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TAXccess

An advisor’s guide to understanding how taxes impact group insurance benefits in Canada.

THE
Great-West Life
ASSURANCE COMPANY

Taccess provides information to help you understand how taxes impact Canadian group benefits. From the day we released the first edition in 2012, we've had great feedback. In fact, the North American Society of Actuaries has incorporated our magazine into their syllabus.

This updated edition reflects current tax rates.

As always, we appreciate your feedback. Send your comments to group.marketing@gwl.ca.

Contents

A few words from our legal department

This publication provides general information on taxes applicable to group benefit plans and is based on information available at the time of publication. The information in this publication is most relevant to plan sponsors that are employers and have plan members who are employees, and may not be relevant in other circumstances.

This publication does not constitute advice, a forecast, projection, estimate of possible tax results, contractual undertaking or guarantee. While The Great-West Life Assurance Company (Great-West) has used reasonable efforts to ensure that the information contained in this publication is current and accurate as of the date of publication, no representations or warranties are made (express or implied) as to the reliability, accuracy or completeness of such information. Great-West is not liable for any loss arising directly or indirectly from the use of, or any action taken in reliance on, any information appearing in this publication or in any publication by a third party that is referenced or linked to in this publication. Any conclusions and findings reported in this publication do not necessarily reflect the views of Great-West, its parent or affiliates.

Case studies contained in this publication are illustrations of common situations only. Actual tax outcomes may vary significantly based on circumstances that differ from the circumstances contemplated in the case studies, changes to applicable tax legislation after the date of this publication or otherwise.

The descriptions, tables and examples in this publication are general examples only and may not apply to all situations. Different interpretations and handling may apply based on particular circumstances.

Calculations in this document were based on information current at the time of publication.

You may wish to obtain independent tax and legal advice relevant to your particular circumstances.

Taccess is published by the Group Marketing department of The Great-West Life Assurance Company.
This version of Taccess has been updated to reflect tax rate changes since the original date of publication.

Tax summary charts

The following summary charts provide general information about taxes that apply to common products and services offered by Great-West.

By jurisdiction

If plan member resides in:	Alberta	British Columbia	Manitoba	New Brunswick	Newfoundland and Labrador	Northwest Territories	Nova Scotia	Nunavut	Ontario	Prince Edward Island	Quebec	Saskatchewan	Yukon
Premium Tax													
Individual and group insurance premium	3%	2%	2%	2%	5%	3%	3%	3%	2%	3.5%*	3.48%	3%	2%
ASO plans, HCSAs and MRPs					5%				2% (except taxable ASO disability income claims and fees)		3.48%		
Provincial sales tax													
Premiums on group insurance			8% RST (except health and dental)						8% RST		9% QTIP		
Claims for ASO, HCSAs and MRPs									8% RST (except taxable ASO disability income claims)		9% QTIP		
Fees on ASO plans with pooling, HSCAs and MRPs									8% RST		9% QTIP		
Fees on ASO plans without pooling									8% RST (when the place of supply is a GST jurisdiction)		9.975% QST (when the place of supply is Quebec)		
EAPs and other fee for service products											9.975% QST (when the place of supply is Quebec)		
GST/HST - based on place of supply													
Fees on ASO plans without pooling, EAPs and other fee for service products – **GST**	5%	5%	5%			5%		5%			5%	5%	5%
Fees on ASO plans without pooling, EAPs and other fee for service products – **HST**				15%	15%		15%		13%	15%			

Figure 1

*Expected to increase to 3.75% effective Jan. 1, 2017

By product and service

Product	Premium tax	Manitoba Retail Sales Tax (RST)	Ontario Retail Sales Tax (RST)	Quebec Tax on Insurance Premium (QTIP)	Quebec Sales Tax (QST)	Goods and Services Tax (GST)	Harmonized Sales Tax (HST)
Group insured premium (Life, LTD, Health, etc.)	Premium tax applies based on the plan member's province or territory of residence Rate - 2 - 5%	Rate - 8% (except health and dental)	Rate - 8%	Rate - 9%			
ASO plan claims and fees	Claims and fees: ON - 2%, QC - 3.48%, NL - 5%, all others - n/a (except taxable ASO disability income claims and fees related to Ontario plan members)		Claims: 8% on Ontario plan member claims. (except taxable ASO disability income claims) Fees: 8% on Ontario plan members when: • the plan has pooling • the plan has no pooling and the place of supply is a GST jurisdiction	Claims: 9% on Quebec plan member claims Fees: 9% on Quebec plan members when the plan has pooling	Claims: No Fees: 9.975% when the plan has no pooling and the place of supply is Quebec	Claims: No Fees: 5% when the plan has no pooling and the place of supply is a GST jurisdiction	Claims: No Fees: ON - 13%, NB, NL, NS, PE - 15%, when the plan has no pooling and the place of supply is an HST jurisdiction
HCSA and MRP claims and fees	Claims and fees: ON - 2%, QC - 3.48%, NL - 5%, all others - n/a		Claims and fees: 8% on Ontario plan members	Claims and fees: 9% on Quebec plan members			
EAPs and other fee for service products					Fees: 9.975% when the place of supply is Quebec	Fees: 5% when the place of supply is a GST jurisdiction	Fees: ON - 13%, NB, NL, NS, PE - 15%, when the place of supply is an HST jurisdiction

Figure 2

Tax summary charts

Premium tax

Each province and territory levies a premium tax against insurers on the premiums payable under a contract of insurance.

Premium (in the context of premium tax), is the amount charged for the insurance protection provided by group or individual insurance. The amount charged for premium tax is included in the cost of the premium.

In Newfoundland and Labrador, Ontario and Quebec, premium also refers to the claims and fees charged on:

- ASO arrangements
- HCSA and MRP

Some products are service rather than protection oriented and do not attract premium tax, for example Contact and *Core*Contact, Great-West's employee assistance programs, and *Absence Services.*

Jurisdiction for premium

Premium tax is paid to a jurisdiction based on the employee's province or territory of residence.

▶ Premium tax under an individual insurance policy is paid to a jurisdiction based on the insured person's province or territory of residence.

Premium tax collection

Premium tax is included in the premium charged and collected by Great-West.

Employers of large-sized insured groups may see the premium tax identified separately on the financial statements for claims and expense reconciliation purposes.

Premium tax is also identified on ASO, HCSA and MRP plan invoices.

Premium not subject to premium tax

There are situations in which Ontario does not require premium tax be paid on either claims or fees. For example, an ASO disability income benefit that qualifies as remuneration under Ontario's *Employer Health Tax Act,* does not require premium tax. This is usually a taxable ASO disability income plan.

Jurisdiction	Premium tax
Alberta	3%
British Columbia	2%
Manitoba	2%
New Brunswick	2%
Newfoundland and Labrador	5%
Northwest Territories	3%
Nova Scotia	3%
Nunavut	3%
Ontario	2%
Prince Edward Island	3.5%*
Quebec	3.48%
Saskatchewan	3%
Yukon	2%

Figure 3 - Premium tax on insured plans based on residence of insured individual

*Expected to increase to 3.75% effective Jan. 1, 2017

Jurisdiction	Premium tax (based on residence of employee)
Newfoundland and Labrador	5%
Ontario	2%
Quebec	3.48%
Other	n/a

Figure 4 - Premium tax on HCSA and MRP plans

Jurisdiction	Premium tax (based on residence of employee)	
	Taxable ASO disability income benefits	Other ASO benefits
Newfoundland and Labrador	5%	5%
Ontario	n/a	2%
Quebec	3.48%	3.48%
Other	n/a	n/a

Figure 5 - Premium tax on ASO

Manitoba retail sales tax (RST)

RST is an eight per cent provincial sales tax levied under *The Retail Sales Tax Act* (Manitoba) on group insurance premium, except premium for group health and dental insurance.

Note: RST was originally applied to premiums at seven per cent on July 15, 2012 and increased to eight per cent on July 1, 2013. The eight per cent RST rate is expected to be in effect until June 30, 2023.

Group insurance premium	RST (except health and dental
Manitoba plan sponsor	8%
Manitoba plan member	8%

Figure 6 - RST on group insurance plans

RST is not charged on individual insurance premium

Premium subject to RST

RST applies to premium for:

- Group life insurance
- Group dependant life insurance
- Group optional life insurance
- Group paid-up life insurance
- Group AD&D insurance
- Group critical illness insurance
- Group disability insurance

Premium and fees not subject to RST

RST does not apply to:

- Individual life, AD&D, critical illness, health, dental or disability insurance premium
- Group health insurance premium
- Group dental insurance premium
- ASO claims and fees
- HCSA and MRP claims and fees
- EAPs and other fee for service products

Exemptions apply to premiums paid for:

- Employees who reside outside Manitoba
- Former employees, such as retirees who no longer reside in Manitoba
- Members of First Nations who meet the criteria under the *Indian Act* (Canada) and who reside on a reserve

RST collection

The "vendor" (as stated in *The Retail Sales Tax Act* (Manitoba)) is responsible for collecting and remitting the RST to Manitoba. A vendor must have a Manitoba RST number. Usually, the vendor for group insurance premium is Great-West.

A third-party who charges premium or receives the payment of premium on which the RST is payable may also be a vendor. An employer who is a group contract holder cannot be a vendor for the purpose of collecting and remitting the RST to Manitoba. However, the employer is responsible for collecting the RST on the employee's portion of the premium and remitting it to the vendor.

RST can be remitted to Manitoba by either Great-West or a third-party vendor. Great-West is not required to remit the RST if a third-party vendor has already done so.

Ontario retail sales tax (RST)

RST is an eight per cent provincial sales tax levied under Ontario's *Retail Sales Tax Act*. RST applies to group insurance premiums and to some payments under ASO plans, HCSAs and MRPs, even though Ontario has a harmonized sales tax (HST) regime and discontinued RST on most goods and services.

RST commonly applies to:

- Group insurance premium
- Claims paid by an ASO plan, except for taxable ASO disability income benefit payments that would be included in total Ontario remuneration under Ontario's *Employer Health Tax Act*
- Administration fees paid for an ASO plan with pooling
- Administration fees paid for employees who reside in Ontario under an ASO plan without pooling, when the place of supply determined for GST/HST purposes is Alberta, British Columbia, Manitoba, Northwest Territories, Nunavut, Quebec, Saskatchewan or the Yukon
- Claims and administration fees paid for HCSAs and MRPs when they are associated with a base insured plan

▶ Refer to the GST/HST section in this publication for information on GST/HST and place of supply rules.

▶ RST may not be required in some situations depending on where the employee resides and reports to work.

Group insurance premium	RST
Ontario plan sponsor	8%
Ontario plan member	8%

Figure 7 - RST on group insurance plans

RST is not charged on individual insurance premium

ASO plan	RST (applicable to Ontario residents only*)			
	Taxable ASO disability income		Other ASO benefits	
	Claims	Fees	Claims	Fees
ASO with pooling	n/a[1]	8%	8%	8%
ASO without pooling when an HST jurisdiction is the place of supply[2]	n/a[1]	n/a	8%	n/a
ASO without pooling when a GST jurisdiction is the place of supply[2]	n/a[1]	8%	8%	8%

Figure 8 - RST on ASO plans

(1) ▶ RST does not apply to claims associated with disability income benefits paid by an employer when the benefits qualify as remuneration under Ontario's *Employer Health Tax Act*.

(2) ▶ Refer to the GST/HST section of this publication for more information on place of supply.

*RST does not apply to claims and fees for employees who reside outside of Ontario.

HCSA or MRP	RST	
	Claims	Fees
Ontario plan member	8%	8%
Other plan member	n/a	n/a

Figure 9 - RST on HCSA and MRP plans

RST does not apply to:

- An ASO disability income benefit payment that qualifies as remuneration under Ontario's *Employer Health Tax Act*. This is usually a payment under a taxable ASO disability income plan.
- Fees for ASO plans without pooling when the fees are subject to HST. This occurs if the place of supply determined for federal GST/HST purposes is an HST-participating province.

Exemptions also apply to premiums paid for:

- Employees who ordinarily work outside Ontario
- Employees whose salary is ordinarily paid outside Ontario
- Former employees such as retirees who no longer reside in Ontario
- Members of First Nations who meet the criteria under the *Indian Act* (Canada) and who ordinarily reside on a reserve

To apply for an RST exemption, group policyholders or ASO plan sponsors, who are entitled, must complete a purchase exemption certificate and file it with Great-West.

RST collection

The "vendor" (as stated in Ontario's *Retail Sales Tax Act*) is responsible for collecting and remitting the RST to Ontario. That statement is clear enough but what can be confusing is determining who the vendor is.

Great-West is the vendor for the portion of the premium that is paid by the employer and is always responsible for remitting the RST collected on that portion to the Ontario Ministry of Finance.

For most group insurance policies and ASO plans, the employer is the vendor regarding the portion of the premium that is paid by its employees and is responsible for remitting the RST collected from its employees to the Ontario Ministry of Finance.

This responsibility can be passed to the next vendor, which is typically the insurance company. To authorize Great-West to make remittance, the employer must complete an election form (which is included as part of the standard group application process). Once authorized, Great-West will remit the RST collected on the portion of the premium that is paid by the employees and submit those funds to the Ontario Ministry of Finance.

The election usually lasts for the duration of the plan. If the employer does not complete the election form, they must certify to Great-West the amount that they remitted for RST. This certification is part of the billing process.

Quebec sales taxes

Quebec sales tax (QST) and Quebec tax on insurance premium (QTIP)

Quebec has two distinct sales taxes that are relevant to group plans, both insured and uninsured. Although both taxes are commonly referred to as QST, for clarity, in this publication we refer to:

- QTIP = 9 per cent
- QST = 9.975 per cent

One of these two taxes applies depending on the situation.

Neither QST nor QTIP applies to individual insurance policies.

Group insurance premium	QTIP
Quebec plan sponsor	9%
Quebec plan member	9%

Figure 10 - QTIP on Quebec group insurance policies

ASO with pooling	QTIP	
	Claims	Fees
Quebec plan member	9%	9%
Other plan member	n/a	n/a

Figure 11 - QTIP on ASO plans with pooling

HCSA or MRP	QTIP	
	Claims	Fees
Quebec plan member	9%	9%
Other plan member	n/a	n/a

Figure 12 - QTIP on HCSA and MRP plans associated with a base insured plan

ASO without pooling		
	Claims	Fees
	QTIP	QST
When Quebec is the place of supply[1]		
Quebec plan member	9%	9.975%
Other plan member	n/a	9.975%
When Quebec is not the place of supply[1]		
Quebec plan member	9%	n/a
Other plan member	n/a	n/a

Figure 13 - QTIP and QST on ASO plans without pooling

[1] ▶ Refer to the GST/HST section in this publication for more information on place of supply.

EAPs and other fee for service products	QST
When Quebec is the place of supply[1]	
Quebec plan member	9.975%
Other plan member	9.975%
When Quebec is not the place of supply[1]	
Quebec plan member	n/a
Other plan member	n/a

Figure 14 - QST on EAPs and other fee for service products

[1] ▶ Refer to the GST/HST section in this publication for more information on place of supply.

Application of nine per cent QTIP

QTIP is charged on premium. This includes:

- Group insurance premium
- Claims and fees under ASO plans with pooling
- Claims under ASO plans without pooling
- Claims and fees under HCSAs and MRPs that are associated with a base insured plan

Application of 9.975 per cent QST

When Quebec is the place of supply for QST and GST/HST purposes, the 9.975 per cent QST is charged on:

- Fees under ASO plans without pooling
- Fees under HCSAs and MRPs that are not associated with a base insured plan
- EAPs and other fee for service products

▶ Refer to the GST/HST section of this publication for information about the place of supply.

Input tax refund

Business entities that charge QST on services or goods sold remit the QST they collect to Revenu Quebec. Businesses that are registered for QST may be able to reduce the amount they need to remit by the amount of QST they themselves paid in purchasing supplies to conduct business. This is referred to as an *input tax refund*.

QTIP and QST exemptions

Some forms of premium are exempt from sales tax. For example, QTIP is not required on the premium charged or payments made for:

- Employees who work at a business location of the employer outside Quebec
- Employees who are not required to work at a business location of the employer and whose salaries or wages are paid from a business location outside Quebec

Goods and services tax (GST) and harmonized sales tax (HST)

Category	GST/HST applies
Group insurance premiums	No
Individual insurance premiums	No
Claim amounts under an ASO plan	No
Claim amounts under HCSAs and MRPs	No
Fees for an ASO plan with pooling	No
Fees for HCSAs and MRPs when associated with a base insured plan	No
Fees for an ASO plan without pooling	Yes
EAP fees	Yes
Fees for certain fee for service arrangements	Yes

Figure 15 - Premiums and fees on which GST/HST is charged

Meaning of Goods and Services Tax (GST) and Harmonized Sales Tax (HST)

GST/HST

The GST/HST is a tax under the federal *Excise Tax Act* that applies to the supply of most goods and services in Canada.

Provinces that have harmonized their provincial sales taxes with the GST are referred to as *participating provinces.* The participating provinces are:

- New Brunswick
- Newfoundland and Labrador
- Nova Scotia
- Ontario
- Prince Edward Island

The remaining provinces and territories that have not completely harmonized their sales taxes with the GST are referred to as *non-participating provinces or territories*.

Place of supply	Applies to fees for: ASO without pooling, EAPs and other fee for service products	
	GST	**HST**
Alberta	5%	
British Columbia	5%	
Manitoba	5%	
New Brunswick		15%
Newfoundland and Labrador		15%
Northwest Territories	5%	
Nova Scotia		15%
Nunavut	5%	
Ontario		13%
Prince Edward Island		15%
Quebec	5%	
Saskatchewan	5%	
Yukon	5%	

Figure 16 - GST and HST charged on fees

Although Quebec is not a participating province under the federal *Excise Tax Act*, Quebec administers the GST and QST in the same way that the federal government administers the GST/HST.

Application of GST/HST to insurance premium

GST/HST does not apply to insurance premium charged on group insurance or individual insurance plans.

When GST/HST applies

GST/HST applies to the fees Great-West charges for the administration of an ASO plan without pooling. GST/HST does not apply to fees for ASO plans with pooling.

GST/HST is not applied to the fees charged for the administration of HCSAs or MRPs when associated with a base insured plan.

GST/HST may apply to fees paid by an employer for other types of plans where the employer is being provided a service, for instance EAPs.

Great-West is required to collect the GST/HST, as applicable, from employers and remit it to the federal government. Either GST or HST is charged, but not both.

The impact of place of supply on GST/HST

The federal government's place of supply rules are used to determine whether Great-West charges GST or HST.

Place of supply rules

Based on CRA Technical Interpretation Bulletin B-103, two rules commonly apply in the ASO plan or services context:

Rule 1: The home or business address of the employer in Canada is the place of supply if this is the only address that Great-West has been provided.

Rule 2: If Great-West has been provided with more than one Canadian business address or no Canadian address at all, the home or business address of the employer in Canada that is most closely connected with the services that are being provided by Great-West is the place of supply. The CRA has indicated that the "contracting address" of the employer is the address that would be most closely connected with the services provided.

Learn more about the place of supply rules in Bulletin B-103 at http://www.cra-arc.gc.ca/E/pub/gm/b-103/README.html

Using place of supply rules to determine if GST or HST applies

HST applies if the place of supply is in a participating province (New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario or Prince Edward Island).

GST applies if the place of supply is in a non-participating province or territory (Alberta, British Columbia, Manitoba, Northwest Territories, Nunavut, Quebec, Saskatchewan or the Yukon).

Applying place of supply rules when the employer has employees in more than one province or territory

An employer may have operations in more than one jurisdiction, for example, Alberta and Ontario. In this case, the place of supply is the place that is most closely connected with the supply; this would normally be the "contracting address". The employee's province or territory of residence is not relevant in determining the place of supply.

> *GST/HST on medical expenses*
>
> *Some healthcare practitioners are required to charge GST/HST on their services. Great-West views the GST/HST as part of the claim amount submitted when adjudicating the claim.*
>
> *For more information on which practitioners are exempt from charging GST/HST go to Excise and GST News – No. 91 and Excise and GST News - No. 68 (Spring 2008) at http://www.cra-arc.gc.ca/formspubs/typ/gsthstnws-eng.html*
>
> *Learn more about GST and HST at http://www.cra-arc.gc.ca/gsthst/*

GST/HST exemptions

The federal government, the governments of participating provinces and British Columbia, Nunavut and Quebec government departments and agencies pay GST/HST on taxable purchases. Municipalities also pay GST/HST on taxable purchases.

The remaining provincial and territorial governments, including their departments or ministries, and some of their Crown corporations, boards, commissions and agencies, are exempt if a certification made by an authorized person is submitted. The certification should be on provincial or territorial purchase documents and must certify that the governmental entity is purchasing the services with Crown funds and is not subject to GST/HST. Great-West is required to keep the purchase documents with the certification for audit purposes.

Indian bands as defined in the *Indian Act* (Canada) and band-empowered entities are exempt from the GST/HST charged on benefit plan services purchased for band management activities on or off a reserve. The Indian band or band-empowered entity should submit a certification by an authorized person to Great-West that states the service is being acquired for band management activities and that it is not subject to GST/HST.

Input tax credit

Business entities that charge GST/HST on services or goods sold remit the GST/HST they collect to the federal government. Most businesses can reduce the amount they need to remit by the amount of GST/HST they themselves paid in purchasing supplies to conduct business. This is referred to as an *input tax credit.*

> *Learn more about how Quebec's QST interacts with GST at http://www.revenuquebec.ca/en/entreprise/default.aspx (follow the GST/HST and QST link)*

GST and HST

Benefits taxable to employees

Taxable benefits are those benefits that are subject to income tax in the hands of employees. To clarify, two things that may be taxable to the employee are:

- Premium paid or contributions made by the employer for certain benefits, see Figure 17
- Claim payments that an employee receives under certain types of benefit plans, for instance, disability income benefit payments for which the premium was wholly or partially employer paid. This is true in all provinces

Generally, regardless of whether the plan is insured or ASO, there is no difference in the way the employee is taxed. Figure 17 also shows the tax deductibility of employee premiums or contributions.

Taxable benefits in respect to premium paid and contributions made by employers

Whether a premium paid or contribution made by an employer is considered taxable income in the hands of an employee depends on the nature of the product or service and the jurisdiction. The employer is required to report the taxable benefit to the employee on the applicable income tax slip at the end of the year.

Calculation of taxable benefits on premium paid and contributions made

The taxable benefit is not necessarily equal to the premium paid or contributions made by an employer in respect of a particular employee.

	Are premiums paid or contributions made by the employer taxable income for the employee?	Are benefits received by the employee taxable income for the employee?	Are premiums paid or contributions made by the employee tax deductible by the employee?
Group term life insurance	Yes	No	No
Dependent life insurance	Yes	No	No
AD&D insurance	Yes	No	No
Critical illness insurance	Yes	No	No
Short-term disability income benefits	No	Yes, if the employer has contributed to the plan	No, unless the employee received taxable disability benefits during the year
Long-term disability income benefits	No	Yes, if the employer has contributed to the plan	No, unless the employee received taxable disability benefits during the year
Health benefits	Federal - No Quebec - Yes (if insured premium)	Federal - No Quebec - Yes (if ASO)	No, but may be claimed as a medical expense for income tax purposes
Dental benefits	Federal - No Quebec - Yes (if insured premium)	Federal - No Quebec - Yes (if ASO)	No, but may be claimed as a medical expense for income tax purposes
HCSAs	Federal - No Quebec - Yes		N/A (The employee usually does not contribute)
Medical Reimbursement Plan	Federal - No Quebec - Yes		N/A (The employee usually does not contribute)
EAPs and other fee for service products	No	No	No

Figure 17 - Taxability of premiums, contributions and benefits, and deductibility

Information about how to calculate the taxable benefit is available from the CRA and Revenu Quebec at:

Federal: http://www.cra-arc.gc.ca/E/pub/tg/t4130/README.html?=slnk

Quebec: http://www.revenuquebec.ca/en/sepf/publications/in/In-253/default.aspx

Employers may want to seek advice from their tax and accounting advisors for their particular circumstances.

When claim payments are taxable

Disability income benefits that an employee receives under a short- or long-term disability income benefit plan are taxable income if the employer paid all or part of the premium or made any contribution to the plan. The disabled employee may be able to deduct any contributions that he or she made to the plan that have not already been deducted.

Great-West reports the amount of taxable disability income benefits paid on a T4A (Canada) and an RL-1 (Quebec) which is provided to the employee.

Payments to a beneficiary under a group life insurance plan are not taxable.

A lump sum payment made directly by an employer on the death of an employee to another person or persons is referred to as a death benefit under the *Income Tax Act* (Canada). A death benefit is taxable as income in the hands of the receiver. However, if the death benefit is paid to one or more persons, one of whom is the surviving spouse of the employee, the surviving spouse may be entitled to deduct up to $10,000 from being taxed as income. The exclusion depends on whether or not the spouse has claimed deductions for a death benefit received from the employer in prior years.

Employee sales tax paid by the employer

Normally, the employer pays the sales tax on the employer's portion of the premium and the employee pays the sales tax on the employee's portion of the premium.

The sales tax paid by the employer on the employer's portion of the premium is a taxable benefit to the employee, only if the premium paid by the employer is also a taxable benefit to the employee.

Any sales tax paid by the employer on the employee's portion of the premium is a taxable benefit to the employee.

Making employer-paid premium and contributions tax-effective

When designing an employee benefits plan, consider directing the employer's premium and contributions firstly to benefits that don't create taxable income in the hands of employees.

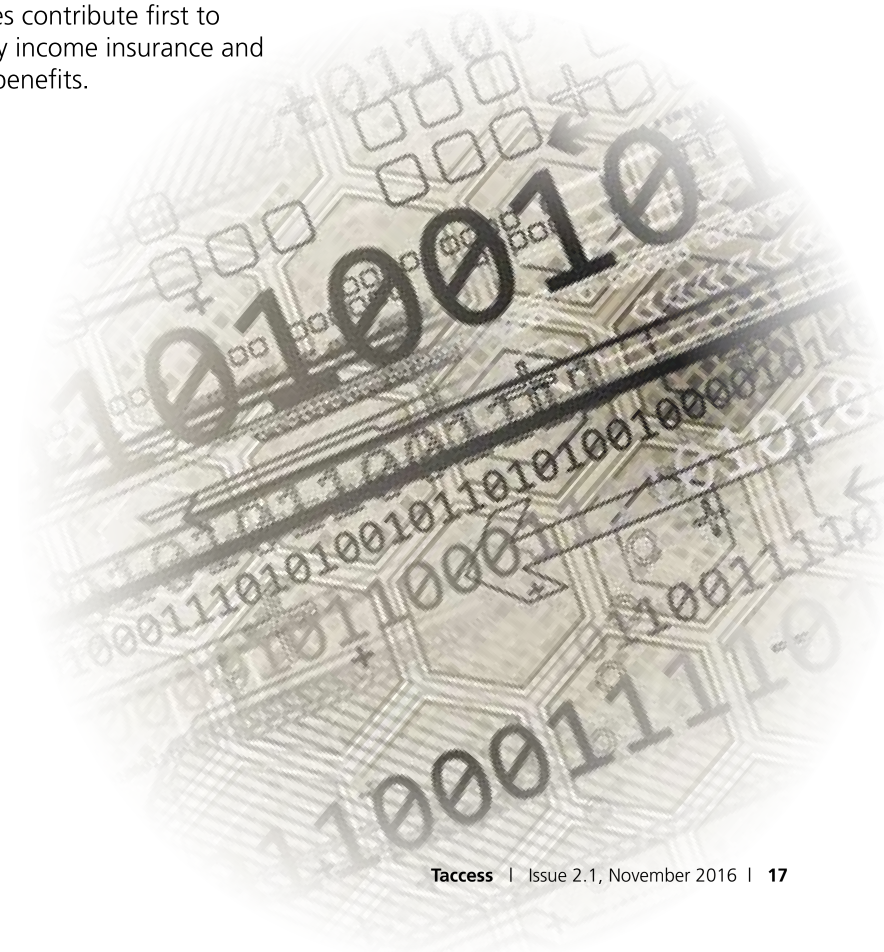
For example, some employers outside Quebec pay premium or contribute first to health and dental benefits, while their employees contribute first to group disability income insurance and life insurance benefits.

Employer tax deductions for premium paid or contributions made to employee benefit plans

The *Income Tax Act* (Canada) allows an incorporated company to deduct an expense as long as it was made or incurred for the purpose of gaining an income from the business.

Although there is no specific deduction for employee benefit plans under the *Income Tax Act* (Canada), an incorporated company can generally deduct amounts that are reasonable under the circumstances. Generally speaking, insured premium is viewed as a reasonable business expense and is a deductible business expense.

Sole proprietors and partners can deduct PHSP expenses for themselves, their spouse or common law partner, and any household member from their business earnings in a limited way. The deduction rules are complex and designed to prevent abuse. Business owners of sole proprietorships and partnerships may wish to refer to the CRA's T4002 Business and Professional Income publication for guidance at *http://www.cra-arc.gc.ca/E/pub/tg/t4002/*



Federal income tax and disability benefits

Employers often have questions about the income tax status of disability income benefits that are provided under a group disability income plan, such as a short-term disability income plan (STD) or long-term disability income plan (LTD). Below are answers to some commonly asked questions.

Are disability income benefits considered taxable income in the hands of employees?

Disability income benefits paid to disabled employees are not considered taxable income in the hands of the employees for federal income tax purposes provided the premium for the group disability income plan is 100 per cent employee paid. These plans are commonly referred to as non-taxable disability income plans.

If the employer makes any contribution to the group disability income plan, even one per cent, the disability income benefit payments received by the employees are taxable income. These plans are commonly referred to as taxable disability income plans. The amount of the taxable benefit for an employee is reduced by any contributions to the plan by the employee that have not been previously deducted.

Employers should consider paying either zero or one hundred per cent of the premium as anything in between may not be tax-effective.

Requirements for a non-taxable disability income plan

In order for disability income benefits to be non-taxable, the CRA requires that a legal obligation be in place for employees to pay 100 per cent of the cost of the group disability income plan. This legal obligation should be reflected in employment contracts, in documents that describe the plan, and in communication materials provided to employees. It is not strictly necessary that the obligation be included in a group insurance policy, as long as it is adequately evidenced elsewhere.

The payment of any provincial sales tax by the employer does not make the disability income benefits taxable as long as the employer does not contribute to the plan itself and treats the payment as a taxable benefit to the employees (refer to *Provincial sales tax required on disability income plan)*.

Can an employer deduct premium from employees' salaries and remit them to the insurer under a non-taxable disability income plan?

In order for the plan to be considered non-taxable, there must be a legal obligation for the employees to pay 100 per cent of the cost of the disability income benefit at the time the premium or contributions are remitted. If a plan meets this requirement, the CRA considers it acceptable for an employer to make payroll deductions and remit those amounts. In this case, the plan would maintain its non-taxable status.

The CRA places the onus on the employer to prove that a 100 per cent employee-pay-all plan exists. Along with stating the employee's obligation to pay the full cost in employment contracts, plan materials and other documentation, it is prudent for the administration of the plan to reflect that it is a 100 per cent employee-pay-all plan. Also, it is a legal requirement that employers explain all deductions withheld for premium or contributions on employee pay stubs each pay period.

Can an employer convert a taxable disability income plan to a non-taxable plan by adding the employer's contributions to its employees' T4s at year-end?

The CRA takes the position that a taxable plan cannot be retroactively converted to a non-taxable plan by simply adding the premium payments as a taxable benefit on employees' T4 slips at year-end. There must be a legal obligation for the employees to pay 100 per cent of the costs of the plan at the time premium or contributions are remitted. If there is no legal obligation for the employees to pay the entire cost of the plan, the plan is taxable.

Provincial sales tax required on a disability income plan

Manitoba, Ontario and Quebec are the only provinces that levy a sales tax on the premium or contributions for a disability income plan. The employer should report a taxable benefit to the employees, if the employer pays the employees' portion of the sales tax. Failure to report a taxable benefit will change a non-taxable disability income plan into a taxable disability income plan (in Manitoba, Ontario and Quebec).

For more information:

CRA Interpretation Bulletin IT-428
http://www.cra-arc.gc.ca/E/pub/tp/it428/

CRA Technical letters:

- *2010-0362001E5*
- *2009-0343571E5*
- *2006-0172261E5*
- *2005-0156311E5*
- *2001-0072305*
- *2000-0060005*

Technical letters are available from the CRA or a tax research service.

Healthcare spending account plans

Healthcare spending accounts (HCSAs) defined

An HCSA reimburses employees for their medical expenses (e.g. health, dental and vision expenses) that are not covered by other plans. In most cases, the HCSA plan operates as a top-up to insured base health, dental and vision plans. From an income tax perspective, the plan must qualify as a PHSP under the *Income Tax Act* (Canada) so that the expenses reimbursed to the employee are not taxable.

An HCSA is an account maintained for an individual employee. Credits are allocated to the HCSA at the beginning of each plan year. However, once credits are allocated to the HCSA, they become irrevocable and can only be used for the reimbursement of medical expenses.

The CRA has not prescribed a maximum amount that can be allocated to an HCSA plan.

HCSA plan administration

The credits in an employee's account are reduced as the employee's eligible claims are reimbursed. Unused credits in the account expire after a set period. Great-West bills the employer for claims that have been paid from the employee's account, plus the fees and taxes required.

Employees contributing to HCSA funding

It is not advantageous for tax purposes for an employer to charge an employee for any part of the cost of the HCSA. This would result in the employee paying for the HCSA benefits with after-tax dollars. Any unused amount will be lost (as set out under the terms of the plan).

Types of HCSA plans

There are three common types of HCSA plans: credit balance carry-forward, claim expense carry-forward, and no carry-forward.

Credit balance carry-forward plan – At the end of the plan year, any unused credits in an employee's HCSA are carried forward into the new plan year. The unused credits are added to new credits that are granted to the employee for the new plan year. The prior year's unused credits can be used to reimburse expenses that were incurred during the prior plan year, if submitted during the plan's grace period (refer to *HCSA grace period*), and to reimburse any expenses that are incurred in the new plan year. At the end of the new plan year, any unused credits from the prior plan year are lost.

Claim expense carry-forward plan – Unused credits at the end of the plan year are lost at the end of the plan's grace period (refer to *HCSA grace period*). Unclaimed expenses at the end of the plan year can be carried forward into the new plan year for reimbursement out of the new plan year's credit allocation.

No carry-forward plan – Unused credits cannot be carried forward into the new plan year. Unclaimed expenses cannot be carried forward into the new plan year, except for prior year's expenses that are claimed during the plan's grace period (see *HCSA grace period*).

The CRA allows:

- A maximum carry-forward period of 12 months, which is what most employers adopt
- An HCSA plan to carry forward either credits or expenses, but not both

Sometimes an employer wants to change the HCSA plan from one carry-forward type to another. This can be a very complex process and must be done in a way that complies with the CRA's policies regarding the allocation of credits and how those credits are applied. An employer who wishes to change a plan's carry-forward type should consider doing this at the start of a plan year to reduce the complexity.

HCSA grace period

An HCSA grace period allows employees the opportunity to claim an expense from the prior plan year in the new plan year. The CRA allows grace periods providing they do not exceed six months. Great-West allows grace periods of 31, 60 or 90 days on a standard basis.

The principle of unknown risk

The CRA's main concern is that for an HCSA to be a PHSP, it must be a "plan in the nature of insurance", meaning that future expenses should be uncertain. The CRA would likely not approve a plan as a PHSP if the employer substantially increases HCSA credits for a particular employee because the employer is aware of a situation where the employee will incur large medical expenses.

HCSAs and retroactive coverage

The CRA has indicated that a plan that covers expenses incurred prior to an employee's participation in the plan, or expenses incurred during a period in which an employee was not covered by the plan, would not be a PHSP.

Therefore, back-dating the effective date of a new HCSA plan or back-dating the effective date of an employee's coverage under an HCSA plan could contravene the CRA's requirements for the plan to be one in the nature of insurance and the plan would not qualify as a PHSP, resulting in unfavourable tax implications.

Changing credit amounts allocated to an employee's HCSA during a plan year

Once credits have been allocated at the beginning of a plan year, they usually cannot be increased or decreased during the plan year.

However, the CRA has recognized specific situations where it may be acceptable to revise the amount of the employee's credits. These are referred to as life events and include:

- The birth or death of a dependant
- A change in marital status
- The loss of insurance coverage under a spouse's employer's plan

It may also be possible to revise credits during a plan year due to a change in the employee's job (e.g. a promotion). The HCSA documents should indicate the particular life events for which the employer wants to permit credit amount changes.

Reducing an employee's taxable salary to reallocate those funds to an HCSA

The CRA's position is that an employee cannot convert a taxable entitlement (e.g. salary) into a non-taxable benefit. Any conversion of this type may result in the employee being taxed on the amount converted as income from employment.

In some cases, employees have requested a reduction in taxable salary and a reallocation of those funds to an HCSA as non-taxable credits. The conversion of any portion of the employee's salary to credits results in the amount of salary converted being included in taxable income.

To achieve this without the salary converted being included in taxable income, the CRA takes the position that the employee's contract of employment must have expired and a new contract of employment be negotiated at the lower salary level.

For example, the CRA will not accept an employee's salary being reduced from $50,000 to $45,000 with the difference of $5,000 being transferred to an HCSA, unless the contract of employment is renegotiated to reflect a new annual salary of $45,000. This of course, would impact any of the employee's benefits that are based on percentage of income such as life insurance and long-term disability.

Transferring HCSA credits to an RRSP or cash

Credits that have been allocated to an HCSA can only be used to reimburse medical expenses. A plan that allows credits to be transferred from an HCSA to an RRSP or paid in cash to the employee will not qualify as a PHSP and all amounts paid under the plan will become taxable. The decision to allocate credits to an HCSA, RRSP, or cash must be made before credits are allocated to an HCSA.

Funding an HCSA using an employee's bonus

Prior to 2013, the CRA permitted an employee's annual bonus to be allocated as credits to an HCSA. However, the CRA has changed its position. The CRA now considers that the amount of bonus that is redirected to an employee's HCSA is income from employment in the year that the bonus is converted to credits.

HCSA tax calculations

The following example illustrates how HCSA taxes are calculated.

An employer based in Manitoba has an insured health care plan and an HCSA for its employees. The employees are located in Manitoba and Ontario. The employer would like to know how the provincial taxes are determined for their HCSA.

Assume that total HCSA claims paid in a particular month were $30,000 with 80 per cent of the claims incurred by the Manitoba employees and 20 per cent of the claims incurred by the Ontario employees. Assume also that the fees charged for administering the plan equal four per cent of claims plus $300 each month.

Ontario has a premium tax of two per cent and a sales tax of eight per cent. Manitoba premium and provincial sales taxes do not apply to an HCSA.

This table shows the method Great-West uses to calculate taxes assessed on the HCSA billing for Ontario employees.

To read more about the CRA's position on HCSAs, refer to:

Interpretation Bulletin IT-529 - http://www.cra-arc.gc.ca/E/pub/tp/it529/

	All employees	Ontario employees	Manitoba employees
Claims	$30,000	$6,000 = 20% of total claims	$24,000 = 80% of total claims
Fees (prorated in the same proportion as claims)	4% of $30,000 plus $300 = $1,500	20% of $1,500 = $300	80% of $1,500 = $1,200
Total claims and fees	$31,500	$6,300	$25,200
Premium tax		2% of $6,300 = $126	N/A
Provincial sales tax		8% of $6,300 = $504	N/A
Total taxes		$630	N/A

Figure 18 - HCSA tax calculation for Ontario employees

In addition to Ontario, Newfoundland and Labrador assesses provincial premium tax and Quebec assesses provincial premium tax and sales tax (QTIP) on HCSA claims and fees. Similar calculations would be done if there were employees in those jurisdictions who incurred claims during the billing month.

Cost-plus plans

What is a cost-plus plan?

Cost-plus plans operate like an HCSA plan without the carry-forward provisions or credits. A typical cost-plus plan reimburses employees' claims under an administrative agreement between the employer and a third party such as an insurer. The third party adjudicates the claims and bills the employer for the amount of the claims reimbursed, plus the fees and taxes required, hence the term cost-plus.

A cost-plus plan typically covers eligible expenses up to a defined limit each plan year. Cost-plus plans are popular with employers who want to provide additional benefits to key employees. ASO plans and HCSA plans are versions of a cost-plus arrangement, but are not usually referred to as cost-plus plans.

Coverage provided by cost-plus plans

A cost-plus plan reimburses employees for their medical expenses (e.g. health, dental and vision expenses) that are not covered by other plans. In most cases, the plan operates as a top-up to insured base health, dental and vision plans. From an income tax perspective, the plan must qualify as a PHSP under the *Income Tax Act* (Canada) so that the expenses reimbursed to the employee are not taxable.

Unlike an HCSA plan, account balances are not maintained for employees. Instead, the cost-plus plan covers eligible medical expenses up to a specific maximum amount each plan year without using credits. An employee's eligible expense is covered under the cost-plus plan as long as the maximum for the plan year in which the expense was incurred has not been reached.

Cost-plus maximums

Cost-plus annual maximums can vary significantly in dollar amounts and by different employee classes. Employers should be able to satisfy the CRA, if audited, that the maximum available for their employees is reasonable for their particular situation, especially for any individuals who are also significant shareholders of the company.

An employer can revise the cost-plus plan to change the annual maximum. The employer should remember that the CRA requires a PHSP to be a plan in the nature of insurance. A major principle applied by the CRA is that future expenses to be incurred by the employees must be uncertain. An increase to the maximum as a result of the employer's knowledge of upcoming medical expenses could contradict the CRA's principle of uncertainty. Consequently, the CRA could revoke the plan's status as a PHSP, resulting in unfavourable tax implications.

Cost-plus plans and retroactive coverage

The CRA has indicated that a plan that covers expenses incurred prior to an employee's participation in the plan, or expenses incurred during a period in which an employee was not covered by the plan, would not be a PHSP. Therefore, back-dating the effective date of a new cost-plus plan or back-dating the effective date of an employee's coverage under a cost-plus plan could contravene the CRA's requirements for the plan to be one in the nature of insurance and the plan would not qualify as a PHSP, resulting in unfavourable tax implications.

Cost-plus PHSPs for sole proprietors or partners only

Sole proprietors and partners are not employees. They are owners of their respective businesses. The CRA has indicated that there must be at least one full-time employee covered under the plan in addition to the sole proprietor or partners. Sole proprietors and partners are limited in the amount they can deduct from their business earnings, as explained below.

Business deductions for expenses associated with cost-plus plans

The *Income Tax Act* (Canada) allows an expense to be deducted as long as it was made or incurred for the purpose of gaining an income from the business.

Although there is no specific deduction for employee benefit plans under the *Income Tax Act* (Canada), an incorporated company can deduct amounts that are reasonable under the circumstances.

Sole proprietors and partners can deduct PHSP expenses for themselves, their spouse or common law partner, and any household member from their business earnings in a limited way. The deduction rules are complex and designed to prevent abuse. Business owners of sole proprietorships and partnerships may wish to refer to the CRA's T4002 Business and Professional Income publication for guidance at *http://www.cra-arc.gc.ca/E/pub/tg/t4002/*

Case study 1 – Adding employees who reside in other provinces to a group benefits plan

Summary

A large employer located in Manitoba, provides life insurance, disability income insurance, and an ASO health plan for its employees, all of whom work and reside in Manitoba. The ASO portion of the plan has pooling. The insurance company is providing the life insurance and disability income insurance on a refund accounting basis.

The employer:

- Is expanding and plans to add employees who work and reside in Ontario and who work and reside in Quebec.
- Is currently paying a premium tax of two per cent and a sales tax of eight per cent on the insured premium (other than the pooling charge) required for their employees who reside in Manitoba. No other taxes are being assessed.
- Wants to know what additional taxes they would incur by adding new employees in the other locations.

	Insured benefits	ASO healthcare plan with pooling	
Jurisdiction	Premium and pooling charge	Claims	Fees
Premium tax charged on premiums for residents of:			
Manitoba	2%	n/a	n/a
Ontario	2%	2%	2%
Quebec	3.48%	3.48%	3.48%
Provincial sales tax charged on premiums that apply to residents of:			
Manitoba	8% (except pooling charge)	N/A	N/A
Ontario	8%	8%	8%
Quebec	9%	9%	9%

Figure 19 - Applicable taxes when adding new Ontario and Quebec employees to a group benefits plan

Analysis

The following additional taxes will apply:

For Ontario employees:

- 2% premium tax on insured premium, pooling charge and ASO claims and fees
- 8% RST on insured premium, pooling charge and ASO claims and fees

For Quebec employees:

- 3.48% premium tax on insured premium, pooling charge and ASO claims and fees
- 9% QTIP on insured premium, pooling charge and ASO claims and fees

Case study 2 – Salary increase versus additional healthcare benefits

Summary

An employer is considering whether to provide a salary increase or additional healthcare benefits to an employee. Both the employer and the employee are located in Ontario.

Figure 20 shows the difference between a salary increase of $1,200 versus providing the same amount as additional healthcare benefits for an employee whose taxable income is $50,000.

	Cost to employer		Value to employee	
Taxable Income - $50,000	Salary	Benefits	Salary	Benefits
Increase	$1,200	$1,200	$1,200	$1,200
Employment insurance premium [1]	21		(15)	
Canada Pension Plan [2]	59		(59)	
WSIB [3]	43		0	
Employer health tax [4]	23		0	
Federal income tax	0		(246)	
Provincial income tax	0		(110)	
Ontario health premium [5]	0		0	
RST of 8%	0	96	0	
Total	$1,346	$1,296	$770	$1,200

Figure 20 - Salary increase versus adding healthcare benefits at $50,000 in Ontario

[1] The maximum insurable earnings is $50,800 for 2016, Employee rate = 1.88%, Employer rate = 2.632%

[2] Canada Pension Plan contribution = 4.95%

[3] Workplace Safety and Insurance Board cost assuming $3.59 per $100 (rates will vary by industry)

[4] Employer Health Tax = 1.95% for annual Ontario remuneration over $400,000

[5] Ontario Health Premium = $600 for taxable income of $48,600 to $72,000

Figure 21 shows the difference between a salary increase of $1,200 versus providing the same amount as additional benefits for an employee whose taxable income is $100,000.

	Cost to employer		Value to employee	
Taxable Income - $100,000	Salary	Benefits	Salary	Benefits
Increase	$1,200	$1,200	$1,200	$1,200
Employment insurance premium [1]	0		0	
Canada Pension Plan [2]	0		0	
WSIB [3]	0		0	
Employer health tax [4]	23		0	
Federal income tax	0		(312)	
Provincial income tax	0		(134)	
Ontario health premium [5]	0		0	
RST of 8%	0	96	0	
Total	$1,223	$1,296	$754	$1,200

Figure 21 - Salary increase versus adding healthcare benefits at $100,000 in Ontario

[1] No change in Employment Insurance premiums because taxable income exceeds the maximum insurable earnings ($50,800 for 2016)

[2] No change in Canada Pension Plan contribution because taxable income exceeds the maximum annual pensionable earnings ($54,900 for 2016)

[3] No change In Workplace Safety and Insurance Board cost because taxable income exceeds the maximum insurance earnings ($88,000 for 2016)

[4] Employer Health Tax = 1.95% for annual Ontario remuneration over $400,000

[5] Ontario Health Premium = $750 for taxable income of $72,600 to $200,000

Analysis

Figures 20 and 21 illustrate the cost-effectiveness of directing funds to healthcare benefits rather than a salary increase depends on the employee's income and work location.

From the perspective of the employer, if the funds are directed to healthcare benefits rather than salary:

- In Ontario, the employer is charged an additional eight per cent RST
- In Quebec, the employer is charged an additional nine per cent QTIP
- There are no additional provincial or territorial sales tax implications

From the perspective of the employee, if the funds are directed to healthcare benefits rather than salary:

- In most cases, there is a significant advantage for the employee to receive increased benefits as opposed to increased salary
- Employees may perceive a greater value in receiving benefits such as physiotherapy coverage, prescription drug coverage, etc. as opposed to receiving a salary increase
- However, other benefits such as life, disability income, pension and company bonuses that are typically based on a percentage of the employee's salary may be affected by directing an increase to healthcare benefits as opposed to salary

The 2011 sanofi-aventis healthcare survey results once again reinforce the value that employees place on their health benefits plan, with almost 60 per cent of plan members opting for their plan over $10,000 cash. A survey advisory board member comments "There's obviously a lot more awareness of the value of benefits, particularly as a safety net".

Case study 3 – Sales taxes applicable due to employer relocation

Summary

An employer located in Manitoba provides life insurance, healthcare insurance and an ASO dental plan for its employees. The ASO plan does not have pooling. All employees are currently located in Manitoba.

The employer is contemplating moving its entire operation to either Ontario or Quebec and wants to know how the sales taxes on their benefit plans will be impacted. All employees will be located in the new province.

The employer currently pays the entire cost of the benefits program.

	Insured premium			ASO without pooling		
	Life	Healthcare	Tax increase	Dental claims	Fees	Tax increase
Employer located in Manitoba	8% RST	n/a			5% GST	
Employer moves to Ontario	8% RST	8% RST	8% on healthcare premium	8% RST	13% HST	8% on dental claims and 8% on fees
Employer moves to Quebec	9% QTIP	9% QTIP	1% on life premium and 9% on healthcare premium	9% QTIP	9.975% QST and 5% GST	9% on dental claims and 9.975% on fees

Figure 22 - Sales tax increase due to employer relocation

Analysis

Relocating the head office to Ontario would mean that the GST/HST place of supply will change from Manitoba to Ontario. The employer would pay an additional tax of eight per cent on the healthcare premium and on the ASO dental claims and fees applicable to all plan members. However, the employer may be eligible for an input tax credit that may actually offset all of the increase in the GST/HST paid on the ASO dental fees due to relocating.

Relocating the head office to Quebec would mean that the GST/HST place of supply will change from Manitoba to Quebec. The employer would pay an additional tax of one per cent on the life premium, nine per cent on the healthcare premium, nine per cent on ASO dental claims and 9.975 per cent on the ASO fees applicable to all plan members. However, the employer may be eligible for an input tax refund that may actually offset all of the QST paid on the ASO dental fees due to relocating.

Taccess terminology

Throughout this document, reference is made to taxes on individual insurance as some of our individual insurance products are sold through our group offices and Sales and Marketing Centres. These products include:

- PlanDirect™
- Sonata™

Fee for service products include:

- Contact
- *Core*Contact
- Absence Services
- At Work Services
- *Comp*Assist
- Early Referral Services

HST-participating provinces:

- New Brunswick at 15%
- Newfoundland and Labrador at 15%
- Nova Scotia at 15%
- Ontario at 13%
- Prince Edward Island at 15%

Non-HST participating provinces and territories:

- Alberta
- British Columbia
- Manitoba
- Northwest Territories
- Nunavut
- Quebec (administers QST and GST like GST/HST)
- Saskatchewan
- Yukon

ASO	Administrative Services Only
CRA	Canada Revenue Agency
EAP	Employee Assistance Program (Great-West's Contact and *Core*Contact)
GST	Goods and Services Tax
HCSA	Healthcare spending account (Great-West's HCSAs include *Health SolutionsPlus)*
HST	Harmonized Sales Tax
MRP	Medical Reimbursement Plan (Great-West's cost-plus product)
PHSP	Private Health Services Plan
QST	Quebec Sales Tax
QTIP	Quebec Tax on Insurance Premium
RST	Ontario's or Manitoba's Retail Sales Tax

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