



Planning *Points*

Private Health Services Plan

"Make your medical expenses 100% tax deductible."

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How do you deduct your medical expenses?

When you pay for medical expenses personally, you are paying them with after-tax earnings. At best, your only tax relief may be a medical expense tax credit to reduce the cost by 22%.

Instead, your company can use a Private Health Services Plan to directly reimburse you for the expense. The reimbursement is a deductible expense for the company and is paid with before-tax earnings. The difference is typically a 50% tax savings.

What is a PHSP?

A Private Health Services Plan is a contractual agreement by one person to take the risk of reimbursing the medical costs of another person. The specific definition is found in section 248(1) of the Income Tax Act.

The Canada Revenue Agency has stated that the definition includes an agreement by a company to reimburse its employees for their medical expenses up to a fixed amount per year.

How does a PHSP work?

The company's board of directors must authorize the creation of the PHSP and notify the employees of their eligibility. When an employee incurs a medical expense, he or she presents the receipt to the company as a claim. If the claim meets the definition of a medical expense and the amount is within the employee's

yearly maximum, then the company will reimburse the employee. The reimbursed amount will be a deductible expense for the company – paid from before-tax earnings. The reimbursement is a non-taxable benefit for the employee.

Who is covered?

An employee may claim reimbursement for themselves, their spouse and other dependent members of their household.

Must all employees be included in the PHSP?

Most PHSPs will include all employees of the company. Employees may only be treated differently for reasons that relate to their employment. Some PHSPs are designed to include only employees who have a specific professional designation. Otherwise, a PHSP that includes only the owner and not the other employees of the company has a risk of being treated as a shareholder's benefit to the owner (with negative tax consequences).

Is the PHSP different from a "cost-plus" health plan?

Yes, they are different versions of a PHSP. Some insurance companies offer to administer a PHSP on behalf of companies on a "cost-plus" basis. The reimbursement to the employee is made through the insurance company, which charges a 10% fee for its services. The extra administration and expense of a "cost-plus" plan are not necessary under our basic PHSP format.

Is the PHSP different from a Health and Welfare Trust?

Yes. A Health and Welfare Trust ("HWT") is typically used by large companies to include coverage beyond just health expenses (such as sickness, accident and disability income insurance). A HWT also often uses actuarial estimates of the expected costs. The extra administration involved in a HWT is usually not appropriate for a small or mid-sized company.

Does the PHSP need to be registered?

No. There is no requirement to register the PHSP. There are no annual reports to be filed. The company and employee should keep copies of the medical expenses receipts and claims, but otherwise no other ongoing paperwork is required.

Benefit

You can pay the medical expenses for yourself and your family with cheaper pre-tax company earnings (the expenses are fully tax deductible).

Warning!

Every person's circumstances are unique. This information is not legal advice. Do not take any action, or decide to not take any action, based on this information. Let an experienced professional help you.