



SOLO Disability Insurance – Tax implications by target market

Self-employed person

SOLO Disability Income

The **self-employed person** is the **POLICYOWNER**, the **INSURED PERSON**, the **PREMIUM PAYER** and the **BENEFICIARY**

Premium	Non-deductible ¹
Monthly disability benefit	Non-taxable
Return of premiums (rider)	Non-taxable

SOLO Business Expense

The **self-employed person** is the **POLICYOWNER**, the **INSURED PERSON**, the **PREMIUM PAYER** and the **BENEFICIARY**

Premium	Deductible ²
Monthly disability benefit	Taxable income ³
Return of premiums (rider)	N/A (rider not available with this policy)

Owner of an incorporated business (shareholder of a corporation)

SOLO Disability Income

The **shareholder** takes out the coverage and is the **POLICYOWNER**, the **INSURED PERSON**, the **PREMIUM PAYER** and the **BENEFICIARY**

Premium	Non-deductible ¹
Monthly disability benefit	Non-taxable
Return of premiums (rider)	Non-taxable

OR

The **shareholder** takes out the coverage and is the **POLICYOWNER**, the **INSURED PERSON** and the **PREMIUM PAYER**, but the **corporation** is the **PREMIUM PAYER**.

Premium	<ul style="list-style-type: none"> • Non-deductible for the corporation and considered a taxable benefit for the shareholder ⁴, or • Deductible for the corporation and considered a taxable benefit for the employee ⁵
Monthly disability benefit	Non-taxable
Return of premiums (rider)	Non-taxable

The tax treatment depends on whether the insured person receives the benefit (payment of premiums) as a shareholder or as an employee.

*Since it is a question of fact whether or not the insured person is a shareholder or employee, it isn't in the corporation's interest to pay the premiums for a **SOLO Disability Income** insurance policy for a shareholder.*

Owner of an incorporated business (shareholder of a corporation) – cont'd

SOLO Business Expense

The **shareholder** is the **INSURED PERSON**. The **company** is the **POLICYOWNER**, the **PREMIUM PAYER** and the **BENEFICIARY** (on behalf of the insured person-shareholder)⁶

Premium	Deductible ²
Monthly disability benefit	Taxable income ³
Return of premiums (rider)	N/A (rider not available with this policy)

Employee

SOLO Disability Income

The **employee** is the **POLICYOWNER**, the **INSURED PERSON**, the **PREMIUM PAYER** and the **BENEFICIARY**

Premium	Non-deductible (personal expenses)
Monthly disability benefit	Non-taxable ⁷
Return of premiums (rider)	Non-taxable ⁷

OR

SOLO Disability Income

The **employee** is the **POLICYOWNER**, the **INSURED PERSON** and the **BENEFICIARY**, and the **employer** is the **PREMIUM PAYER** (either in whole or in part)

Premium	Deductible for the employer ⁸
Monthly disability benefit	Non-taxable if 100% of the premium is transferred to the employee ⁸
Return of premiums (rider)	Non-taxable if 100% of the premium is transferred to the employee ⁸

¹ Personal and livings expenses (paragraph 18(1)(h) ITA and IT-223).

² May be deducted the portion of the premium that covers deductible overhead expenses actually incurred or paid by the insured person during the disability period (IT-223). For example: If the policy covers capital cost allowance, equipment depreciation expense or periodic payments of capital, the portion of the premium relating to these expenses would not be deductible; however, neither would any benefits received be taxable.

³ Desjardins Insurance does not issue tax slips for benefits paid; it is the responsibility of the beneficiary to declare them. Any benefits received for overhead expenses must be included in the business's income, but expenses actually incurred will be considered deductible expenses for the purposes of calculating net income (subsection 9(1) ITA, paragraph 18(1)(a) ITA and IT-223).

⁴ CRA technical interpretation #2002-0176485; CRA technical interpretation #2006-0214141E5.

Under paragraph 18(1)(a) ITA, the company cannot claim a deduction for premiums paid, and subsection 15(1) ITA is applicable to the shareholder benefit.

⁵ Paragraphs 17 and 20, IT-428.

⁶ A rider would be issued stipulating that the benefit is to be paid to the policyowner on behalf of the insured person.

⁷ Paragraph 16, IT-428.

⁸ On the condition that the premium is transferred to the employee, either by including it in the employee's income as a taxable benefit or by making payroll deductions. If the employer pays the premium on behalf of the employee, any benefits received by the insured person would be non-taxable, since paragraph 6(1)(f) ITA does not apply (paragraph 20, IT-428).

The information provided in this document is general in nature and should not be construed as legal or tax advice. Clients should consult a tax expert or accountant for an assessment of their personal situation.

