



THE JOURNAL

solid group plans made simple

GROUP BENEFITS TAXATION

Part of properly designing your benefits plan means structuring premium payments to minimize tax impact to your employees. Canada Revenue Agency (CRA) has a number of rules that apply to taxation of group benefit plans. The month's Journal looks at these rules, and how to effectively apply them.

Life Insurance, AD&D and Critical Illness Premiums

Premiums paid by the employer for group life insurance (including dependent life insurance), accidental death & disablement (AD&D) and critical illness (CI) are treated as a taxable benefit to employees. Employers will include the taxable benefit in Box 14 "Employment Income" and in the "Other Information" area of the T4 slip as Box 40 "Gifts and Awards".

Disability Plan Premiums

If an employer is deemed to have contributed any amount to an employee's disability plan (referred to by CRA as "wage loss replacement plan"), the disability benefit received by a disabled employee will be deemed taxable income.

If 100% premiums are paid by the employee (ie. deducted from an employee's gross income and remitted to the insurer), the plan is deemed "employee pays all" according to CRA, and disability benefits received by a disabled employee will be deemed non-taxable income.

CRA will not accept a retroactive change to the tax status of the disability plan; the employer cannot add the equivalent of the employer contributions to a disability plan to the employee's income at year-end. HOWEVER, the employer can pay the employee's premiums to the plan by accounting for them in the same manner as wages or salary throughout the year and include the amount in Box 14 "Employment Income".

Extended Health & Dental Premiums

Premiums paid by the employer for extended health and dental benefits are NOT treated as a taxable benefit to the employee. Claims paid are also tax-free to the employee.

THE JOHNSTONE'S ADVANTAGE

Our mission is simple:
Treat each client as if they were our only client.

Our value is clear:
We are completely independent. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple.**



Premiums paid by Quebec Employers

All group benefit premiums paid by employers in Quebec are treated as a taxable benefit for their employees.

Cost Sharing Options

Johnstone's Benefits' third party administration system can tax effectively manage the following cost share options:

- Fixed percentage on the total premium cost: ie. \$200 total premiums - 50% employer-paid / 50% employee-paid
- Fixed dollar amount on the total premium cost: ie. \$200 total premiums - \$60 paid by employee leaving \$140 to be paid by employer
- Fixed percentage by benefit (cost share is set up as a fixed percentage at the benefit level): ie. life insurance and AD&D 100% employer-paid; LTD 100% employee-paid; EHC and dental premiums shared 50/50

Tax Effective Allocation of Premiums

Once the cost sharing option has been defined, our TPA system has the ability to allocate EMPLOYEE-paid premiums based on the cost share option (as shown above) in the most tax effective manner, using the following order for benefits:

- Long Term Disability (LTD)
- Short Term Disability (STD/WI)
- Life Insurance
- Critical Illness (CI)
- Dependent Life Insurance
- Accidental Death & Disablement (AD&D)

New Billing Statement

We have transitioned many of our clients to our new billing/administration system "Bridge" – which offers additional employer online access and tools – and we will complete the transition for remaining clients by fall 2020. The new monthly invoice (billing statement) can include two reports to assist employers in allocating premiums in the most tax effective manner:

- (1) Cost sharing statement - provides information on how the tax effective allocation of premiums have been applied by benefit, as well as total employer and employee premiums based on the identified cost share option
- (2) Tax effective allocation of premiums statement - includes the following columns to assist employers with T4 benefits information
 - Box 40 Column: totals premiums paid by EMPLOYER for life insurance, dependent life insurance, AD&D and CI premiums for month after applying tax effective allocation of premiums functionality
 - Box 14 Column: equals Box 40 Column PLUS equivalent of employer premiums to wage loss replacement plans (STD/WI and LTD).

Do you have questions regarding your invoice, or how to set up your cost sharing option to take advantage of this system functionality?

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JOHNSTONE'S JOURNAL is published monthly and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies and share with your employees.