

Corporately funded critical illness coverage for employees

Updated May 2021 from an article first published in 2012.

One of the Federal Budgets aimed to provide a "more neutral and fair" tax treatment of beneficiaries under corporately funded grouped individual critical illness insurance plans.

Critical illness insurance has been successful for the incorporated business owner providing:

1. The security of corporately owned critical illness insurance policy;
2. A tax-free lump-sum benefit for the employee in the event of a claim;
3. A business expense to the corporation for the amount of the premium.

The 2012 budget proposals directly affected corporately grouped individual owned critical illness insurance policies as the employer paid premiums, while still deductible to the corporation, are now considered a taxable benefit to the employee.

The proposed measures came into effect on March 29, 2012; however, the employer did not have to include premiums in the employee's income until 2013. It is important to note that the Budget did not provide for any grandfathering. The changes affect both existing and new policies.

The revised income tax measures make all employer paid premiums to a critical illness insurance policy a taxable benefit regardless of whether or not a Return of Premium at maturity ("ROP") benefit is paid for and payable to the employee. Canada Revenue Agency ("CRA") is clear that policies forming part of a group sickness or accident insurance plan cannot provide any benefit other than a sickness or accident insurance benefit to employees. The ROP does not fall under their definition of a benefit for sickness or accident insurance. The result is the possibility of CRA considering employer paid premiums for coverage before the Budget a taxable employee benefit because the ROP benefit will include all premiums paid during the entirety of the policy, not just the premiums paid after March 29, 2012.



Peter A. Wouters,
Director, Tax
Retirement &
Estate Planning
Services

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Peter can be reached at
peter.wouters@empire.ca

Corporately funded critical illness coverage for employees

The revised income tax measures provide that all critical illness insurance policies be funded with after-tax dollars of the insured employees. From a tax perspective therefore, there is no longer a significant savings between personal and corporately held critical illness insurance policies.

It is important to remember that the need for critical illness insurance has not changed. Although some of the attractiveness of critical illness insurance has changed, the following benefits remain:

1. The lump-sum benefit remains non-taxable to the employee; and
2. The critical illness insurance premiums are a deductible business expense to the corporation.

For more information on the features and benefits of critical illness insurance, visit us at www.empire.ca.

Updated May 2021 from an article first published in 2012.

This document reflects the views of Empire Life as of the date published. The information in this document is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. The Empire Life Insurance Company assumes no responsibility for any reliance on or misuse or omissions of the information contained in this document. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. Please seek professional advice before making any decisions.

A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.**

® Registered trademark of **The Empire Life Insurance Company**. Policies are issued by The Empire Life Insurance Company.

FOR ADVISOR USE ONLY

The Empire Life Insurance Company

259 King Street East, Kingston, ON K7L 3A8

Insurance & Investments – Simple. Fast. Easy.®
empire.ca info@empire.ca 1 877 548-1881

INS-3060-EN-05/21

