

BY GILLIAN LEE

TO YOUR HEALTH!

GOT A TOOTHACHE? THE CANADA REVENUE AGENCY IS HERE TO HELP. NO KIDDING.

If you own a business, you may be eligible to set up a program to cover health costs for yourself and your employees. The taxman may even cut you a break if you do.



THE CANADA REVENUE AGENCY cares about your health. Seriously. It will even offer qualifying businesses a potential tax advantage if they set up a Personal Health Spending Account or a Private Health Services Plan. The purpose of these plans is to offer a cost-effective alternative to traditional health insurance for small businesses. And since I use these terms interchangeably, I'll refer to both as "Health Spending Accounts" or HSAs.

Now, down to basics. Health Spending Accounts can be used by incorporated businesses to cover medical expenses for their employees and shareholders. They can also be used by unincorporated small businesses (sole proprietorships), but only if the sole proprietorship has at least one arm's-length employee—in other words an employee who is not related to the owner.

The benefits of an HSA include being able to pay health and dental benefits to employees in a way that is tax-free to the employee. In addition, the amounts paid are 100 per cent tax deductible for the employer. This is especially attractive for the self-employed, who pay themselves through an incorporated company. Benefits are also quite flexible. They don't require regular premiums or deduct-

ibles, and they can be paid on behalf of the employee, their spouse, or a related member of the household.

To demonstrate the tax savings one of these plans can generate, let's have a look at the following example. Assume you are self-employed and take a salary from your corporation. Let's also say you are subject to a 40 per cent personal tax rate—and you require a \$3,000 dental procedure. If you were to pay this from your salary, you would require \$5,000 be-

fore tax to net sufficient funds to cover the \$3,000 expense. In comparison, the HSA allows you to receive \$3,000 from your company on a tax-free basis. It also provides a corporate tax deduction.

If you didn't have an HSA, you might have been able to use the \$3,000 expense as a tax credit on your personal income tax return. But it's important to keep in mind that this tax credit is only refundable at the lowest federal and territorial/provincial

rates—which is only 19 per cent in Nunavut, 20.9 per cent in the NWT, and 21.4 per cent in the Yukon.

Moreover, medical expenses are only deductible on your personal return if they exceed a certain threshold. This threshold is three per cent of your net income, or \$2,421 in 2021, whichever is lower. Only expenses in excess of this amount are deductible. So, for anyone with taxable income over \$80,700, only \$579 of the


\$3,000 spent on the dental procedure would be eligible for the tax credit. In the NWT, where the lowest tax rate is 20.9 per cent, this medical expense represents a reduction of your tax bill of only \$121. Quite a large difference from the \$2,000 in personal tax you would have saved by using the HSA and not your salary to cover the dentist's bill!

There are, however, some rules that must be followed for the Canada Revenue Agency to consider these plans valid. If these rules are not followed, the advantages are eliminated.

In order to qualify, your HSA program must be considered an "insurance" plan. That means the corporation promises to pay—or "indemnifies"—an individual for an agreed upon amount if they incur expenses, although the exact nature of the expenses are unknown or uncertain of occurring. It is recommended that the terms of the plan be documented, such as how much will be covered annually and the types of expenses that are eligible.

To remain onside with the rules for a valid plan, all or substantially all of the coverage (90 per cent or more) must be for expenses that would have otherwise qualified for the medical expense tax credit. Here's the good news: This means an HSA can cover many popular medical expenses such as prescription drugs, massage therapy, prescription glasses, physiotherapy, hearing aids, and more.

One final item to keep in mind relates to the coverage amount. There are some limits that must be followed for sole proprietors. But in the case of employees covered by an incorporated business, the Income Tax Act doesn't impose any strict limits to the coverage amount. However, for the plan to remain valid for shareholders, they must be actively engaged in the business activities of the corporation. Additionally, the benefits received must be reasonable and consistent with what would be offered to an arm's length employee providing similar services.

Setting up an HSA or Personal Health Spending Account correctly may be daunting for many. Luckily, there are many providers that will administer these plans on behalf of an employer for reasonable fees. And there's an added advantage to going this route: the administration fees are tax deductible to the corporation. If you're considering one of these plans for your small business, be sure to speak with an advisor with relevant experience. 



Northwest Territories Mining Incentive Program

Looking for support to advance your mineral project in the Northwest Territories?

The Mining Incentive Program (MIP) has a \$1 million budget to support prospectors and exploration companies as they carry out mineral exploration in the territory.

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- Prospectors may apply for up to \$25,000
- Exploration companies may apply for up to 60% of eligible project expenses to a maximum of \$240,000
- Any NWT expenses incurred to comply with mandatory self-isolation periods will be considered eligible expenses for MIP funding
- Any NWT expenses related to expediting or program logistics will be considered eligible for MIP funding

Application deadline: April 29, 2022

Government of
Northwest Territories

**For more information, contact
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