

Corporately funded Critical Illness Insurance

Critical illness insurance continues to provide vital financial protection 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. Access to renowned medical specialists who are there to offer help in getting the business owner/key employee back to work. (CI Protect Plus only)
 4. A business expense to the corporation for the amount of the premium;
 5. And business continuity
- (NP) On that last point, benefits paid out can allow the business owner to focus on their recovery with the comfort that funds are available to cover expenses.

An important consideration is deciding whether the policy should be owned by the business or the business owner/key employee. Corporately funded, individually owned critical illness insurance policies may permit employer paid premiums to be deductible to the corporation and are considered a taxable benefit to the employee. There is no corporate or personal tax deduction available for the payment of critical illness insurance premiums under the Income Tax Act (Canada) by the owner of the policy. There is no provision in the Income Tax Act that treats the insurance benefit payment from a sickness or accident insurance plan, or from a private health services plan, as not being being tax-free for both an individual and a corporation.

All employer paid premiums to a critical illness insurance policy are 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.



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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.

Critical Illness Insurance

The result is the possibility of CRA considering employer paid premiums for coverage before the measures introduced in Budget 2012 to be 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. Please have clients check with their accountant that appropriate measures were taken. From a tax perspective therefore, there is no longer a significant savings between personal and corporately held critical illness insurance policies. If the policy is corporately owned and an approved claim is made, the benefit will be received tax-free by the corporation at the time of claim which can pay this amount out to a shareholder as a taxable dividend. Please note that where a corporation receives critical illness insurance benefits, even though they are tax-free, they do not create a credit to the corporation's notional capital dividend account credit. This is because critical illness insurance is not life insurance.

A critical illness insurance policy does not qualify as a "private health services plan" as defined in the Income Tax Act since the lump sum is not required to be used to cover hospital or medical expenses. The proceeds may be used to pay for medical expenses.

It is important to remember that the strategy for corporately funded life critical illness insurance has not changed. The following benefits remain:

1. The lump-sum benefit remains non-taxable to the employee if the employee is named as beneficiary; and
2. The critical illness insurance premiums may be 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.

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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.

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The Empire Life Insurance Company

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