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Corporately funded critical illness coverage for employees

Updated, Aug. 2017 from an earlier article, entitled; Critical Illness and the 2012 Federal Budget.

The budget 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 affect 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 does not have to include the 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.

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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.

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