

# Cost Plus Plans Tax Preferred Benefits for Business Owners

## What Is A Cost Plus Plan?

Cost Plus Plans provide **TAX PREFERRED** and **COST EFFECTIVE** Health & Dental benefits for business owners!

Think of a Cost Plus Plan as a “little gold nugget” that has been offered to you by Canada Revenue Agency. All you have to do is know what it does and how to use it. Thousands of business owners across Canada use their Cost Plus Plans every day to provide 100% coverage for their family health & dental benefits while being able to deduct 100% of the expenses through their companies! Win-win!!



Let us explain to you in a comprehensive manner, how you can experience approximately 30% savings using a Cost Plus Plan as opposed to paying premiums into a traditional benefit plan.

## How does a Cost Plus Plan work?

A Cost Plus Plan allows for reimbursement of eligible medical and dental expenses which otherwise would have been payable by the individual with after tax dollars. A Cost Plus Plan usually replaces a standard medical or dental plan as a stand-alone program. It also can be offered as a component of a flexible benefit plan or as a complement to a traditional group insurance plan and can be used to offset any expenses that have not been covered under those types of plans.

Premiums for such a plan are deductible for tax purposes and the reimbursement to the employee for those services is considered to be a non-taxable benefit in accordance with Interpretation Bulletin 339R2 dated August 8, 1989, which reads as follows:

“Under a Cost-Plus Plan an employer contracts with a trusted plan or insurance company for the provision of indemnification of employee's claims on defined risks under the plan. The employer promises to reimburse the cost of such claims plus an administration fee to the plan or the insurance company.” “Provided that the risks to be indemnified are those described in paragraphs (a) and (b) of the definition of "private health services plan" in subsection 248 (1), such a plan qualifies as a Private Health Services Plan.”

In the above bulletin, “employer” refers to the Corporation and in CRA’s view, is a totally separate entity from you, even though you are the “active” owner of the company. Therefore, it makes sense that a Cost Plus Plan could be implemented for the “owner” in the same manner that it would be for an “employee” that would be hired to do the same job as the owner.

## Cost Plus Plan Advantages

The greatest advantage of a Cost Plus Plan is **flexibility!** Your plan allows you to choose what you want to use or what you need to use and when you use it. In addition:

- 🎯 **All individuals are eligible** regardless of pre-existing conditions, prior usage or age.
- 🎯 There are **no deductibles** or **co-insurance amounts – 100% coverage.**
- 🎯 There are **no limits** for the number of visits and treatments per practitioner.
- 🎯 You determine how much or how little you will spend in any given year. **Budget control and no creeping premiums!**



## What is an Eligible Expense Under a Cost Plus Plan?

Canada Revenue Agency has made it very clear that eligible expenses that qualify for reimbursement under a Cost Plus Plan would be the same expenses that would qualify under the Medical Expense Tax Credit (METC). These would include Medical, Prescription Drugs, Dental and Vision expenses. There are not a lot of limitations as to what is covered so the list of practitioners, services, products and appliances is quite extensive. Health Risk Services has provided a general guideline of Eligible Medical Expenses for your reference on our website:





<https://www.healthrisk.ca/wp-content/uploads/2018/10/Eligible-Medical-Expenses-2017.pdf>

Premiums contributed to a non-government insurance plan are an eligible expense under a Cost Plus Plan. This could include the purchase of a stand-alone benefit plan or even premiums paid into a spouse's benefit plan through their employer.





Your Cost Plus Plan can also co-ordinate with a spouse's plan to pay for any deductibles, co-insurance amounts or unpaid expenses from their plan.

## Taxation Considerations of a Cost Plus Plan



-  A Cost-Plus Plan qualifies as a PHSP and any premiums paid to a PHSP by a company are considered business expenses and **100% deductible against business income**.
-  **All premiums paid and benefits received are 100% tax free** to the recipient whether it is the owner of the company or its employees.

## Criteria for Implementing a Cost Plus Plan:

-  A formal Private Health Services Plan agreement must be in place with a Third party Administrator or Insurance Company
-  Cost Plus Plans must be 100% funded through your company
-  A Cost plus Plan cannot be used to purchase additional insurance such as life insurance, long-term disability or Critical Illness Insurance
-  Benefits must meet income tax definitions of eligible expenses



Corporations have been granted the right to decide the employee's annual benefit allotment by class. While they have not been regulated on dollar amounts, CRA has indicated that benefits should be reasonable within relation to the individual's remuneration package.

## How do you pay for a Cost Plus Plan?



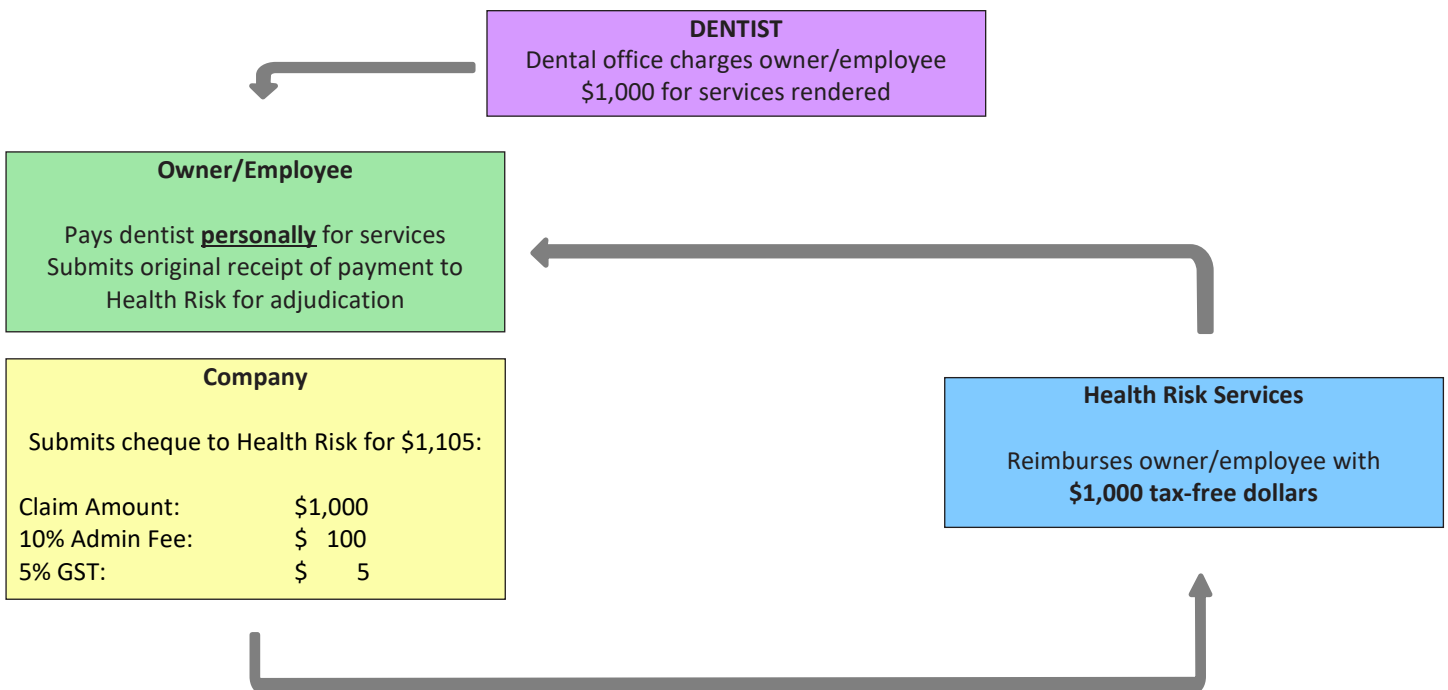
- Pay-as-You-Go:** You submit a remittance form along with receipts for services and a company cheque equal to the cost of the service; plus the administration fee and GST. Health Risk will send a tax-free benefit cheque to you personally.
- Pre-Funded Plan:** Your company funds your Cost Plus Plan to cover claims as they are submitted. Health Risk processes the claims and pays with funds from your Plan. This method is efficient in terms of avoiding time delays for processing and issuance of company cheques for proper claim amounts.

The following example merely demonstrates the process of making a claim with a Cost Plus Plan through Health Risk Services Inc. Variances will apply for every Plan registered and amounts and claim eligibility will vary from one registrant to another. Numbers chosen are made for demonstration purposes only and are simplified to a greater extent than what an actual claim may present.

### “COST PLUS” Benefit Claim Sample

This example shows the instance where the owner of the plan is making a claim for services required at a dental appointment.

#### Claim: \$1,000 Dental Bill



## How does a Cost Plus Plan save my business money?

When you are the owner of a registered business or corporation, you really have only two options for paying medical expenses for yourself or your employees:



There is no formal plan in place so you pay for all your medical expenses personally out of your pocket with after tax dollars.



You implement a Cost Plus Plan in your business which allows for 100% of all eligible medical expenses to be paid through your company.

The following example assumes a marginal tax rate of 43%, and a \$5,000 medical expense.



### With a Cost Plus Plan Business Expense - Before Tax

Medical Expense \$5,000
Taxes \$0
Total Cost \$5,000

### Without a Cost Plus Plan Personal Expense - After Tax

Medical Expense \$5,000
Taxes \$2,150
Total Expense \$7,150

Savings  
of  
\$2,150!

## Why Choose Health Risk Services to be your Third Party Administrator?

### *Because we CARE!!*

- 👂 We **CARE** about insisting that your plan stays current with CRA guidelines.
- 👂 We **CARE** about providing you with all the proper plan implementation documents for your corporation to ensure compliance with CRA.
- 👂 We **CARE** about ensuring quick turnaround times for your claims.
- 👂 We **CARE** about providing you with the convenience of direct deposit for your reimbursements.
- 👂 We **CARE** about ensuring you are kept up to date on any legislation changes that may affect your Cost Plus Plan.

In other words, we **CARE** about your overall Cost Plus Plan experience!

Contact HRS today to enquire about implementing **YOUR** Cost Plus Plan!