Use Resolution of 1280x720 and higher

What is a Health and Welfare Trust (HWT)?

A HWT is an arrangement between an employer and selected employees under which the employer can make tax-deductible contributions for certain "health and welfare benefits" including:

- A private health services plan;
- Group term life insurance;
- Provincial health services premiums; and
- Income continuation plan regarding disability.

The taxation of HWTs is addressed by the Canada Revenue Agency (CRA) in Interpretation Bulletin IT-85R2. A copy may be obtained from your local CRA office or through CRA's Internet website: Interpretation Bulletin IT-85R2 – "Health and Welfare Trusts for Employees" (www.cra-arc.gc.ca/E/pub/tp/it85r2/it85r2-e.html)

How do a Wage Loss Replacement Plan (WLRP) and a HWT compare?

A WLRP and a HWT both provide a means of grouping individual disability policies together so in each case the arrangement is considered a "grouped" plan for income tax purposes. In order to qualify as a grouped plan, a minimum of two employees must be covered by the plan. A WLRP does not involve the use of a legal trust agreement so it is essentially a voluntary arrangement on the part of the employer. In contrast, a HWT provides a means of administering a wage loss replacement plan through a legal trust arrangement. The trust agreement may include a provision to legally require the payment of the premiums by the employer. Further, the rights of both the employer and employee are set out in the HWT agreement which is legally binding. For example, a provision is generally included in the agreement addressing the circumstances upon termination of employment as to when the employer shall assign any policy (insuring a member of the plan) to the member whose membership has ended.

What is required to set up and administer a HWT?

A HWT agreement is required with a trustee(s) appointed to administer the plan. A bank account is set up for use by the trustee. The trustee of the arrangement is required to file a trust income tax return (T3) in cases where the trust earns income which exceeds $500 in a taxation year.
In the case of a corporation, the HWT agreement should be approved by the Board of Directors by way of a resolution in the corporate minutes authorizing the establishment of the trust. In the case of partnerships, and sole proprietors, the agreement and authorization of the arrangement should be recorded in the business' records.

Who owns the DI policies held in a HWT?

The trustee(s) of the HWT will be named as owner of the policies. The plan may be set up exclusively for the benefit of employees within a class provided coverage is offered to all members of the class. The benefits will be payable directly to the insured from the insurer at time of claim.
The application should indicate that the policies are part of a HWT and the employer will pay the trustee(s) an amount sufficient to pay the premiums. The trustee will sign as the "proposed owner" of the policies. The name of the trustee(s) will be designated in the corporate resolution or agreement authorizing the establishment of the HWT by the employer.

When will a HWT generally be used?

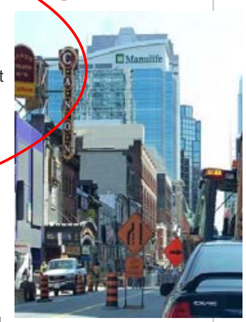
In the case of a typical small business situation, there will generally be little need for the added security a HWT provides to clients. The HWT may be considered for use particularly in cases where there is a desire to broaden coverage under the plan beyond disability insurance in order to include
other permissible health and welfare benefits. Separate rules in the Income Tax Act will apply to the various benefits provided in the plan. In this regard, it is recommended that the client obtain the advice of their own professional tax or legal advisor to ensure the plan provides the desired tax consequences along with the added benefit features.

What are the tax consequences of WLRP in a HWT?

The tax consequences are the same as with a basic WLRP because the individual DI policies are considered "grouped" for taxation purposes. Below is a chart outlining the tax results using a HWT to group individual DI policies under a common plan.

"Grouping" individual DI policies under a Health & Welfare Trust			
Policyowner	Premium payor	Employer's premium contributions	Taxation of policy benefits
Trustee	Employer remits cash to trustee " to pay premium	Deductible ,	Taxable income
		Not Taxable to employee	subject to offset for employee contribution

Images of Ontario



Note: Where gross income (i.e. the aggregate of its income from all sources) exceeds $500 in the taxation
year, the trustee is required to file form T3 (Trust Information Return and Income Tax Return).

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