

we know you.

INSURANCE for doctors

we're for you.

Doctors of BC Health Benefits Trust Fund (HBTF) Cost-Plus Plan – Tax Information

Overview

The Cost-Plus Plan is a self-insured plan that allows physicians to tax-deduct eligible health and dental expenses for themselves, their dependents and their employees, if they are not reimbursed by the HBTF Plan. As a self-insured plan, there are no monthly premiums for Cost-Plus. The physician-employer designates an annual dollar limit for eligible expenses claimable for him/herself and family, and each employee enrolled in the Plan.

Physicians may participate in the self-insured Cost-Plus Plan only if they are enrolled in the Doctors of BC HBTF Plan.

Physicians generally practice medicine either as unincorporated businesses (proprietors or partnerships) or as incorporated entities known as professional corporations. Both HBTF Plan premiums and Cost-Plus Plan expenses may be eligible as a business expense deduction for both practice structures. The amount of deduction the physician can claim depends on the practice structure and the provision of benefits to all full-time arm's-length employees¹.

Employee Life and Health Trust

Effective January 1, 2022, amendments in the Income Tax Act required Doctors of BC Health Benefits Trust Fund be converted to an Employee Life and Health Trust (ELHT). An ELHT carries different tax rules than previously governed the Health Benefits Trust Fund. Under the new legislation, if Key Employees² exceed 25% of all employees of the Trust, the deduction must be limited to \$2,500/year for each Key Employee, and for each of the spouse or common-law partner of the Key Employee, and each person who is related to the Key Employee and is either a member of the Key Employee's household or is dependent on the Key Employee for support.

Due to the demographics of our physician members and their employees participating in the HBTF Plan, more than 25% of the total number of employees of all employers covered under the Trust are Key Employees. So in order to maintain status as an Employee Life and Health Trust under the Income Tax Act (Act), the HBTF Plan must adhere to the restrictions in the Act on benefits provided to "key employees" for all enrollees.

¹A qualifying arm's-length employee is generally a full-time employee who is not connected to the physician-employer by marriage, blood relationship or adoption.

² Key Employee is defined in 144.1 (1) of the Income Tax Act as:

(a) was at any time in the taxation year or in a preceding taxation year, a specified employee of the employer; or

(b) was an employee whose employment income from the employer in any two of the five taxation years preceding the year exceeded five times the Year's Maximum Pensionable Earnings (as determined under section 18 of the Canada Pension Plan) for the calendar year in which the employment income was earned.

Specified Employee is defined in 248 (1) of the Income Tax Act as:

an employee of the person who is a specified shareholder of the person or who does not deal at arm's length with the person

Unincorporated Physician

Prior to January 1, 2022 an unincorporated physician could deduct the combined cost of the HBTF Plan premium and the Cost-Plus Plan expenses to an annual limit of \$1,500 for each of the physician, the physician's spouse or common-law partner and members of the physician's household who are 18 or older before the beginning of the year, and \$750 for each member of the physician's household who is under 18 before the beginning of the year. If the physician employs full-time arm's-length employees*, equivalent coverage must be offered to all employees in order for the expenses to be eligible as a business expense deduction. Coverage must be offered to all full-time employees in order for the expense to qualify as a business deduction.

Effective January 1, 2022, the amount of health insurance premium (whether self-insured or through a traditional insurance plan) that may be claimed as a tax-deductible expense of an unincorporated physician's business is limited to:

\$2,500/year for each the physician
+
\$2,500/year for the spouse or common-law partner of the physician
+
\$2,500/year for each person who is related to the physician and is either a member of the physician's household or is dependent on the physician for support.

Professional Corporation

Effective January 1, 2022, the amount of health insurance premium (whether self-insured or through a traditional insurance plan) that may be claimed as a tax-deductible expense of a professional corporation is limited to:

\$2,500/year for each Key Employee,
+
\$2,500/year for the spouse or common-law partner of each Key Employee
+
\$2,500/year for each person who is related to the Key Employee and is either a member of the Key Employee's household or is dependent on the Key Employee for support.

For example, a physician who has a spouse and two dependent children will be allowed to expense up to \$10,000/year of health insurance premium through the corporation as a business expense.

As with unincorporated physicians, coverage must be offered to all full-time employees in order for the expense to qualify as a business deduction. The maximum amount of the HBTF Plan premiums and Cost-Plus Plan for all other employees is not subject to the \$2,500 rule, but the amount must be reasonable.

Since the physician is typically the single most important asset to the professional corporation, it is reasonable to provide greater benefits to the physician than to clerical and other staff. However, benefits and coverage must be distributed consistently to employees based on their status and contribution to the incorporated practice and not on the basis of their relationship to the physician.

Benefits of the Cost-Plus Plan vs. claiming a tax credit for medical expenses

The advantage of using Doctors of BC Health Benefits Trust Fund is to shift the cost of eligible health expenses from a personally paid after-tax expense to a tax-deductible expense of the physician's business or professional corporation.

When a physician claims medical expenses as a tax credit on their personal income tax return, the total amount of tax savings available is determined under a formula which caps the tax credit at approximately \$2,300 once the physician's income exceeds approximately \$79,000 per year. In contrast, the Cost-Plus

Portion allows the physician to claim the medical expenses and HBTF Plan premiums as a tax-deductible business expense against the income of an unincorporated or incorporated business.

Eligible Health Expenses

Under Canada Revenue Agency (CRA) guidelines, eligible Cost-Plus expenses are detailed in the publication S1-F1-C1: Medical Expense Tax Credit. This [publication](#) can be viewed on CRA website.

We strongly suggest that physicians seek advice on the tax implications of the Cost-Plus Plan from their accountant or tax advisor before entering the plan, and regularly throughout their enrollment to ensure tax compliance.