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Your Guide to Tax-Saving Strategies

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TAXSTRATEGY

Turn medical and related costs into tax-deductible expenses and...

Reduce your tax bill

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Most employee benefits programs in Canada have limits and restrictions on their usage. And those without access to such plans, of course, pay for health care with their own money.

The Private Health Services Plan (PHSP) is a government benefit that offers an excellent health care strategy for the self-employed or owners of an incorporated business.

With a PHSP you are able to turn medical and related costs into tax-deductible expenses.

In short, medical and dental expenses are converted into a business expense.

The list of allowable medical expenses can be found on the CRA website (www.cra.gc.ca) by searching "list of allowable medical expenses." This is the same list accountants use to apply the

"medical expense tax credit" to individuals who claim medical expenses on their tax returns. Claimable services include:

- ✓ Medical devices
- ✓ Dental Services
- ✓ Prescriptions
- ✓ Cosmetic Surgery
- ✓ Dentures
- ✓ Doctor, chiropractic, physiotherapy, naturopaths
- ✓ Eye glasses
- ✓ Nursing services
- ✓ Co-insurance premium payment
- ✓ U.S. healthcare premiums

If you are claiming expenses on your income tax, it's unlikely that the services listed above are being included. Individuals currently apply the "medical expense tax credit" on their income tax returns which credits a portion of medical expenses back.

The CRA will credit 15 per cent of a taxpayer's expenses back beyond the lesser of \$1,925, and three per cent of his or her

net income for 2012. Even if you apply all of your medical and dental costs via the credit, more savings are realized by utilizing a PHSP. For example:

✦ A self-employed individual making \$100,000/year claiming \$10,000 in expenses via a PHSP would save \$1,398.11 compared to the same expenses being claimed on their income taxes

✦ A self-employed individual making \$50,000/year claiming \$6,000 in expenses via a PHSP would save \$380.00 compared to the same expenses being claimed on their income taxes.

✦ A self-employed individual making \$200,000/year claiming \$30,000 in expenses via a PHSP would save \$5,724.00 compared to the same expenses being claimed on their income taxes

Generally speaking, higher-income earners can realize greater savings. If you are incorporated, a sole proprietor or involved in a partnership, it is clear that money can be saved by simply re-engineering your traditional health benefits program through this lesser-known strategy.

The PHSP advantages extend beyond tax savings. With no insurance underwriting involved you can't be turned down due to pre-existing conditions or poor personal health history.

If you have group insurance in your business a PHSP is often a viable and more cost-effective option. Group insurance requires guaranteed premiums regardless of plan use; with a PHSP, employees are

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reimbursed only when expenses are incurred.

In addition, contributions to a PHSP for an employee on behalf of an employer are excluded from employee's income. The employer can decide the level of benefits for the employees based on the criteria generated: skill level, years of service, title, etc.

In short, an employer can decide who gets to claim and how much.

The advantage to the business owner is that you can set the highest limits to the owners and shareholders as long as other employees are included in the arrangement.

A PHSP is a great way to attract and retain valuable employees. With no guaranteed premiums it provides much of the value proposition contained in typical group insurance bundles, with nothing paid to insurance companies.

As a complement to the PHSP, consider buying the inexpensive catastrophic insurance to protect against emergencies.

The premiums of about \$10-\$20 per month transfer the staggering financial risk of getting sick to Canada. Some drug treatments now exceed \$60,000 annually and can easily bankrupt someone without insurance. Pay the premiums through your PHSP.

Wait times for medical treatment reflect continuing challenges to Canada's overworked and underfunded health care system.

One viable alternative is to seek medical treatments outside the country. Investigate insurance products designed to facilitate and provide treatments without the long waits (www.fasterhealth-care.com) and use your PHSP to pay the premiums. □

The landscape of Canadian health care is changing

A recent report by the Richard Ivey School of Business suggests that due to an ageing population, Canada will find it difficult to sustain its current public health system. The report says that "Canada's health care system....will face a sustainability crisis and.....(Canada's) ability to withstand the repercussions of this crisis is questionable.

Between 1985 and 2005, the total per capital health spending in Canada rose by at least 50 per cent across all jurisdictions with the largest growth experienced by privately funded health services and products. In 1997, annual health care spending in Canada totaled \$79 billion; that figure had more than doubled to \$160 billion in 2007." (Transforming Canadian Health Care through Consumer Engagement, 2011)

This is not to suggest the future of our system is in total jeopardy; I believe we will make the changes necessary to sustain our universal system. Increasing costs will have to be downloaded, in some form, to the consumer.

Accordingly, large insurance providers will need to increase premium costs out of necessity. Because consumers will be preoccupied with providing acute care, expensive elective procedures will take an understandable back seat to needed health intervention.

In short, the insurance industry will respond to current trends with higher premiums for less coverage. Modern health care consumers must understand the changing landscape to ensure they enjoy a wide range of treatment options in the most tax-effective manner. Ben Franklin said it best: "an investment in knowledge pays the best interest."

– Mark Halpern

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