-free	

(1) The employees must be obligated to pay all premiums and therefore any payments will be on the employee's behalf.

(2) Benefits from a WLRP are considered earned income for tax purposes.

(3) Retirement protection coverage provides for the payment of a monthly benefit into a non-registered account if the insured becomes disabled. This account accumulates and invests the benefits up to age 65 when it pays out a lump sum amount to provide for the insured's retirement. Benefits paid under a WLRP application to a non-registered plan are considered earned income eligible for RRSP calculations. Income earned on the investments in the non-registered account is also taxable on an annual basis.

(4) In the case of key person protection coverage, the corporation may require funds to meet immediate cash needs to find a replacement during the period of disability. This structure may also be used to provide disability benefits when the insured is a shareholder. The business receives the tax-free benefit and in turn could pay out the benefit in the form of a dividend, which is subject to regular taxation as a dividend to a shareholder.

(5) In both the cross purchase and the corporate redemption the proceeds are of a capital nature and are tax-free. The sale or corporate redemption of the business interest is a taxable transaction.

This chart is solely provided for general information, and clients should not rely on its contents to obtain specific financial or tax advice. Clients should consult their independent accountant, or legal, financial and tax consultant regarding their specific needs.