Johnstone's BENEFITS

THE JOURNAL

solid group plans made simple

TAXATION OF BENEFITS

Using CRA's Rules Effectively

When designing a group benefits plan, one of the factors we have our clients consider is how premiums will be paid. Well-structured plans are designed to use Canada Revenue Agency (CRA)'s tax rules effectively to minimize the tax impact to employees. Many group plans have cost sharing arrangements – some based on specific benefits, while others split the overall premium costs by some percentage. Who is "deemed to pay" the premiums for each benefit determines whether a taxable benefit is created or not.

Life Insurance, Accidental Death & Disablement and Critical Illness

All premiums paid by the employer for life insurance (employee and dependent), accidental death & disablement (AD&D) or critical illness (CI) benefits must be treated as a taxable benefit to the employee. However, regardless of who pays the premiums, the benefit is paid tax-free to the beneficiary.

Disability Benefits

If the employee pays 100% or is "deemed" to have paid 100% of the premium for short term and/or long term disability, any disability benefit paid to the employee, will be tax-free. Any premium that is considered to be employer-paid will create a disability benefit, that is subject to income tax.

Health and Dental Benefits, EFAP's and HSA's

In all provinces with the exception of Quebec, some or all of the premiums for extended health (including vision), dental, employee and family assistance plans (EFAPs) as well as health spending account contributions can be paid by the employer without creating a taxable benefit to the employee. In addition, any payment made by a claims payer to a health care provider or reimbursed to an employee is also without tax consequences to the employee. In Quebec, employer-paid premiums for these benefits are deemed taxable benefits.

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**.

Benefits of Cost Sharing

Benefit plans are often part of an employer's total compensation strategy designed to attract and retain the right employees. Employees also place a high value on group benefits as they provide coverage otherwise not available or not affordable to individuals. When employees share in the cost of their benefits, it increases their awareness and interest in how to optimize the plan to their family's needs.

Taxable Benefit

A taxable benefit created by employer-paid premiums for benefits is included in the employee's income each pay period and is used to determine the total amount that is subject to source deductions, such as income tax, CPP, EI. It is also shown in Box 40 on the T4 slip, the amount already included in the total employment income shown in Box 14.

Tax Effective Allocation of Premiums

Johnstone's Benefits' third-party administration service model not only allows us to offer the ideal combination of insurers to get the best products and services at the best price, it also offers the value-added option for our clients to allocate premiums in the most tax-effective manner possible.

In basic terms, in all provinces except Quebec, we can apply the employer share of total premiums first to the non-taxable benefits (Extended Health, Dental and EAP). The employee share of total premiums is allocated to pay for the disability plans first – to create non-taxable disability plans – and then to life insurance, AD&D, CI plans, and finally to the BC provincial health plan. Any shortfall in the employee-paid premiums must be shown as a taxable benefit.

As an alternative to straight payroll deduction, CRA also allows the employer to increase the employee's income with the equivalent amount of premiums, and account for them "as though the premiums had been withheld from the employee's wages or salary" (IT428 (17)).

CRA is very specific that the tax status of a disability plan cannot be changed retroactively, so it is important to proactively review the options to set up these plans in the most effective manner.

The main objectives of the allocation of premiums is to reduce the employee's taxable benefit and create a tax effective disability benefit for employees.

If you are interested in exploring how your plan can be structured for maximum tax effectiveness, please contact us to discuss!

CONTACT US

Johnstone's Benefits
3095 Woodbine Drive
North Vancouver, BC
V7R 2S3

Phone: 604-980-6227
Toll Free: 1-800-432-9707
Fax: 604-983-2935

Website: www.jbenefits.com

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.