

PHSP The Do-It Yourself Health Plan



The Private Health Services Plan Solution

Medical expenses can add up quickly. Consider new glasses, contact lenses, or even Lasik surgery for your eyes. Throw in some braces for your kids, and before you know it you've accumulated over \$5,000 of receipts. And when you take these receipts to your accountant in April, he will tell you that the expenses reduced your taxes by less than \$700. Hopefully he will also tell you that these expenses could have been tax deductions in your company.

Assuming you are in the highest tax bracket, medical expenses of \$5,000 will reduce your personal income tax by \$680. However, you will need to earn almost \$8,000 before income tax to fund the costs.

Using your company to simply pay the expenses for you won't change the outcome. The payments from the company will be considered taxable shareholder benefits, and you will still end up paying with after-tax dollars.

The solution is to implement a Private Health Services Plan (PHSP) for employees. A PHSP allows the company to deduct employee medical and dental expenditures without generating a taxable benefit.

Medical Expense Options

Your company can cover employee

With the ever-increasing cost of health and dental expenses, a PHSP provides an excellent opportunity for practice owners to achieve substantial savings with little additional cost or effort.

medical expenses in several ways.

1. Major Medical Plans

When you think of health insurance, the major medical plans provided by insurers such as Sunlife or Blue Cross immediately come to mind. These plans provide varying levels of coverage depending upon the amount of the premium you are willing to pay. The cost of such a plan can vary from year to year. A year of high claims directly leads to a following year of high rates.

2. Administered PHSP

A PHSP is often implemented with a third-party acting as an administrator in a cost-plus arrangement. Under this alternative, your company contracts with a plan administrator to reimburse health related claims of the employees. The employees will submit the claim to the administra-

tor who will in turn bill your company for the amount of the claim plus an administration fee, usually 10%.

The advantage of an administered PHSP is that an independent party deals with employee claims confidentially. Practices with a large employee group may find the administrative burden of operating the plan is reduced through a third party.

The rules applying to qualifying expenditures, plan participants and other issues are the same as for the self-administered PHSP as discussed below.

3. Self-Administered PHSP

When you operate your practice in a company, there is no requirement that you utilize the services of a third party administrator, regardless of what many insurance and trust companies have implied. The advantage of a self-administered plan is that it you save the fees that would be paid to a third-party provider.

Implementing a PHSP

Establishing a PHSP in your practice is a simple three-step process.

1. A director's resolution should be prepared and signed to document the creation of the PHSP.

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2. There should be a written employment agreement outlining the parameters of the plan including eligibility for the participation in the plan, the amount of the benefit and the services that qualify for reimbursement.

3. Once the plan is created, the benefits reimbursed must be tracked in an accounting system. You will need to monitor the amount paid to the employee in the year in relation to their entitlement under the plan

After incurring the medical expense, the employee will simply submit the receipt to your company for reimbursement.

Shareholder Benefits

As with all good things, there is a catch. The Canada Revenue Agency ("CRA") may determine that the payment from your company to you is a benefit resulting from your ownership of the company as opposed to a benefit resulting from employment. Where CRA determines that you received the benefit in your capacity as a shareholder, the company will be denied the deduction and the amount of the benefit will be included in your income. The result is double taxation.

As long as the corporation actively employs an individual shareholder of a corporation, CRA will consider whether it is reasonable to conclude whether the benefits are on account of employment or ownership. There is very little actual law concerning this determination, but CRA has issued numerous technical interpretations and guidelines outlining its opinion.

A primary key is that the plan should be offered to all employees, and that the level of benefits under the plan should be reasonable given the employees' duties and expertise. Although not formally accepted, class systems where employees receive different levels of benefits depending on their classification (e.g. management, staff) have been offered by insurance companies for years.

Where the only employees of a corporation are its shareholders, CRA has indicated that it will look to the statutory limits available to self-employed individuals who have no arm's length employees, those limits being \$1,500 per year for each of the owner and spouse, and \$750 per child.

This administrative position of CRA that the limitations that apply to unincorporated individuals are presumed to be reasonable are not mandatory for an incorporated practice or business. CRA has published many other documents stating that the benefits must simply be reasonable in light of the training, experience and responsibilities of the job classification.

Qualifying Expenses

PHSP benefits are limited to hospital or other medical care expenses that normally would have qualified for the personal medical expense credit. However, CRA does not maintain an exhaustive list of expenses that would qualify. See below for a list of Eligible Expenditures.

Premiums For Health Care Plans

Premiums paid to any non-government medical or hospital care plan. (e.g. Blue Cross, Sun Life, etc.)

Professional Services

Any services performed by a qualified medical practitioner including, but not limited to:

- Acupuncture
- Chiropracist
- Chiropractic
- Dental
- Dermatology
- Gynecology
- Massage Therapy
- Naturopathic Doctor
- Neurology
- Obstetrics
- Oculist
- Ophthalmology
- Optician
- Optometric
- Orthodontic
- Orthopedic
- Osteopathy
- Pediatrics
- Physician
- Physiotherapy
- Plastic Surgery
- Podiatry
- Practical Nurse
- Psychiatry
- Psychology
- Registered Nurse
- Speech Therapy

Surgeon
Vision Care
Hearing specialist

Note: A qualified medical practitioner is a person who is authorized to practice in accordance to the laws of the province and certified according to the practitioners governing body.

All Dental Services

Dental X-rays
Denture Repair & Replacement
Examinations
Extractions
Fillings
Crowns
Gum Treatment
Oral Surgery
Root Canals
Straightening Teeth (e.g. Braces)

Laboratory Examinations And Tests

Blood Tests
Cardiographs
Metabolism Tests
Spinal Fluid Tests
Stool Examination
Urine Analysis
X-ray Examination
Magnetic Resonance Imaging (MRI)
CAT Scan

Hospital Services

Anesthesiologist

Hospital Bills
Oxygen Masks, Tent
Operating room fees
Vaccines
X-ray Technician
Private/Semi-private room fee

Medicines

Any non-prescription medicines (over-the-counter), prescribed by a Dentist, Medical or Naturopathic Doctor and recorded by a licensed pharmacist
All prescription drugs
Insulin or Substitutes
Oxygen
Diabetic supplies (with prescription)
Liver Extract - injectable for pernicious anemia
Vitamin B12 - for pernicious anemia

Prescribed Medical Treatments

Blood Transfusion
Bone Marrow
Transplant
Organ Transplant
Insulin Treatments
Diathermy
Hydrotherapy
Injections
Nursing (by Registered Nurse)
Pre-Natal, Post-Natal Treatments
Psychotherapy
Art Therapy

Materials And Apparatus Which Are Prescribed By A Recognized Medical Practitioner

An external breast prosthesis
Any device designed to assist walking where the individual has a mobility impairment
Glasses / Contact lenses
Devices designed to assist a person to use bathtubs, showers or toilets
Devices designed to enable individuals with a mobility impairment to operate a vehicle
Devices used by individuals suffering from a chronic respiratory ailment or a severe chronic immune system deregulation
Electronic or computerized environmental control systems for individuals with severe and prolonged mobility restrictions
Electronic speech synthesizers for mute individuals
Equipment that enables deaf or mute persons to make and receive telephone calls including visual ringing indicators, acoustic coupler, and teletypewriter
Extremity pumps or elastic support hose to reduce lymph edema swelling
Heart monitors or pace makers
Hospital bed, if required in home
Inductive coupling osteogenesis stimulator
Infusion pumps for diabetes including peripherals
Monitors attached to babies identi-

fied as being susceptible to Sudden Infant Death Syndrome

Optical scanners or similar devices for a blind individual to enable him/her to read print

Orthopedic shoes or boots

Oxygen tent

Power operated guided chair installation for stairways

Power operated lifts and transportation equipment designed to allow access to buildings, vehicles or to

allow wheelchair access to a vehicle

Synthetic speech systems, Braille printers and large print-on-screen devices that enable blind persons to utilize computers

Syringes

Television closed caption decoders

Wigs if required as a result of disease, accident or medical treatment

Other Materials And Apparatus Which Don't Require A Prescription

Any apparatus or material, paid to a doctor, dentist, nurse or hospital

Any device to aid the hearing of a deaf person including bone-conduction telephone receivers, extraloud audible signals and devices to permit volume adjustment of telephone equipment above normal levels

Artificial eye or limb

Artificial kidney machine, including installation & operating costs

Blood sugar measuring device for diabetics

Limb or Spinal brace

Catheters, catheter trays, tubing, adult diapers, & disposable briefs required by incontinent persons

Colostomy pads

Crutches

Hernia truss

Iron lung

Laryngeal speaking aid

Rocking bed for polio patient

Wheelchair

Other Expenditures

Ambulance charges

Home Maker Service & Home Care (attendant must be a non-relative - only applicable when other household members are incapable of home care)

Prescription birth control pills

Reasonable costs for adapting a residence to accommodate a disabled person (e.g. wheelchair ramp, lifts, bath facilities, etc)

Specially trained animals to assist blind, deaf or severely impaired persons, including the cost of its care and maintenance

Rehabilitative therapy, lip reading & sign language training

Transportation costs to and from medical treatments that are not available within 40 km of home

Transportation, meals & accommodation - reasonable expenses for meals, accommodation and travel costs for patient and one accompanying attendant may be deductible if: 1. equivalent medical services are not available locally; 2. the route traveled is reasonably direct; 3. medical treatment is reasonable and distance traveled is at least 80 km

The Following Expenditures Would Not Be Covered Under A PHSP

Air conditioners, humidifiers, dehumidifiers or air cleaners

Antiseptic diaper service

Health and fitness programs

Illegal operations, treatment or drugs

Maternity clothes

Medical expenses for which you have been reimbursed or are entitled to be reimbursed from other plans

Non-prescription birth control devices

Payments to a municipality where the municipality employed a doctor to provide medical services to the residents of the municipality

Scales for weighing food

Toothpaste, Toothbrush, Dental Floss

Wigs - except where an individual has suffered abnormal hair loss owing to disease, medical treatment or accident

Provincial Healthcare Premiums

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