Put more in employees' pockets with a health and dental benefit plan

Group benefit plans are a tax-effective way to compensate employees

Health and dental benefit plans are not taxable to the employee in most provinces, so employees can get more out of their benefit plan than they would with a regular pay increase.

A pay increase is impacted before payment by a variety of payroll taxes and employee income taxes. But with a group benefit plan, employer contributions are deductible as a business expense, and employees in all provinces except Quebec receive health and dental benefits tax-free.

A $1,000 pay increase costs an employer more than $1,000

To give an employee $1,000 more in salary, it will cost the employer more than that in payroll taxes, and the employee doesn't get the full $1,000 in their pocket because it's taxed as income.

How much more? Employers pay various payroll taxes, such as,

- ✓ Canada Pension Plan/Quebec Pension Plan (CPP/QPP),
- ✓ Employment Insurance (EI),
- ✓ Workers' Compensation,
- ✓ Employer Health Tax,
- ✓ and others.

Actual charges vary by province, income and industry, but Human Resources Development Canada, in their report *A Primer on Payroll Taxes in Canada,* estimates payroll taxes average 12.5% of payroll across Canada.

In addition, the employee has to contribute his or her portion of some of the payroll taxes, such as CPP/QPP and EI.

Get more of out each compensation dollar

Instead, if the employer put the extra $1,000 towards a health and dental benefit plan, all of the $1,000 goes to the plan – to the benefit of the employee. Provincial sales tax and premium tax are charged on the plan's premiums, but that is still less than the payroll taxes charged on salary.

Here's an example:

Consider Jessica, who earns $35,000 per year working for a small tool and die firm in Ontario. Her employer has the choice of paying her an additional $1,000 in salary, or putting the $1,000 towards a group health and dental plan for her and her co-workers.

If Jessica's employer paid her $1,000 in salary:

Her employer pays the $1,000 salary plus $106 for CPP, EI, Workers' Compensation and the Employer Health Tax.

Jessica gets $1,000, less deductions for CPP, EI, federal and provincial tax.

If Jessica's employer put $1,000 in a health plan:

Her employer pays the $1,000 salary plus 8% Ontario Retail Sales Tax and 2% premium tax.

Jessica gets $1,000 in health coverage, tax-free.

Points to consider:

- In provinces where there is no sales tax, the employer cost in this example would be even less – just the premium tax portion.
- The above example is for a health and dental plan; employer contributions to a life plan are a taxable benefit to the employee, and benefits from an LTD plan are only tax-free if fully funded by the employee.
- Individual tax rates vary by income and province.
- Applicable payroll taxes vary by province, and some, such as CPP and EI have maximum contribution levels.
- In Quebec, tax savings from a benefit plan would be on the federal tax portion, since health plans are taxable benefits for Quebec provincial income tax.

Employees appreciate their benefit plans

Not only is a group benefits plan a tax-effective use of compensation dollars, employee satisfaction with benefit plans is very high. According to Aventis Pharma/Ipsos Reid's *2002 Healthcare Survey,* 65% of Canadians with group health benefits describe their plans as meeting their needs "very well" or "extremely well."