

Taxation of Group Insurance Plans

Group insurance plans can be subject to both federal and provincial taxes. Taxes may be charged on amounts billed to the employer, and benefits received from the plan by employees may result in a taxable benefit to the employee.

Taxation of Employers

There are three types of tax charged to employers on group insurance plans.

1. **Premium taxes** are levied on insurance premium by all provincial governments. These taxes are paid directly by the insurance company and built into the premium charged to the employer. Premium taxes also apply on Administrative Services Only (ASO) plans in Ontario, Quebec, and Newfoundland and Labrador. In these cases, the employer is deemed to be the insurance company and accordingly, the tax is billed to the employer.
2. **Retail sales taxes** on insurance premium are levied by the provinces of Manitoba, Ontario and Quebec only. ASO claims are treated the same as insurance premium in Ontario and Quebec.
3. **GST / HST / QST** do not apply to insurance premium, or to claims paid on an ASO Plan, but they do apply to expenses charged on ASO plans. For most employers, these taxes will be refundable as input tax credits.

These taxes are levied based on the province of employment of each employee, with the exception of QST, which is based on the employer's location.

The following chart outlines the various taxes billed to employers on group insurance plans:

		Province (Effective October 1, 2016)									
		AB	BC	MB	NB	NL	NS	ON	PE	QC	SK
Insured Plans											
Premium Tax	Premium	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Retail Sales Tax	Premium ⁽²⁾	—	—	8%	—	—	—	8%	—	9%	—
ASO Plans											
Premium Tax	Claims plus expenses	—	—	—	—	5%	—	2%	—	3.48%	—
Retail Sales Tax	Claims	—	—	—	—	—	—	8%	—	9%	—
GST	Expenses plus premium tax ⁽³⁾	5%	5%	5%	—	—	—	—	—	5%	5%
HST	Expenses plus premium tax ⁽³⁾	—	—	—	15%	15%	15%	13%	15%	—	—
QST	Expenses plus premium tax ⁽³⁾	—	—	—	—	—	—	—	—	9.975%	—

⁽¹⁾ Premium tax on insured plans is included in the premium billed.

⁽²⁾ RST applies to all premium in Ontario and Quebec. RST applies in Manitoba to life, disability, critical illness and AD&D premium.

⁽³⁾ Premium tax is included in the base only in applicable provinces (NL, ON, QC).

In most cases, amounts paid by the employer for group insurance plans, including premium, claims, taxes, and expenses are considered deductible business expenses for income tax purposes.



Taxation of Group Insurance Plans (cont'd)

Taxation of Employees

Group insurance premiums and ASO plan costs can have tax implications to employees, depending on the benefit and who ultimately pays for it. If paid by the employer, an amount may need to be added to the employee's taxable income. If paid by the employee, they may be entitled to claim a medical expense tax credit on their personal income tax return. In both cases, the dollar amount should include expenses and most taxes associated with the plan. Recoverable taxes (i.e. GST, HST, and QST) should be excluded.

Many plans are cost-shared, meaning the employer recovers a portion of the premium (or budgeted claims amount in the case of an ASO Plan) from the employee's paycheque. The amount added to income or the tax credit available to the employee needs to take this into account.

The following chart outlines the tax implications to employees of an employer provided group insurance plan:

	Life	Dependent Life	Disability	AD&D	Extended Health	Dental	Travel	Critical Illness	EAP
Is the employer contribution taxable to the employee?	yes	yes	no	yes	no ⁽¹⁾	no ⁽¹⁾	no ⁽¹⁾	yes	no
Does the employee pay tax when claims are paid?	no	no	yes/no ⁽²⁾	no	no ⁽³⁾	no ⁽³⁾	no	no	no
Are the employee contributions eligible for the medical expense tax credit?	no	no	no	no	yes	yes	yes	no	no

⁽¹⁾ No for all provinces except Quebec. For Quebec, the contribution is taxable for provincial tax purposes (RL-1).

⁽²⁾ Disability claims are taxable if the employer pays any portion of the premium, and as required by Canada Revenue Agency, taxes are withheld from disability benefits paid to employees.

⁽³⁾ In the case of an ASO plan in Quebec, the total claim cost is allocated as a taxable benefit for provincial tax purposes only (RL-1).

Summary

The information above provides a brief overview of some of the taxation issues for group insurance plans. Questions or concerns regarding taxation of a specific plan should be referred to a tax advisor or accountant.