Manulife

Insurance

COMBINATION INSURANCE

Synergy solution taxation Q&A

Q: What is the legal nature of the Synergy solution and what are the tax consequences arising from that?

A: The Synergy solution consists of three contracts – a life insurance policy, a disability insurance policy and a critical illness insurance policy. The tax consequences of each policy are governed by the tax rules associated with each. The life insurance policy is governed by tax rules relating to life insurance policy taxation. The critical illness and disability insurance policies are not life insurance and are therefore not governed by the tax rules relating to life insurance policy taxation. Rather, these policies are governed by the tax rules relating to accident and sickness insurance.

Q: How is a life insurance policy taxed?

A: The death benefit under a life insurance policy is not taxable. Premiums are generally non-deductible expenses.

Where an employer pays a life insurance premium in respect of life insurance for an employee or employees (i.e. not group term life insurance), the premium would be deductible by the employer and included in the income of the employee. The death benefit would be non-taxable.

The employer would be responsible for any tax reporting to its employees arising from the use of the Synergy life insurance policy in an employment context.

The Synergy solution consists of three contracts – a life insurance policy, a disability insurance policy and a critical illness insurance policy.

Q: How is a disability insurance policy taxed?

A: Generally, disability income benefits payable under a disability insurance policy are non-taxable and premiums are non-deductible personal expenditures.

There are circumstances in which disability insurance is paid for by an employer and disability income benefits are provided as an employment benefit. For a single employee situation, not a "Group Sickness or Accident Insurance Plan" (GSAIP) situation, this would result in the premium for the disability insurance being deductible by the employer and being included in the income of the employee, with any disability income benefits being non-taxable to the employee. For a situation involving a group of employees (i.e. in a GSAIP situation), the premium for the disability insurance would be deductible by the employer and the disability income benefits would be included in the employee's income, not the disability insurance premium.

Although it is possible to use a Synergy solution in an employment context, Manulife will not provide an Income Loss Replacement Plan Amendment for a Synergy disability insurance policy and, consequently, does not issue tax slips if the policy is used in this context. The employer would be responsible for any tax reporting to its employees arising from the use of the Synergy solution in an employment context.

Q: How is a critical illness insurance policy taxed?

A: Generally, critical illness benefits under a critical illness insurance policy are non-taxable and premiums are non-deductible personal expenditures.

As with disability insurance, there are circumstances in which critical illness insurance is paid for by an employer and critical illness benefits are provided as an employment benefit. For a single employee situation (i.e. not a GSAIP situation) or a situation involving a group of employees (i.e. a GSAIP situation), this would result in the premium for the critical illness insurance being deductible by the employer and being included in the income of the employee, with any critical illness benefits being non-taxable to the employee.

The employer would be responsible for any tax reporting to its employees arising from the use of the Synergy critical illness insurance policy in an employment context.

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