

## BCMA HBTF Plan Cost Plus Portion - Tax Implications

### **Overview:**

Physicians may participate in the self-insured *Cost Plus* Plan only if they are enrolled in the BCMA HBTF Plan.

The *Cost Plus* Plan is a self-insured plan that allows physicians to provide eligible health and dental benefits not covered by the HBTF Plan to themselves, their dependents and their employees. As a self-insured plan, there are no premiums; instead the physician-employer designates an annual Notional limit for him/herself and each employee enrolled in the Plan.

### **Why do I need the Cost Plus Portion? I'm already claiming a tax credit for my medical expenses?**

When you claim medical expenses as a personal expense under the medical expense tax credit, the total amount of tax savings available to you is determined under a formula which caps the tax credit once your income exceeds approximately \$60,000 per year. The Cost Plus Portion allows you to claim the medical expenses as a business expense. This expense is deductible against the income of your unincorporated or incorporated business. As a business deduction, the amount of tax relief available is not capped by the limits imposed on medical expenses that are claimed personally.

### **Time & Dollar Limit:**

There are some restrictions on what may be paid under the self-insured *Cost Plus* Plan. The specified annual dollar limit committed by the physician for him or herself and each employee is a notional account and is forfeited at December 31 (i.e., it cannot be rolled over to the next year or taken in cash). However, expenses incurred in a plan year may be claimed against any remaining *Cost Plus* Plan balance at December 31 until July 31 of the following calendar year, subject to the limits allocated to each employee in the year the claim was incurred.

If medical expenses exceed the specified annual dollar limit, they may be carried forward for one calendar year only, and paid from the following year's specified annual dollar limit.

The self-insured *Cost Plus* Plan benefit year is from January 1 to December 31.

**Note: Participants in the BCMA HBTF Plan are not required to deposit any funds with the BCMA for their *Cost Plus* Plan allocation. The allocation is a notional account and funds are withdrawn from the member's bank account only at the time a claim is presented for payment.**

### **Eligible Health Expenses:**

Under Canada Revenue Agency (CRA) guidelines, expenses eligible for reimbursement under the Cost Plus Plan are detailed in the publication S1-F1-C1: Medical Expense Tax Credit. This publication can be viewed on CRA's web site: [www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f1/s1-f1-c1-eng.html](http://www.cra-arc.gc.ca/tx/tchncl/ncmtx/fls/s1/f1/s1-f1-c1-eng.html).

### **Tax Implications for Cost Plus Plan:**

#### **Professional Corporations**

CRA rules require the limit to be reasonable. The administrative position of the CRA is that the \$1500/year (adult) and \$750/year (child) limitations that apply to unincorporated physicians are presumed to be reasonable but are not mandatory for an

incorporated practice.

Therefore, amounts in excess of such limits may also be reasonable depending on the circumstances.

### Unincorporated Physician With No Arms-length Employee\*

An unincorporated physician with no arm's-length employees may deduct the combined cost of the BCMA HBTF Plan premium and Cost Plus expenses, to an annual limit of \$1500 for each of the physician, the physician's spouse, and dependents living in the household who are 18 or older, and \$750 for each of the dependents living in the house who are under 18.

#### Example 1

Physician (45), spouse (43), child (18), child (15), child (12).

Deduction limit:

Maximum deduction is  $(\$1500 \times 3 \text{ adults}) + (\$750 \times 2 \text{ minors}) = \$6000$ . If the cost of the HBTF Plan is \$3500/year, the allowable annual *Cost Plus* dollar limit for the physician's family is \$2500.

### Unincorporated Physician With Less Than 50% of Employees at Arm's-Length

An unincorporated physician, whose full-time, arm's-length employees comprise less than 50% of the total number of employees, including the physician, is limited in his deduction to the lesser of:

- The cost of providing equivalent coverage to all full-time employees; or
- \$1500 for each adult and \$750 for each child under age 18

#### Example 2

Physician (45), spouse (43), child (18), child (15), child (12). Spouse is a bona fide full-time employee of the physician and performs services the physician would otherwise have to obtain from an arm's length employee.

Deduction limit:

Maximum deduction is  $(\$1500 \times 3) + (\$750 \times 2) = \$6000$ . If the cost of the HBTF Plan is \$3,500/year, the allowable annual *Cost Plus* dollar liability limit for the physician's family is \$2500.

### Unincorporated Physician With 50% or more Employee's at Arms-Length

An unincorporated physician whose arm's-length employees comprise 50% or more of the total number of employees, including the physician, is not limited to the annual \$1500 (adult) and \$750 (child) rule. However, the physician may only deduct, for his coverage, an amount equal to the cost of equivalent coverage offered to the arm's-length employees. The employees' costs are also deductible by the business.

#### Example 3

Physician (age 45), spouse (age 43), child (18), child (15), child (12). Physician employs two arm's-length employees, both of whom are married with children. In addition to the BCMA HBTF Plan, the physician provides a *Cost Plus* benefit of \$5000 to himself and each employee, fully paid for by the physician.

Deduction limit:

Due to the fact that the physician is providing identical coverage to all employees, he is permitted to deduct the full cost of the HBTF Plan and *Cost Plus* benefits for himself and each arm's-length employee.

*\*A 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*

Please refer to the Tax Examples in the BCMA HBTF brochure available on [www.bcma.org](http://www.bcma.org) for more information in this regard. We also strongly suggest you discuss this aspect of the Plan with your accountant or tax advisor.