feature

Canada Revenue Agency's Best-Kept Secret

Extended health care for the self-employed

It is no surprise that Canada is showing a trend towards American-style health care. Since the early 1990s, our public health-care system has been under tremendous pressure to privatize. Ontario residents have now witnessed the delisting of chiropractic, optometry and some physiotherapy services.

A growing percentage of Canada's workforce is self-employed with no extended health benefits unless individuals happen to be covered by a spouse's employee benefit plan. Paying for their family's health-care costs out-of-pocket, with after-tax dollars, self-employed people are greatly impacted by privatization.

Chiropractors might be concerned with how their self-employed patients can continue to receive necessary chiropractic treatment. A viable alternative for some might be a Health Spending Account (HSA), which is one of Canada Revenue Agency's best-kept secrets.

A business owner can establish an HSA and benefit from very generous tax savings. In essence, a self-employed person establishes a trust account in his/her name, through their financial planner. Authorized by Canada Revenue Agency as a tax planning account, all deposits are recognized as 100% business deductions for the year in which they are contributed. The money can then be withdrawn tax-free from the HSA as early as the very next day to pay for eligible health-care services. The result is tax savings.

HSAs are quite flexible. The business owner controls the cost of the HSA simply by deciding how much to deposit to the account, and then chooses when and how to spend it. They and/or their dependent family members have complete access to the money, as long as it is used exclusively for health-care purposes.

Privatization of services puts an increasing strain on self-employed individuals who must pay supplementary health-care costs out of their own pockets, with after-tax dollars.

The list of eligible expenses is comprehensive, covering most traditional and non-traditional health-care expenses. For instance, an HSA covers claims for chiropractic, vision (including laser eye surgery), dental (including orthodontics and cosmetic), physiotherapy, acupuncture, registered massage therapy, and prescription drugs. Other non-traditional claims are permitted for naturopathy, hearing aids, nursing homes, orthopedic footwear, and skin care.

Consider the following two scenarios. Tom and Jerry, owners of successful construction companies, earn in excess of $100,000 annually, and are therefore taxed at the 45% marginal rate. Their families each spend $5,000 for a variety of health-care services.

Tom has not yet established an HSA. His family claims health-care expenses according to the default 3% Medical Tax Credit rule. The Medical Tax Credit should generate tax savings of $701.

Jerry, on the other hand, pays for his family's additional health care with an HSA that he established through his financial planner. To afford the $5,000, Jerry needs to deposit $5,500 to his HSA (which includes a 10% tax-deductible administration fee), and he can receive tax savings of $2,475, based on his $5,500 contribution.

Doctors of chiropractic might consider an HSA for their families and could offer one to full-time staff as part of their benefit package. This arrangement should create a tax deduction for the employer, and a tax-free benefit to the employee.

The benefits of an HSA are obvious, and include: flexibility, cost control, comprehensive coverage for the entire family, and generous tax savings. As each circumstance is unique, options should be discussed with a certified financial planner. •

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