

Tax Tip

Week of March 21, 2011

Private Disability Insurance

Many employers that offer disability insurance as an employee benefit that provides the employee with an option – it can be paid by the employer or by the employee. If the employee pays for the disability insurance, any amounts received from a future disability would be received tax free. If the premiums were paid by the employer, any amounts received by the individual would be taxable.

A number of employers combine their disability insurance with benefits provided by the Canada Pension Plan. Any disability benefits received from CPP are taxable. Therefore if the benefits received by the employee are a combination of private insurance in which the premiums were paid by the employee and CPP payments, the individual will have to ensure the payments received a private disability plan are excluded from income.