

EMPLOYEE HEALTH COVERAGE A KEY TO FINANCIAL HEALTH

Many things in life are certain, taxes, childish battles on parliament hill, and of course death. However, spiraling employee health benefit costs does not have to be one of them. Private Health Services Plans ("PHSP") or Health and Welfare Trusts ("HWT") may represent an effective way to keep costs low while providing employees with good benefits.

There is very little differentiating the two terms, except for HWT is usually associated with corporations, while PHSP is usually in regards to unincorporated businesses. The types of benefits managed through a HWT are limited to private health service plans, group term life insurance policies, group sickness or accident insurance plans or a combination of any of the aforementioned. For consistency purposes, this article will use PHSP to refer to both.

What is a PHSP?

A PHSP is an alternative to traditional group health insurance plans. They are designed to help provide some tax relief for small businesses and a cost effective alternative to those traditional plans. A PHSP is used to reimburse employees for medical expenses incurred and in many cases, at lower costs than the premiums for conventional health insurance plans. Different employees or classes of employees can receive various levels of coverage.

The CRA requires participation in the plan be made available to all employees, but the plans can be structured with specified criteria, making the plan available to all employees, but only under set conditions. For example, the plan may be structured so only employees who have five years of service to the business can be eligible to participate. You can also set limits to the benefits that may be received, by establishing various categories. For example one year of services entitles you to \$1,000 of medical expense coverage and five years or more gives you \$3,000.

Why use a PHSP?

A PHSP can be used to offer a greater range of medical coverage to employees, while helping to control business expenditures. Expenditure control is achieved due to the fact that PHSP medical expense reimbursements to employees are capped at a predetermined dollar value or percentage, as determined by the employer. Reimbursements of medical expenses paid by employees are tax deductible to the company. At the same time, the benefits reimbursed or paid to employees are a non-taxable benefit to the individual.

A PHSP can be very effective for unincorporated businesses or sole proprietors. Without a PHSP, the only options to these individuals are private health insurance plans or after-tax cash disbursements from their own savings, often not resulting in significant tax savings. Under a PHSP, medical expenses reimbursed to the sole proprietor are a tax deduction.

The target demographic for PHSP includes:

- small business owners;
- ineligible groups such as real estate agents, restaurant owners, hair stylists;
- self employed individuals; and
- dentists, doctors or chiropractors (unincorporated or professional corporations).

The key benefit to a PHSP is the tax savings and other intrinsic advantages they offer. When established and maintained correctly, they provide many advantages for employers and employees.

Employee vs. Shareholder

For a PHSP to be deductible to the corporation and non-taxable to the individual, the plan must be offered to an individual as a result of employment.

The employee can be a shareholder or a non-shareholder. If the recipient is a shareholder, and the plan is not available in a capacity of employment, the PHSP benefits are deemed to be received by an individual in the capacity of a shareholder. The costs of administering and the benefits paid through the trust would therefore not be deductible to the company and would be taxable benefits in the hands of the recipient.

Accordingly, you will want to ensure the PHSP is structured such that benefits are received in the capacity of employment when paid to shareholders.

Unincorporated Individuals

Unincorporated individuals receive special tax treatment from the CRA with regards to PHSP. The CRA has established a maximum benefit that can be received by the proprietor, his/her spouse, and other family members. Those rates are as follows:

- \$1,500 for the proprietor;
- \$1,500 for the proprietor's spouse;
- \$1,500 for the proprietor's dependents, 18 years or older; and
- \$750 for the proprietor's dependents, under 18.

Unincorporated individuals are also required to maintain stop-loss coverage when a PHSP is implemented.

The purpose of the stop-loss coverage is to protect unincorporated businesses from large unforeseen accidents or emergency medical costs that might arise to them or their immediate family members. It offers additional coverage for treatment, hospitalization, or ambulatory needs, for example. It helps to protect against costs that businesses may not be able to budget for. Stop-loss coverage is also recommended for incorporated businesses, but is not mandatory. The coverage offered by the stop-loss insurance varies between carriers along with the premiums they charge for it.

The Advantages of a PHSP

Depending on your situation, the benefits from implementing such plans can vary, but generally include:

- better control over costs;
- better predictability and improved budgeting of costs;
- income tax advantages, especially for shareholders receiving benefits under a PHSP;
- an effective supplement to a current plan;
- less limitations on what medical expenses are covered for employees;
- full confidentiality for employees; and
- increased flexibility and enhanced coverage for employees.

Cost-Plus Plan

A cost-plus plan is one of the more common types of PHSP, where the employer contracts with a trustee plan to compensate employees for eligible claims. In such cases, the employer commits to reimbursing all costs for medical expenditures to employees through the trust (as per the agreement) plus an administration fee to the trustee. As claims are put through by an employee to the trustee, the employer is invoiced for the medical expense plus the administration fee and applicable taxes and the employee is subsequently reimbursed. All administration fees are tax-deductible to the employer.

CRA Requirements

A PHSP or HWT does not have to be registered with the CRA. However, the CRA does set out some requirements in regards to such plans:

- Amounts contributed to the PHSP cannot revert back to the company;
- These amounts cannot be used for any purpose, other than those outlined within the trust;
- Deductions cannot exceed the amounts required to provide the current benefits; and
- The trust should be administered independent of the employer.

It is important to note that a PHSP can either be used to supplement an existing benefits plan or solely on their own. For example, under many health insurance group plans, eyewear coverage can represent a significant financial burden to small businesses. To help circumvent this financial restriction, employers can offer a PHSP to employees which will reimburse such costs within established limits.

Ensure you are diligent when establishing a PHSP. When arranged correctly, they can be very effective.

This 'N That At Logan Katz

The Best & Brightest

The partners and staff of Logan Katz are thrilled to announce that Trevor Kennedy and Julia Barak successfully completed the national Uniform Final Examination – the most challenging criteria towards obtaining the Chartered Accountant designation. Please join us in congratulating them.

Our Clients in the News

Our warmest congratulations are extended to Elemental Data Collections Inc. who was the recipient of the Silver Award for New Business of the Year at the recent Ottawa Chamber of Commerce Business Achievement Awards. Congratulations are also extended to Mr. Dominic Ferrarotto of Ferano Construction Limited who was a finalist in the Business Person of the Year category.

Comings and Goings

It has been a busy time at Logan Katz in December in the staff movement area. We bid a fond farewell to Li Kun Tang, Angela Pelley and Deepa Gandotra. We are currently recruiting to fill many positions – please do not hesitate to forward names of individuals you feel might be a good fit for our firm.

Firm Promotion

The partners of Logan Katz are proud to announce that Anjali Dilawri has taken on the responsibilities of Manager of our Financial Reporting Services. Please contact Anjali for all your accounting, bookkeeping, and software training requirements.