

IMPLICATIONS OF TAXING EMPLOYER-PAID BENEFIT PLANS – FAQ



Q: What change is the Government of Canada proposing to employer-paid benefit plans?

A: Recent media reports allege the Government of Canada is considering taxing employer contributions to health benefits plans, which will be reported as taxable income to their employees.

Q: What type of healthcare does group benefits generally cover?

A: Group benefits plans provide prescription pharmaceutical, dental care, vision care, mental health care and physiotherapy coverage, as well as the life, critical illness and disability insurance coverage that is typically bundled in those plans. Such benefits are often not covered by the public health care system.

Q: How soon could this tax be implemented?

A: While the full details have yet to emerge, Sun Life Financial and other industry advocacy groups have reason to believe such a measure is a real possibility, and could be announced as early as the Spring 2017 Federal Budget.

Q: Who will this new tax affect?

A: If the Government does move forward it could have an impact on the 22 million Canadians accessing workplace health plans and the employers who sponsor them. We expect it will have its biggest impact on middle-class and lower-income Canadians and their families who rely on these plans to maintain their health.

Q: How will this affect employers as plan sponsors?

A: Employers will experience demand on their administrative resources as systems will require updates for the taxable benefit. Additionally, CPP, EI and other payroll related taxes/premiums may also increase and will need to be accounted for. Employers may also experience a strain on their HR resources as well as their compensation packages for retaining and attracting talent, as well as a decline in the physical and mental health of their employees and their families. Changes to benefit plan designs may be required (e.g. health spending accounts would now be the same as taxable spending accounts).

Q: How much is this tax going to cost employees as plan members?

A: Across Canada, employees with employer-provided health care plans will have to pay more federal income tax on the taxable benefit amount. Some projections have shown that this could be up to a 1.5% increase in taxes for those earning less than \$25,000 per year. This does not account for the fact that for those living outside of Quebec, the provincial income tax will also be payable on the taxable benefit amount.

Q: Will the tax credits make up for the projected increase in taxes?

A: No. We estimate that this tax would negate the tax credits given to middle-class families announced in the 2016 Federal budget, increasing the tax burden of working families by about \$1,300 per annum, compared to the credits of \$650 announced in the fall of 2016.

Q: I already see taxable benefit details on my tax slip. What's the difference?

A: There are some employer paid contributions, such as life insurance, AD&D and critical illness insurance, which are already considered taxable benefits. However, if this change occurs, the employer contributions to your health/dental/HSA will now be included, where it has not been in the past. For Quebec members, while you have seen taxable benefits for provincial purposes, you will now see employer contributions towards your health/dental/HSA for federal purposes as well.

Q: What else could be affected if employer-paid health benefits are taxed?

A: Taxing employer-paid health benefits could also trigger the requirement for CPP contributions and EI premiums on those amounts. This cost will fall on the lower-middle income Canadians who earn above \$15,000 and below \$55,300 (\$51,300 for EI) and their employers who are also required to contribute towards these programs. For those living in Quebec, the additional cost will potentially be the EI premiums, in addition to the current contributions to QPP.

Q: If employers reduce their benefit plans or remove them completely, what will happen to employees that were under these plans?

A: Many Canadians, particularly those with limited disposable income or high debt, are unlikely to replace their lost workplace coverage with private health insurance, leaving them exposed and not taking preventative measures.

Q: What will be the long-term effects on the provincial healthcare system?

A: Over time, as the quality and amount of insurance coverage declines for individuals, there will be pressure on governments to step in to provide support. And with less access to health benefits, it would likely result in higher physician and hospital costs as well as a decrease in the overall health status of Canadians.

Q: What can I do to add my voice and demand that no new federal tax be introduced for employer group health benefits plans?

A: Visit donttaxmyhealthbenefits.ca and in just a few clicks you can send a letter to your MP and the Minister of Finance.

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