

# HEALTH SPENDING ACCOUNTS WHY EVERY BUSINESS SHOULD LOOK INTO OWNING ONE

## WHAT IS A HEALTH SPENDING ACCOUNT

Health Spending Accounts are self-insured health plans arranged by employers for their employees residing in Canada. They provide a way that small businesses can provide tax-free health and dental benefits to their employees (and their employees' family members). This makes the Health Spending Account appear to be an extremely attractive and cost-effective way of getting and providing health and dental benefits.



In simple terms, health and dental benefits offered through this plan are fully tax deductible to the business and received 100% tax free by the employees. HSA approved expenses include many of the medical costs you may expect from a traditional group benefits plan, like dental care, medical practitioners, prescription drugs, and hospital costs. On top of those, Health Spending Accounts go beyond traditional benefits with a wide range of covered health services, facilities, treatments, and devices. There are over 100 covered expenses, Olympia Benefits, the top service provider in Canada; covers 124 expenses. For an annual fee of \$249, you could save thousands a year on medical and health expenses.

## HOW DOES IT WORK

Instead of pulling out additional salary from your corporation to pay medical and health expenses, you can have the corporation pay the medical or health expense directly. This is a tax-deductible benefit to the corporation and tax-free to the employee.

\*If you had \$15,000 of medical/health expenses to your family in a year, you would have to withdraw an additional \$26,572 from your corporation. If there was a Health Spending Account, the \$15,000 would come out of the company tax-free, plus the 10% administration fee, for a total of \$16,500. That's \$10,435 of Savings!

* \$15,000 of Health Expenses * No Health Spending Account * Additional income to pay for health expenses	
Business	Personal
Business Income	\$200,000
Less: Wages to Owner	(\$26,572)
Less: CPP	(\$1,395.03)
Income Before Taxes	\$172,033
Less: Corporate Taxes 9%	(\$15,482.97)
Net Corporate Cash	\$156,550
	Gross Wages
	26,572
	Less: Federal Taxes 33%
	(\$8,769)
	Less: Provincial Taxes 17.4%
	(\$4,624)
	Plus: METC
	\$3,215
	Less: CPP 5.25%
	(\$1,395.03)
	NET Wages
	\$15,000
	Less: Health Expense
	(\$15,000)
	Net Personal Cash Left Over
	(\$0)

* Business Income of \$200,000 * Has Health Spending Account * \$15,000 of Health Expenses	
Buisness	
Buisness Income	\$200,000
Less: Medical Expense	(\$15,000)
Less: Admin Fee 10%	(\$1,500)
Income Before Taxes	\$183,500
Less: Corporate Taxes 9%	(\$16,515)
Net Corporate Cash	\$166,985

\*You go to the dentist and receive a bill for \$500. With no Health Spending Account and assuming a 50.4% marginal tax rate, that dentist bill cost you \$885.73 pre-tax. If you had a Health spending account and the same \$500 dentist bill, the \$500 would be tax-deductible to the corporation, plus the 10% admin fee of \$50. The cost to the corporation would be \$550 and a total savings of \$347.83.

\*Assumes CPP, tax deductions, Tax before vs. Tax after deductions, Medical Expense Tax Credit. Rates and actual numbers are subject to change