

A Simple Way to Save Tax Dollars And Increase Revenue – Theresa Ko

Did you know that there is a tax-free way to draw money out of your business to pay 100% of your family's medical and dental expenses? This may result in substantial tax savings for you. And for patients with businesses, they have a tax-free way to pay your dental fees.

In the 1998 Federal Budget, the Minister of Finance moved to improve equity in the treatment of self-employed Canadians by allowing owner-operators of businesses to deduct health and dental premiums against their business income. Incorporated entities were always allowed to deduct these premiums. Such premiums consist of payments for fees paid by an employer to an insurance company or to a "cost-plus" private health services plan ("PHSP") Administrator. Resulting reimbursements to an employee are tax-free.

The advantage of using an insurance company is that their plans are packaged with life, AD&D and out-of-country emergency medical insurance, but these add-ons increase the cost of your plan. The disadvantage is that you must pay substantial premiums (generally greater than \$1200 annually per employee) regardless of whether or not you or your employees make any claims. In addition, insurance companies will limit claims through exclusions, deductibles, annual and lifetime limits, and reimbursement of fixed percentages (usually 50% or 80%) of expenses. This results in a considerable amount of health care and dental expenses not being reimbursed and paid for with personal after-tax dollars.

By contrast, an employer may set up a plan through a "cost-plus" PHSP Administrator. Cost-plus means that the employer will pay for

health care cost plus and administration fee. The advantage of this plan is that it provides maximum flexibility as there are generally no monthly premiums, it includes expenses not covered by a spouse's plan, and it uses the broad definition of "medical expense" as defined under subsection 118.2(2) of the Income Tax Act. This definition includes many items not covered by insurance company plans (e.g. deduct 100% of your massage, physiotherapy, alternative medicine, dental, orthodontics, medical procedures including certain laser procedures, knee braces, etc). Employers may set differing dollar limits for employee classes and keep the saving of any unused limit. As an owner-operator you would set a much higher dollar limit* for the executive employee class. Tax effectiveness and cost controls are crucial to combating the rising cost of health benefits and employee turnover.

For example: Your family purchases \$1,000 of prescription medication, corrective eyewear, and dental expenses this year. These personal expenses will cost over \$1,800 in earnings (assuming a personal marginal tax rate of 45% - over \$800 for personal income tax leaving \$1,000 to pay for eyewear). By establishing a "cost-plus" PHSP, your business would pay the PHSP Administrator \$1,000 plus a fee. The PHSP would then reimburse you \$1,000, which is 100% of your cost, and your eyewear expenses have become a business deduction.

In addition, you may generate more revenues by suggesting a "cost-plus" PHSP for business owning patients (including their spouse and children) who require your services, but are delaying or electing not to have dental work performed due to the cost. Patients would be more willing to have a procedure performed if they can have their business pay for the service

and write it off. The additional bonus is that the owner-manager employee will not have to pay for the procedure. This may also stimulate referrals.

For example: A patient sets up a "cost-plus" PHSP and decides to have \$10,000 of dental work performed that he would have normally elected to do at a later time. This personal expense would cost over \$18,000 in earnings without a plan (assuming a personal marginal tax rate of 45% - over \$8,000 for personal income tax leaving \$10,000 to pay for this expense). You earn \$10,000 in revenue and your patient saves over \$8,000 in tax. You have a happy patient who is delighted with his savings and refers you to family, friends and colleagues.

*Note: Incorporated companies are permitted to set their own reasonable annual limits, but non-incorporated businesses have federally imposed maximum limits.

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Private Health Services Plans

Help your non-insured patient obtain dental plan coverage

Studies show that patients with dental plans more readily avail themselves of dental care and thus, enjoy better health. You can do your non-insured working patients a favour by letting them know about the benefits of Private Health Services Plans (PHSP). PHSPs offer an alternative to conventional dental insurance for individuals and small businesses.

Eligibility

PHSPs are a benefit option for self-employed people, whether their business is incorporated or not. The expenses incurred for administering such a plan are tax-deductible to the company or employer and are a non-taxable benefit to the employee. Since the owner of an incorporated business is an employee, owners and their families can participate in such a plan.

To qualify as a non-incorporated business owner, you must engage in a business on a regular and continuous basis, either directly or as a member of a partnership. Your business income for the current or previous year must exceed 50% of your total income or, your non-business income cannot exceed \$10,000.

Benefits of PHSP

Most importantly, PHSPs help to reduce the cost of dentistry to patients not already covered by a conventional plan.