

Health Care for Self Employed Individuals

The **Private Health Services Plan (PHSP)** for self employed individuals was first introduced by Honourable Paul Martin, P.C., M.P., and Finance Minister who said in his February 24, 1998 Federal Budget speech, "The number of self-employed Canadians is growing daily. Many operate through unincorporated businesses. However, unlike those businesses that are incorporated, they cannot deduct premiums they pay for their supplemental health and dental plans. This is unfair. Starting this year, self-employed Canadians will be able to deduct these premiums from their business income."

A **PHSP is** a private health services plan that utilizes the flexibility of a cost plus account or a health care spending account, coupled with a catastrophic insurance plan under the guidelines set fourth in the Income Tax Act. This effectively allows self-employed individuals to pay for their drug, health, and dental benefits with pre-tax dollars up to the prescribed government maximums.

A PHSP also allows for piece of mind in knowing that catastrophic health and drug claims are insured after satisfying the pre-set deductible. The income tax bulletin 339 R2 defines that in order for the plan to qualify it must be a plan in the nature of insurance, and it is the opinion of the Canada Revenue Agency that a Cost Plus Account or Health Care Spending Account, on a stand-alone basis, does not satisfy the definition above.

It is for this reason that when a self-employed individual establishes a PHSP program that Stop loss insurance is a mandatory feature of the program design. In addition the government has established annual maximum tax-deductible PHSP limits, and they are as follows:

- \$1,500 for the self-employed individual
- \$1,500 for the spouse
- \$750 per child under the age of 18
- \$1,500 per dependent over the age of 18

Example a family consisting of a husband, wife, and 3 children, under the age of 18, would have the ability to tax deduct up to \$5,250 annually.

Self-Employed Tax Example

Tax Savings Example

John Doe is a self employed individual and, like most, saw no value in paying \$300/month for an individual Health benefits plan. Instead, John uses his after tax income to pay for his family's healthcare.

Without a <i>PHSP</i>	With a <i>PHSP</i>
Taxable Income \$35,000	Taxable Income \$35,000
CPP (4.95 or 9.90%) (\$3,465)	PHSP Contribution (\$3,000)
EI (2.10% to max \$819) N/A	PHSP Admin+Taxes (\$651)
Fed/Prov. Taxes (Approx) (\$8,803)	-----
-----	New Taxable Income \$31,349
Net Income \$22,732	CPP (4.95% or 9.90%) (\$3,104)
Annual Healthcare Expense \$3,000	EI (2.10% to max \$819) N/A
Medical Tax Credit \$533	Fed/Prov. Taxes (Approx.) (\$6,912)
Total Taxes + CPP Paid \$11,735	-----
	Net Income \$21,633
	Total Taxes + CPP Paid \$10,016

By establishing a *PHSP* account and paying his healthcare cost with pre-tax dollars, John lowered his Income Tax, & the CPP he would normally pay by
\$1,719

Figures are based on 2005 Marginal Tax Rates and CPP Payment Schedule for Self-Employed Individuals.



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