

Critical illness insurance taxation summary

	<i>Personally owned</i>	<i>Employee-ownedⁱⁱⁱ</i>	<i>Shared ownership</i>	<i>Corporate-owned</i>
<i>Description</i>	Individual owns the policy and pays premiums with the policy benefits payable to the individual.	Employee owns the policy and employer pays premiums with the policy benefits payable to the employee.	Arrangement where two parties (i.e. employee and employer or corporation and shareholder) split the premium costs and share the policy benefits. For example, employer pays for and is entitled to critical illness benefit and employee pays for and is entitled to the return-of-premium benefit under the terms of a written agreement.	Corporation owns the policy and pays the premiums with the policy benefits payable to the corporation (i.e. key-person insurance).
<i>Deductibility of premium</i>	Premium is treated as a personal expense and is not deductible ⁱⁱⁱ .	Premium is deductible by employer as a salary expense ^{iv} .	Premiums are treated as personal expense or expense not incurred for earning income from business or property and isn't deductible.	Premium isn't incurred for earning income from business or property and isn't deductible ^v .
<i>Tax treatment of premium for insured</i>	Not applicable.	Premium paid by employer is treated as a taxable employee benefit.	Professional tax advice is recommended in determining whether the arrangement gives rise to a taxable benefit to shareholder or employee.	Not applicable.
<i>Taxation of benefits^{vi}</i>	Lump-sum critical illness benefit received by individual isn't taxable ^{vii} .	Lump-sum critical illness benefit received by employee isn't taxable ^{viii} .	Lump-sum critical illness benefit received by corporation isn't taxable ^{ix} . Professional tax advice is recommended in determining whether the lump sum ROP benefit gives rise to a taxable benefit to shareholder or employee.	Lump-sum critical illness benefit received by corporation isn't taxable ^x . If critical illness benefits are paid to employee or shareholder, the amount paid will be taxable as either an employee or shareholder benefit, or dividend.

ⁱ If one or more of the insured persons are both shareholders and employees, this document assumes coverage is provided to the insured(s) in their capacity as employees, not shareholders. The Canada Revenue Agency ("CRA") presumes the benefit received as a shareholder unless there is evidence to the contrary.

ⁱⁱ The taxation of a group of individual critical illness insurance policies structured as group sickness or accident insurance plan for income tax purposes to provide an employee benefit will be similar to personally owned critical illness insurance structured as an employer benefit.

iii Paragraph 18(1)(h) of the Income Tax Act (Canada) (the “Act”).

iv Subsection 9(1) of the Act.

v Subsection 18(1)(b) of the Act.

vi The Canada Revenue Agency and Revenu Quebec have not provided a formal ruling on the tax treatment of return-of-premium rider benefits and is subject to interpretation.

vii Provided the policy is considered accident and sickness insurance for tax purposes.

viii Ibid.

ix Ibid.

x Ibid.