Canada Life™

Taxation of disability insurance plans

Structure	**Personally-owned** disability insurance policy	**Personally-owned** disability insurance policy structured as an employee benefit[1]	**Grouped individual** disability insurance policies[1]	**Overhead expense plan**
Description	An individual owns and pays for a disability insurance policy (including self-employed owners of an unincorporated business).	An employee owns a disability insurance policy and his/her employer pays the premium.	A group of individual disability insurance policies owned and paid for by the employer with benefits payable to the employee (e.g. wage loss replacement plan).	A business owns and pays the premium for a disability insurance policy covering overhead expenses.
Deductibility of premium	The premium is treated as a personal or living expense for income tax purposes and is not deductible.	The premium cost is deductible to the employer as a salary expense.	The premium cost is deductible as an expense to the employer.	The premium for overhead coverage is deductible as a business expense regardless of whether the business is incorporated or not.
Tax treatment of premium payment for insured individual	Not applicable	The premium paid by the employer on an employee-owned policy must be included in the employee's income as a taxable employee benefit.	Properly implemented, the arrangement is considered a group sickness or accident insurance plan for income tax purposes.[2] The premium payment will not be included in the employee's income as an employee benefit.[3]	Not applicable
Taxation of benefits	Disability benefits received are not taxable.	Disability benefits received are not taxable.	Disability benefits received by the employee are taxable.[3] If the employee pays a portion of the premium, the benefits reportable are reduced by the amount of any premium paid by the employee.	Disability insurance benefits payable in the event of a claim are taxable. In turn, the benefits received are used to pay expenses which are deductible as business expenses.

[1] If one or more insured persons are both shareholders and employees, this summary assumes coverage is provided to the insured(s) in their capacity as employees, not shareholders. Canada Revenue Agency presumes the benefit is received as a shareholder unless there is evidence to the contrary.

[2] Policies that include return-of-premium benefits may or may not qualify for inclusion in a group sickness or accident insurance plan. If the policy does not qualify, the employer-paid premium will be considered a taxable employee benefit.

[3] As a result of the 2012 federal budget, effective for coverage after 2012, employer-paid premium for an accidental death and dismemberment rider will be considered a taxable employee benefit. Consequently, the accidental death and dismemberment benefit is not taxable.

Canada Revenue Agency and Revenu Quebec have not provided a formal ruling about the tax treatment of return-of-premium benefits that are included in an individual disability insurance policy. The tax treatment of optional return-of-premium benefits is subject to interpretation.

The tax information provided here is for general information only. It should not be relied upon as providing legal or tax advice. Clients are encouraged to consult with their own professional tax and/or legal advisor about their particular circumstances.

Taxation of critical illness insurance plans

Structure	**Personally-owned** critical illness insurance	**Personally-owned** critical illness insurance structured as an employee benefit[1 3]	**Split-dollar individual** critical illness insurance arrangements	**Corporately owned** critical illness insurance
Description	An individual owns and pays for a critical illness insurance policy (including self-employed owners of an unincorporated business).	An employee owns a critical illness insurance policy and his/her employer pays the premium.	An arrangement where two parties (for example, employer and employee) split the premium cost and share the benefits. Generally, the employer pays for and is entitled to the critical illness insurance benefit, and the employee pays for and is entitled to the return-of-premium benefit under the terms of a written agreement between the employer and employee.	A corporation owns and pays for a critical illness insurance policy with benefits paid to the corporation (key person insurance).
Deductibility of premium	The premium is treated as a personal or living expense for income tax purposes and is not deductible.	The premium cost is deductible to the employer as a salary expense.	The premium is treated as a personal expense or an expense not incurred for earning income from business or property. Therefore, the premium is not deductible for tax purposes.	The premium is not deductible as a business expense.
Tax treatment of premium payment for insured individual	Not applicable	The premium paid by the employer on an employee-owned policy must be included in the employee's income as a taxable employee benefit.	Split-dollar arrangements should be carefully analyzed as to whether the premium payment gives rise to a taxable benefit to the shareholder or employee.	The premium cost is not considered taxable income to the employee.
Taxation of benefits	Lump-sum critical illness benefits are not taxable.[2]	Lump-sum critical illness benefits are not taxable.[2]	Lump-sum critical illness benefits are not taxable.[2]	Lump-sum critical illness benefits received by the corporation are not taxable.[2] If the critical illness benefits are paid to the employee or shareholder, the amount paid will be taxable to the recipient either as an employee or shareholder benefit or dividend.

[1] If one or more of the insured persons are both shareholders and employees, this summary assumes coverage is provided to the insured(s) in their capacity as employees, not shareholders. Canada Revenue Agency presumes the benefit is received as a shareholder unless there is evidence to the contrary.

[2] Provided the policy is accident and sickness insurance for tax purposes.

[3] As a result of the 2012 federal budget, effective for coverage after 2012, the taxation of a group of individual critical illness insurance policies structured as group sickness or accident insurance plan for income tax purposes to provide an employee benefit will be similar to personally-owned critical-illness insurance structured as an employee benefit.

Canada Revenue Agency and Revenu Quebec have not provided a formal ruling about the tax treatment of return-of-premium benefits that are included in a critical illness insurance policy. The tax treatment of optional return-of-premium benefits is subject to interpretation.

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