
TAXABILITY OF YOUR EMPLOYEE BENEFIT PROGRAM

If you have or are considering implementing an Employee Benefits Program, one of your concerns no doubt will be the taxability of these benefits and the manner in which this affects employee payroll deductions. This is an example of a contributory plan with a 50% employee 50% employer contribution.

The following explanation will help you understand this area of an employee's Group Benefit Program; however, it should be noted that *we do suggest you consult your accountant on all important taxation issues.*

Group Life Insurance: any premiums paid by the employer for an employee's Group Life Insurance are considered taxable. Therefore, the premiums paid by the employer on behalf of an employee must show on the employee's T4 as other income. If possible, premiums for this benefit should be 100% employee paid so no taxable benefit is conferred upon the employee.

Dependent Life: the same rules apply as with Group Life Insurance.

Accidental Death and Dismemberment: premiums for this benefit can be 100% employer-paid and no taxable benefit is conferred upon the employee.

Health, Dental and Vision Care: premiums paid for these benefits can be 100% employer-paid and no taxable benefit is conferred upon the employee. These benefits are the area of the program where the employer will want to focus their portion of the premiums in order to minimize the tax implications for employees. (Any employee contributions to premiums for these benefits do qualify for a tax credit as medical expenses)

Short and Long Term Disability: these benefits can be set up in one of two ways: taxable or non-taxable.

1. **Taxable:** If the benefit is set up as taxable, premiums paid by the employer **do not** confer a taxable benefit upon the employee. However, when an employee becomes disabled, the benefits received from the insurance company are deemed taxable income.
2. **Non-Taxable:** if the benefit is set up as non-taxable, the employee should pay for the entire premium. If an employee becomes disabled, any benefit received would be non-taxable.

For all benefits, any premiums paid by the employer are tax deductible to the business. Any premiums paid by the employee are paid out of after-tax dollars (i.e. these deductions do not reduce an employee's taxable income.) However, the employee contributions to premiums for Health, Dental or Vision benefits do qualify for a tax credit as medical expenses.

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Illustration:

<u>Benefit</u>	<u>Coverage</u>	<u>Premium</u>	<u>Contributions</u>	
			<u>Employee</u>	<u>Employer</u>
Life Insurance	\$25,000	\$9.25	\$9.25	
AD&D	\$25,000	\$1.25	\$1.25	
Dependent Life				
Short Term Disability	\$300	\$12.00	\$12.00	
Long Term Disability	\$1,200	\$21.36	\$21.36	
Health	single	\$16.55	\$3.22	\$13.33
Dental	single	<u>\$34.66</u>		<u>\$34.66</u>
Total Monthly Premiums:		\$95.07	\$47.53	\$47.54

Assuming a 50/50 split of the premiums, the employer and the employee would each pay half of the \$95.97. By allocating the employer's contributions towards the Health and Dental premiums and the employee's contributions towards the Life, AD&D, WI and LTD, the tax implications are minimized. Using this method, the employee can receive the benefits without having taxable benefit conferred upon him or her. This employee would not have to pay income tax on any of the employer's premium contributions. The employee's contributions should be listed (including the applicable benefits) on the payroll stub is possible. The most important one to list as being paid by the employee is the Long Term Disability premium (if this benefit is set up as non-taxable).

<u>Benefit</u>	<u>Coverage</u>	<u>Premium</u>	<u>Contributions</u>	
			<u>Employee</u>	<u>Employer</u>
Life Insurance	\$25,000	\$9.25	\$9.25	
AD&D	\$25,000	\$1.25	\$1.25	
Dependent Life	\$5,000	\$0.90	\$0.90	
Short Term Disability	\$300	\$12.00	\$12.00	
Long Term Disability	\$1,200	\$21.36	\$21.36	
Health	single	\$35.60	\$35.60	
Dental	single	<u>\$83.54</u>	<u>\$1.59</u>	<u>\$81.95</u>
Total Monthly Premiums:		\$163.90	\$81.95	\$81.95

This scenario is essentially the same as Employee A; however in this case the employee has family health and dental coverage.

Illustration (cont.)

<u>Benefit</u>	<u>Coverage</u>	Employee C		
		<u>Premium</u>	<u>Contributions</u>	
			<u>Employee</u>	<u>Employer</u>
Life Insurance	\$25,000	\$9.25	\$9.25	
AD&D	\$25,000	\$1.25		\$1.25
Dependent Life	\$5,000	\$0.90	\$0.90	
Short Term Disability	\$300	\$12.00	\$12.00	
Long Term Disability	\$1,200	\$21.36	\$0.23	\$21.13
Health	none			
Dental	none	_____	_____	_____
Total Monthly Premiums:		\$44.76	\$22.38	\$22.38

For Employee C, due to the waiving of Health and Dental care benefits, splitting the premiums 50/50 results in the employee's contribution being less than the Long Term and Short Term Disability premium. Therefore, the employer must contribute some premium towards the LTD benefit. In order to keep this benefit non-taxable; the \$21.13 paid by the employer for the LTD benefit must be declared on the employee's pay stub and on the T4 statement as additional income.

If you have any further questions regarding the premiums and the taxation of benefits, please contact Martell Insurance Services at 250-656-3999 or admin@martellinsurance.com