

GETTING THE FACTS ON DISABILITY ISSUES

Question : I am very confused about the tax laws regarding premiums and benefits of disability insurance contracts.

- My wife is employed full-time. If her employer is contributing to the Canada Pension Plan on her behalf, is she taxed on this contribution? If she should receive any benefits from CPP, is she taxed on the benefits as income?
- I am self-employed and have an individually owned disability insurance contract. Can I declare the premiums as a tax deduction against my business? Are any benefits that I may receive taxable?

Answer : A disability pension is provided to Canada Pension Plan (CPP) participants who have a physical or mental disability which is “severe and prolonged”. This means a disability which is long-term and prevents them from doing any type of paid work on a regular basis. Disability pensions are payable until age 65, when they are converted to retirement pensions, or until recovery from the disability. To be eligible, the person must have made CPP contributions for at least five of the last ten calendar years, or two of the last three calendar years.

If you are employed, the payments your employer makes to CPP on your behalf are not considered a taxable benefit to you. And, of course, you are also contributing towards your future CPP retirement or disability income. However, any disability benefits you receive from the CPP are taxed as income.

As for those self-employed: generally, if you pay for your disability insurance with after-tax dollars, the benefits received are non-taxable. If you are a business owner, the premiums you pay for an individually owned policy on your disability are not tax deductible, so any benefits you receive are generally tax-free.

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