

### GROUP BENEFITS TAXATION AND COST - SHARING

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

It is important to keep Johnstone's informed of your cost sharing arrangements. This will ensure that your billing statements reflect up to date information, in order to help you with payroll deductions. In addition, insurance carriers need to be informed so that the contracts reflect appropriate tax status.

#### 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, but are always paid out tax-free should a claim occur. Employers will include the taxable benefit in Box 14 "Employment Income" and in the "Other taxable allowances and benefits" area of the T4 slip as Box 40.

#### 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 as taxable income.

If 100% of 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.

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

### 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.**



## Cost Sharing Options

Our benefits administration system manages several types of cost share options tax-effectively:

- ☛ Fixed percentage on the total premium cost: ie. \$250 total premiums - 50% employer-paid / 50% employee-paid
- ☛ Fixed dollar amount on the total premium cost: ie. \$250 total premiums - \$100 paid by employee leaving \$150 to be paid by employer
- ☛ Fixed percentage by benefit (cost share is set up as a fixed percentage at the benefit level) for example: 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 administration system can allocate EMPLOYEE-paid premiums based on the cost share option in the most tax-effective manner.

## Billing Statement

The monthly billing statement is able to show not only simple deductions for cost sharing, but also shows amounts 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 (if applicable): 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).
- ☛ Salary Top-Up Column (new December 2024): equals premiums for wage loss replacement plans (STD/WI and/or LTD) paid by the employee that should be treated as employee wages or salary to create a non-taxable benefit at time of disability

Each of these columns are set up as monthly and year-to-date (YTD).

## 2025 Government Benefits Updates Employment Insurance (EI)

The maximum insurable earnings is the income level to which EI is paid. In 2025 it increases to \$65,700, (from \$63,200) resulting in the weekly amount changing to \$695 (from \$668)

EI premium rate for 2025 is \$1.64 per \$100 of insurable earnings for employees.

The EI premium rate for Quebec residents is \$1.31 per \$100 of insurable earnings for employees.

## Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

Employee and employer contribution rates will be 5.95%, unchanged from 2024. The maximum employer and employee contribution to the CPP/QPP for 2025 will be \$4,034.10 each. The basic exemption amount will remain at \$3,500.00.

Year's Maximum Pensionable Earnings (YMPE) under the CPP/QPP for 2025 will be \$71,300. The second earnings ceiling, the Year's Additional Maximum Pensionable Earnings (YAMPE), will be \$81,200. The YAMPE will be used to determine additional CPP contributions (CPP2). As a result, pensionable earnings between \$71,300 and \$81,200 are subject to CPP2 contributions.

## CONTACT US

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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.

