

Information Update

April 2010

CPP deductions and employer funded or ASO disability plans

Until recently, the Canada Revenue Agency had interpreted that disability benefits funded by an employer or paid through an administrative services only (ASO) arrangement are a form of income from employment because the employer controls the eligibility for payments. As a result, Employment Insurance (EI) premiums were to be deducted and submitted on disability benefits.

The Canada Revenue Agency extended this interpretation further, treating disability benefits as remuneration from pensionable employment. This meant that Canada Pension Plan (CPP) contributions were to be deducted and submitted on disability benefits.

However, on January 28, 2010, the Federal Court of Appeal ruled that long term disability (LTD) benefits funded by an employer or paid through ASO arrangements **are not** pensionable earnings under the Canadian Pension Plan Act. As such, employers are not required to deduct CPP premiums from the benefit payments.

This ruling does not affect previous interpretations requiring the payment of Employment Insurance (EI) premiums on employer funded or ASO LTD benefits.

We encourage plan sponsors to contact their legal or tax advisor for advice regarding deductions they're required to make. While The Co-operators deducts income tax from employer funded ASO disability benefits, the onus is on the employer to make any other required deductions.