



Quick Reference for Accountants

CANADA REVENUE AGENCY BULLETINS

<http://www.cra-arc.gc.ca/formspubs/menu-eng.html>

[S1-F1-C1 - Medical Expense Tax Credit](#)

[IT-529 - Flexible Employee Benefit Programs](#)

[IT-339R2 - Meaning of Private Health Services Plan](#)

[S2-F1-C1 - Health and Welfare Trusts](#)

How does the Cost Efficient Benefit Plan program work?

- The employee personally pays medical and dental expenses. They then submit the receipts and claim form to their employer. The employer sends Cost Efficient Benefit Plan, the plan administrator, an amount covering the claim plus an 5% administration fee, plus GST on the administration fee only. Cost Efficient Benefit Plan then issues reimbursement for the claim amount to the employee.

What are the taxation rules governing the Cost Efficient Benefit Plan program?

- The Cost Efficient Benefit Plan program qualifies as a “cost plus” Private Health Services Plan (“PHSP”). The funds paid to a PHSP by an employer are business expenses deductible against business income. The amounts are a non-taxable benefit to the employees. The employer must have an obligation under the employment contract to reimburse the eligible medical expenses of its employees. This obligation is established by signing up with Cost Efficient Benefit Plan.

What expenses qualify for reimbursement with the Cost Efficient Benefit Plan program?

- The expenses must qualify as “medical expenses” as defined under subsection [118.2\(2\) of the Income Tax Act](#), which includes many items not covered by traditional medical and dental insurance coverage. Please refer to the section [Which medical expenses are eligible](#) for a more complete list of eligible expenses.

Is there a maximum annual benefit limit with the Cost Efficient Benefit Plan program?

- Incorporated businesses are permitted to set their own reasonable maximum annual limits, but sole proprietorships have an imposed maximum annual limit of \$1,500 for an owner-manager employee, plus \$1,500 for their spouse and \$750 per child. If the sole proprietorship employs non-owner employees, then the owner is limited to the same amount provided to his employees.

What are the benefits of using the Cost Efficient Benefit Plan program?

- The employer provides tax-free benefit to their employees at a lower cost than other plans available. By providing health and dental benefits to their employees, they can improve employee morale and retention.
- The employee's medical and dental expenses are reimbursed as a tax-free benefit.

Are shareholders eligible?

- Yes, but if the plan is made available only to shareholders, CCRA may argue that the plan is not a benefit received by virtue of employment, but rather an appropriation by a shareholder. If there is any doubt as to whether benefits are received as an employee or a shareholder, then steps can be taken to demonstrate that a person receives the benefit in his or her capacity as an employee. We can discuss these with your accountant.

Guidelines to determine employee status:

- For an individual to receive tax-free health benefits from an employer, CRA (Canada Revenue Agency) must in fact define them as an employee. If one of the following factors are met then the person in question is almost certainly an employee.
 1. Does the individual collect a wage, salary, fees or bonus?
 2. Does the corporation (employer) remit payroll taxes (income tax and CPP) on behalf of the individual?
 3. Are payments made to the individual deductible from the corporation's (employer's) income? Such payments include management fees, wages, salaries and bonuses.
 4. Dividend payments may qualify.

Do we qualify if all the employees are also shareholders and we have no other employees?

- Yes, if the plan is made available to all employees who are also shareholders and it is demonstrated that they are receiving the benefits as employees.
- Small business owners should be careful in setting up a cost plus plan that excludes non-shareholder employees. A cost plus plan for a majority shareholder and principal employee of a corporation that excludes non-shareholder employees should be carefully planned to meet tax deductible eligibility status. We strongly urge anyone setting up a plan that excludes non-shareholder employees to discuss with a tax expert to obtain proper documentation.

Is there a dollar limit that the company may reimburse the employees through the Cost Efficient Benefit Plan program?

- There is no statutory limit for the amount of medical expenses that can be reimbursed but any expenses must be reasonable in order to be deductible.

Do I have to provide the same amount of benefit to all my employees?

- No, you can set different claim limits for different groups within the corporate structure. This limit can be changed yearly.

How long does the employer hold employee benefit information?

- This is regulated under the Employment Standards Act of each province, but for most provinces employment records must be retained for seven years after the employment ends. Cost Efficient Benefit Plan holds all employer records for seven years.

How long does the employer hold employees' submitted claims and receipts?

- For personal income tax purposes, all receipts must be held for three years from the date the CRA issues their Notice of Assessment. All businesses are required under the Income Tax Act to retain their books and records for seven years. Cost Efficient Benefit Plan holds all its clients' claims and receipts for seven years.

I operate my business as a sole proprietorship. Can I deduct the claims I make for my family and myself through the Cost Efficient Benefit Plan program?

- Yes, you can, provided that over 50% of your total income is derived from the sole proprietorship and you are or have at least one qualified or designated employee. The intention of the 1998 Federal Budget was that a sole proprietor that has at least one qualified or designated employee will be able to deduct amounts paid through a Private Health Services Plan. It is advised that the sole proprietor can demonstrate that they have a qualified or designated employee working within the business. If you wish further information, please contact Cost Efficient Benefit Plan. We will discuss appropriate steps needed to properly document your client's health services plan to comply with CRA regulations. Click [here](#) to see Canada Revenue Agency's guidelines for Sole Proprietors.