

Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances de personnes inc.

Gregory R. Traversy
President

June 7, 2004

Mr. Charles Smyth
Technical Advisory Committee
on Tax Measures for Persons with Disabilities
140 O'Connor Street
16th Floor, East Tower
Ottawa ON
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Dear Mr. Smyth:

I am writing on this occasion to follow up on a suggestion made in the submission, *The Role of Disability Income Insurance Plans in Canada's Disability Income System*, which CLHIA presented to the House of Commons Sub-Committee on the Status of Persons with Disabilities last May.

In chapter VII, which deals with tax issues, the submission indicates that:

"...the industry respectfully suggests that the Sub-Committee may wish to consider recommending that the Minister of Finance's Technical Advisory Committee on Tax Measures for Persons with Disabilities should take into account the possibility of unanticipated taxes owing arising from integration of LTD and CPP(D) benefits in its assessment of disability-related tax measures."

As events turned out, the Sub-Committee was receptive to this suggestion. In particular, the report of its parent Standing Committee in June 2003 contained the recommendation that the Technical Advisory Committee, as one means of dealing with this problem, consider making CPP contributions in respect of disability benefits non-deductible and CPP(D) benefits non-taxable.

This letter puts forward another suggestion for the Technical Advisory Committee's consideration with a view to dealing with the problem of the unanticipated tax burden which can arise from the integration of a non-taxable LTD plan and CPP(D) benefits.

Specifically, under this suggested approach, the medical adjudication and qualification for CPP(D) benefits - which requires that the disability be both severe and prolonged - would automatically establish medical eligibility for the Disability Tax Credit, and that such eligibility would be retroactive to the same effective date.

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In the attachment to this letter, there are illustrations of the impact of DTC on the after-tax income of recipients who have no taxable income other than CPP(D), which is integrated with employee-paid, non-taxable LTD benefits. Of course, the integration of CPP(D) with employer-paid, taxable LTD is not an issue since the tax status of all benefits is then the same and replacement of one by the other produces the same after-tax income.

As the illustrations show, in the absence of the DTC, LTD recipients who also become recipients of CPP(D) can experience possibly unanticipated tax liabilities as a result of the integration of CPP(D) with their non-taxable LTD benefits. While indexing of CPP(D) benefits can partially offset the impact of such ongoing taxes in future years, automatic eligibility for the DTC as a result of CPP(D) eligibility can eliminate these tax liabilities from the outset.

CLHIA appreciates the opportunity to contribute to the Technical Advisory Committee's deliberations and stands ready to provide any further information or analyses which the Technical Advisory Committee would find useful.

Yours truly,



Gregory R. Traversy

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After-tax Integration of LTD, CPP(D) and DTC Benefits

Hypothetical Individual # 1

Gross Income (75% of YMPE)		29,925
Income net of tax, CPP, EI contributions		23,531
Non-taxable LTD income [prior to CPP(D) eligibility]		17,955
Taxable CPP(D)	10,082	
Tax owing on CPP(D) if not eligible for DTC	372	<u>(372)</u>
Integrated LTD and CPP(D) after-tax income (without DTC)		17,583
Tax reduction if automatically eligible for DTC		<u>372</u>
Integrated LTD and CPP(D) after-tax income (with DTC)		17,955

Hypothetical Individual # 2

Gross Income (100% of YMPE)		39,900
Income net of tax, CPP, EI contributions		30,079
Non-taxable LTD income [prior to CPP(D) eligibility]		23,940
Taxable CPP(D)	11,655	
Tax owing on CPP(D) if not eligible for DTC	726	<u>(726)</u>
Integrated LTD and CPP(D) after-tax income (without DTC)		23,214
Tax reduction if automatically eligible for DTC		<u>726</u>
Integrated LTD and CPP(D) after-tax income (with DTC)		23,940

Hypothetical Individual # 3

Gross Income (125% of YMPE)		49,875
Income net of tax, CPP, EI contributions		36,947
Non-taxable LTD income [prior to CPP(D) eligibility]		29,925
Taxable CPP(D)	11,655	
Tax owing on CP(D) if not eligible for DTC	726	<u>(726)</u>
Integrated LTD and CPP(D) after-tax income (without DTC)		29,199
Tax reduction if automatically eligible for DTC		<u>726</u>
Integrated LTD and CPP(D) after-tax income (with DTC)		29,925

All examples are based on an employee-funded, non-taxable LTD plan providing benefits equal to 60% of pre-disability earnings. Integration results illustrate a situation in which LTD benefits are reduced by the full amount of CPP(D) benefits payable. Alternative integration formulas involving less than full offset show similar results with respect to the DTC's potential to eliminate unanticipated tax liabilities. After-tax incomes assume a single taxpayer resident in Ontario, with no dependents and no other sources of income, who meets the employment, contribution and medical requirements for full CPP Disability benefits and for the Disability Tax Credit. All calculations reflect 2003 tax and benefit rates.