

The Private Health Services Plan

Clients who own businesses can now take advantage of tax deductions that were only available to major corporations. Establishing a Private Health Services Plan for their company or themselves can do this.

A PHSP is a **CRA approved health and welfare trust** that allows corporations and the self-employed to deduct health and dental expenses. Small businesses that are incorporated (one shareholder is sufficient) can establish a plan, as can sole proprietors with one arm's-length employee. A trust company administers the PHSP holding funds in trust to pay claims and will scrutinize claims, and issue appropriate accounting records for tax purposes. The trust takes advantage of Section 248(1) of the Income Tax Act.

Now, individuals with PHSPs can avail themselves of tax deductions for all dental, health care, travel insurance and health plan costs, along with the user pay portion of health and dental plans (the deductible and co-insurance portion), voluntary procedures in and out of the country, and any other costs for a health care professional. You will be able to get that plastic surgery and have it written-off.

Imagine a business owner who earns \$100,000 of net income this year and who incurs \$10,000 worth of medical and dental expenses. This person must withdraw \$18,416 in pre-tax income from the company to pay current medical expenses. By using a PHSP, the company would pay \$11,000, with the amount fully deductible.

What if a person is the sole employee of a corporation that implements a PHSP, which is structured to allow one eligible employee classification?

In this instance, an executive class is formed and the employee and their dependants claim all eligible health or dental expenses through the PHSP up to the annual maximum established by the company. For companies with many employees, the PHSP is an innovative solution to the challenge of providing cost-effective benefits to employees.

The PHSP can be structured to provide varying reimbursement limits to different classification to employees (i.e. exec, part-time staff, etc.) Each employee classification can be assigned an annual reimbursement limit, with different classes of employees with differing reimbursement limits. Employees will be reimbursed for eligible claims until they reach their assigned limit, at which point no further reimbursement will be provided.

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If there are unused balances in the employee's account, an option is available to carry these amounts forward. Adopting this strategy over traditional corporate health and dental plans can produce a savings to the bottom line ranging from 20 per cent to 50 per cent. The set-up of a PHSP for your firm is simple. The company pays a one-time, tax-deductible enrolment fee to the PHSP Trustee.

There are no monthly premiums to pay (unless the employer wants to prepay some costs for employees.) There are no restrictions, no waiting periods and no medical history requirements.

In the case of corporations who wish to self-insure their health and dental plans, it is common to establish a **Health and Welfare Trust**. The HWT provides employees with a heightened level of security by segregating the funds earmarked for benefits into the trust and away from the corporation's general accounts and business expenses.

Health and Welfare Trusts offer significant tax advantages to both the corporation and its employees. Contributions to a HWT from the corporation, with a PHSP structured within it, are tax-deductible in the year they are made and, the benefits are considered tax-free income to the employee.

Corporations can dictate the employee benefit and expenditures; however, benefits must be fair and equal amongst classes. In order to maintain this tax-favoured status on health related benefits, the plan must be established in accordance with the guidelines outlined in CRA's bulletins IT 85 R2 and IT 339 R2. In addition, funds placed on deposit by a corporation cannot revert back to the corporation or be used for any other purposes other than providing health and welfare benefits for which the contributions are made.

For information and documents to initiate your plan and start saving on health and dental care expenses, contact Gordon Johnston at the locations below.



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