

Disability insurance taxation summary

	<i>Personally owned disability insurance policy</i>	<i>Personally owned disability insurance policy structured as an employee benefitⁱ</i>	<i>Grouped individual disability insurance policies</i>	<i>Overhead expense plan</i>
<i>Description</i>	Individual owns disability insurance policy and pays premiums (including self-employed owners of an unincorporated business). Policy benefits are payable to the individual.	Employee owns disability insurance policy and their employer pays the premiums. Policy benefits are payable to employee.	Group of individual disability insurance policies owned by employee or employer and paid for by employer. Policy benefits are payable to employee (e.g. wage-loss replacement plan).	Business owns and pays premiums for a disability insurance policy covering overhead expenses.
<i>Deductibility of premium</i>	Premium is treated as personal or living expense for income tax purposes and isn't deductible ⁱⁱ .	Premium is deductible by employer as a salary expense ⁱⁱⁱ .	Premiums are deductible by employer as a business expense ^{iv} .	Premium is deductible as a business expense ^v , regardless of whether the business is incorporated or not.
<i>Tax treatment of premium for insured</i>	Not applicable.	Premium paid by employer is treated as a taxable employee benefit ^{vi} .	If structured as a wage-loss replacement plan that qualifies as a "group sickness or accident insurance plan" for income tax purposes, premiums paid by employer won't be a taxable benefit to employee ^{vii} .	Not applicable.
<i>Taxation of benefits</i>	Disability benefits received aren't taxable ^{viii} .	Disability benefits received by the employee aren't taxable ^{ix} .	Disability benefits received by employee are taxable ^x . If employee pays a portion of the premiums, the taxable benefits are reduced by the amount of any premium paid by employee.	Disability benefits received by a business are taxable. Consequently, benefits received are used to pay expenses which are deductible as business expenses.

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ⁱ If one or more 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 that where the insured is both a shareholder and an employee, the benefit is received in their capacity as a shareholder unless there is evidence to the contrary.

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

ⁱⁱⁱ Interpretation bulletin, “Wage Loss Replacement Plans” IT-428, April 30, 1979, paragraph 17.

^{iv} Subsection 9(1) of the Act.

^v Subsection 9(1) of the Act.

^{vi} Paragraph 6(1)(a) of the Act.

^{vii} Paragraph 6(1)(a) of the Act.

^{viii} Provided the policy is considered accident and sickness insurance for tax purposes.

^{ix} IT-428, paragraph 20, paragraph 6(1)(f) of the Act.

^x Paragraph 6(1)(f) of the Act.