

# Taxation of Benefits in British Columbia

The taxation of Employee Benefits requires careful management to ensure:

- a) Taxes payable are properly accounted for and reported on the employees T4.
- b) The tax status of employee and employer contributions are properly managed to ensure the tax status of employee benefits are not compromised

Employers contribute from 50% of required premiums to 100%

Whatever the premium split, employers must ensure their contributions do not exceed the premium cost of the EHC and Dental Plans. If this happens it means other benefits become taxable. This can happen when employees waive coverage for EHC and Dental because of spousal coverage.

It can also happen in some situations where employees with single coverage have very rich life insurance and disability coverage.

One solution is to make employees pay the cost of the life insurance, AD&D, Critical Illness, Long Term and Short Term Disability coverage to ensure these benefits remain non-taxable.

If this creates an imbalance in the employer/employee split, some options are:

- a) Increase contributions accordingly to an employee pension or RSP plan. (non taxable to the employee)
- b) Contribute to a Health Care Spending Account (non taxable to the employee)
- c) Offer a fitness subsidy (taxable to the employee)

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## **Group Life Insurance & Dependent Life Insurance**

Employer paid life insurance premiums are a taxable benefit to the employee, and are added to the employee's T4.

*Death benefits are not taxable to the recipient (beneficiary).*

## **Accidental Death and Dismemberment Insurance & Group Critical Illness**

Employer paid AD&D insurance and critical illness insurance are a taxable benefit to the employee and added to the employees T4.

*Benefits are not taxable to the recipient (beneficiary).*

## **Long Term Disability & Short Term Disability**

Employer paid premiums are not a taxable benefit to the employee. However, "Any" employer contributions to the disability premiums will result in disability benefits paid to the employee as a result of a claim to become subject to income tax.

## **Extended Health Care & Dental Care**

Employer paid premiums are not a taxable benefit to the employee.

*All benefits received by the employee are received tax free.*

## **Provincial Medical Services Plan**

Employer paid premiums are a taxable benefit to the employee.

*All benefits received by the employee are non taxable.*

(If you wish to discuss the premium allocation for your benefit plan and the tax implications for you and your employees, please contact me.)



# DC Benefits

## SUMMARY – Group Benefit Taxation

Group Benefit	EMPLOYER	TAX IMPACT ON EMPLOYEE	
	Premium is a Tax Deductible Expense?	Employer paid contributions?	Benefit Payments to Employee
Group Life	Yes	Taxable Benefit	Non-Taxable
Group Dependent Life	Yes	Taxable Benefit	Non-Taxable
Group Wage-Loss Replacement Plans *** (S.T.D. & L.T.D.)	Yes	No	Yes/No
Group A.D.& D.	Yes	Taxable Benefit	Yes/No
Group Critical Illness	Yes	Taxable Benefit	Non-Taxable
Group Extended Health Benefit	Yes	Non-Taxable**	Non-Taxable
Group Dental	Yes	Non-Taxable**	Non-Taxable
Group Employee Assistance (EAP)	Yes	Non-Taxable	Non-Taxable

\* Certain Employer paid contributions are subject to GST/HST and/or PST or provincial insurance levies and should be added to the value of the taxable benefit

\*\* Taxable benefit in Quebec

\*\*\* Yes- the disability benefit payments are taxable to the employee if any part of the short-term or long-term disability premium is paid by the employer. No, if the entire short-term or long-term premium is paid by the employee. To ensure that the non-taxable status of disability benefits are preserved, it is important to maintain accurate payroll records. For further information, please contact your tax advisor.