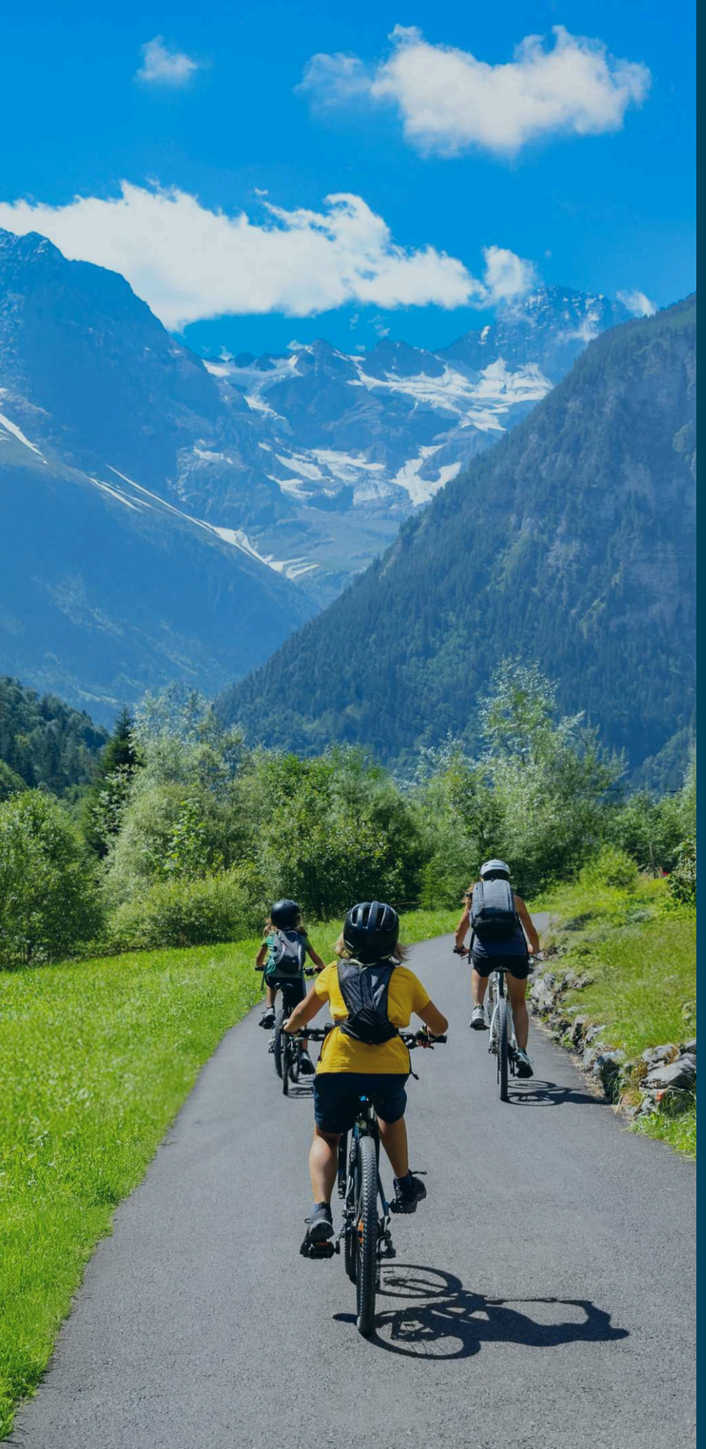


Olympia HSA

The Accountant's Complete Guide to Health Spending Accounts

Written for
Olympia Partners

OLYMPIA BENEFITS

WHAT WILL YOU LEARN IN THIS GUIDE?

Health Spending Accounts directly involve matters of taxation and ultimately business owners speak with their accountant for clarification.

Health Spending Accounts are in demand within Canada's small business community. Viewed as a viable and cost effective alternative to traditional health insurance, Health Spending Accounts make paying for medical expenses affordable and easy.

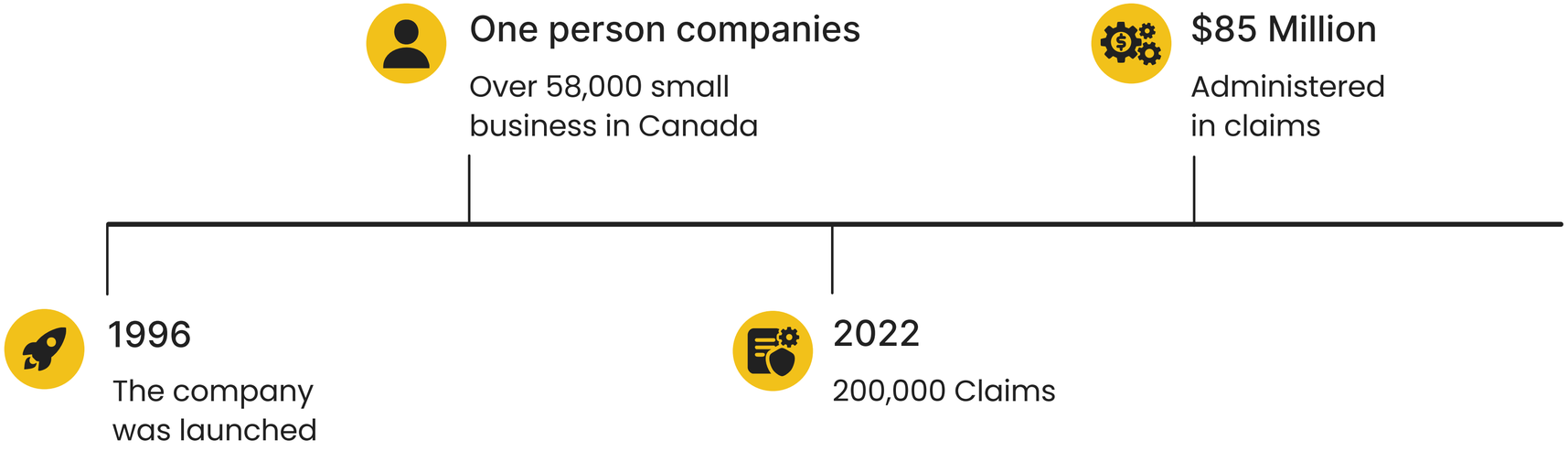
Although straightforward to use, the product does require proper explanation and understanding before it is adopted by any particular small business.

The purpose of this guide is to summarize and explain the Health Spending Account in order to provide a reference and resource for accountants to use in discussions with their small business clientele. Inside you'll find a definition and criteria, an explanation of our product, and some concrete examples to show your clients.

ABOUT US

Olympia Benefits is an experienced industry leader that has been in business since 1996.

The company currently administers Health Spending Accounts for over 58,000 small business owners in Canada. Our core customer consists of very small businesses with approximately 85% represented as one person companies. In 2019, Olympia Benefits administered over 130,000 claims worth approximately $85 million.

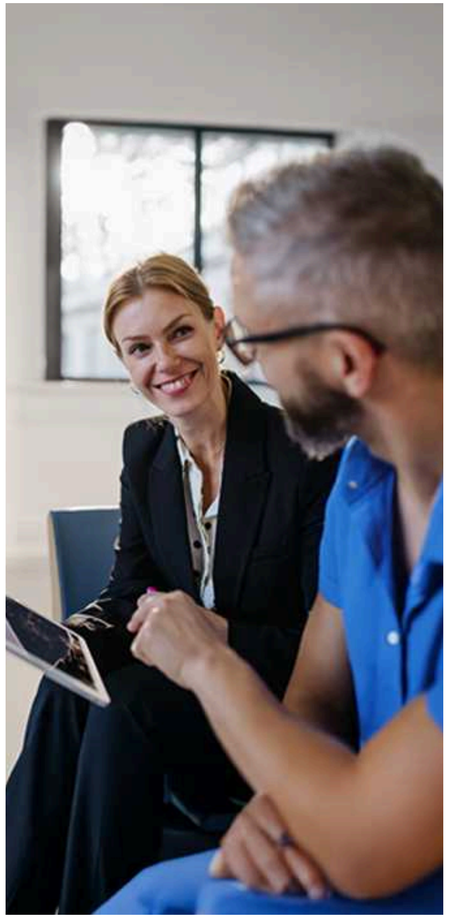


WHAT IS A HEALTH SPENDING ACCOUNT



The Olympia Health Spending Account is a Private Health Services Plan (PHSP). Plans of this nature are derived from Section 248(1) of the Income Tax Act (the Act) and Interpretation Bulletin IT-339R2. Assuming the definition of a PHSP is met, the Olympia Health Spending Account enables an employer to reimburse an employee (including shareholder/employees) for eligible medical expenses on a tax-free basis while deducting these expenses. Medical benefits paid on behalf of an employee by an employer are not taxable as a benefit to the individual; nor are the claim benefits themselves taxable to the individual employee. The cost of these benefits is considered a business expense.

Eligible medical expenses are defined as those expenses for which an individual can apply for a Medical Expense Tax Credit on their income tax. Eligibility is determined not only by the expense itself, but also that it is performed or prescribed by a qualified medical practitioner.



A PHSP is not a Health and Welfare Trust nor an Employee Life and Health Trust. There are significant differences between a PHSP/HSA and an HWT/ELHT. Although they both provide methods of health and dental benefits to employees, they are treated differently under the Income Tax Act. The government is set to convert all HWTs to ELHTs. As stated above, this change will not affect the Olympia PHSP/ HSA.

The Act allows a PHSP to take a number of different forms; however to properly meet the definition, the PHSP must be "a contract of insurance" in respect of hospital or medical expenses or similar insurance plans. This implies that **CRA would expect to see a formal contract of employment incorporating the requirement that the employer provide this medical coverage.**

WHAT ARE THE QUALIFICATIONS?

To qualify, a PHSP must include a minimum set of conditions. The Olympia Health Spending Account provides that:



The Olympia Health Spending Account is in the nature of insurance.



The employer is under legal obligation to fund the spending account for each employee.



All employees in a particular classification must be offered equivalent benefit levels.



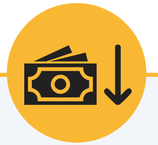
In order to provide for the necessity of an element of risk, all reimbursement credits must be claimed in the year in which they are incurred or within 12 months of the plan year.



Eligibility is maintained with respect to medical expenses, employees, and dependents.



No allowance is made for cash payments in respect of unused reimbursement credits.



Employees not forego any amount to which he/she would otherwise be entitled in order to obtain the increased benefit (IE: a salary decrease to accommodate for enrolment in the Olympia Health Spending Account).

THE OLYMPIA HEALTH SPENDING ACCOUNT CLAIM PROCESS

Claims for the Olympia Health Spending Account are made exclusively online through Olympia's **MyOlympia** platform. The secure platform is used to enter, submit, and reimburse claims.

The $1,000 personal expense is tax free. The $1,000 payment from the corporation is 100% tax deductible:

Additional Notes:
Clients are prompted to setup a direct deposit agreement with Olympia prior to making their first online claim. The direct deposit agreement enables Olympia to reimburse the client's personal bank account. Claims cannot be processed without direct deposit.



WHAT EXPENSES CAN BE CLAIMED?

Eligible expenses for a Health Spending Account are based upon the Medical Expense Tax Credit. Here's a preview of some expenses:



All Prescription Drugs



All Dental (including veneering)



Orthodontics



All Optical (including laser eye surgery)



Contacts and solution

Paramedical services including:



Chiropractic



Massage



Physiotherapy



Orthotics



Naturopathic Doctor (ND)

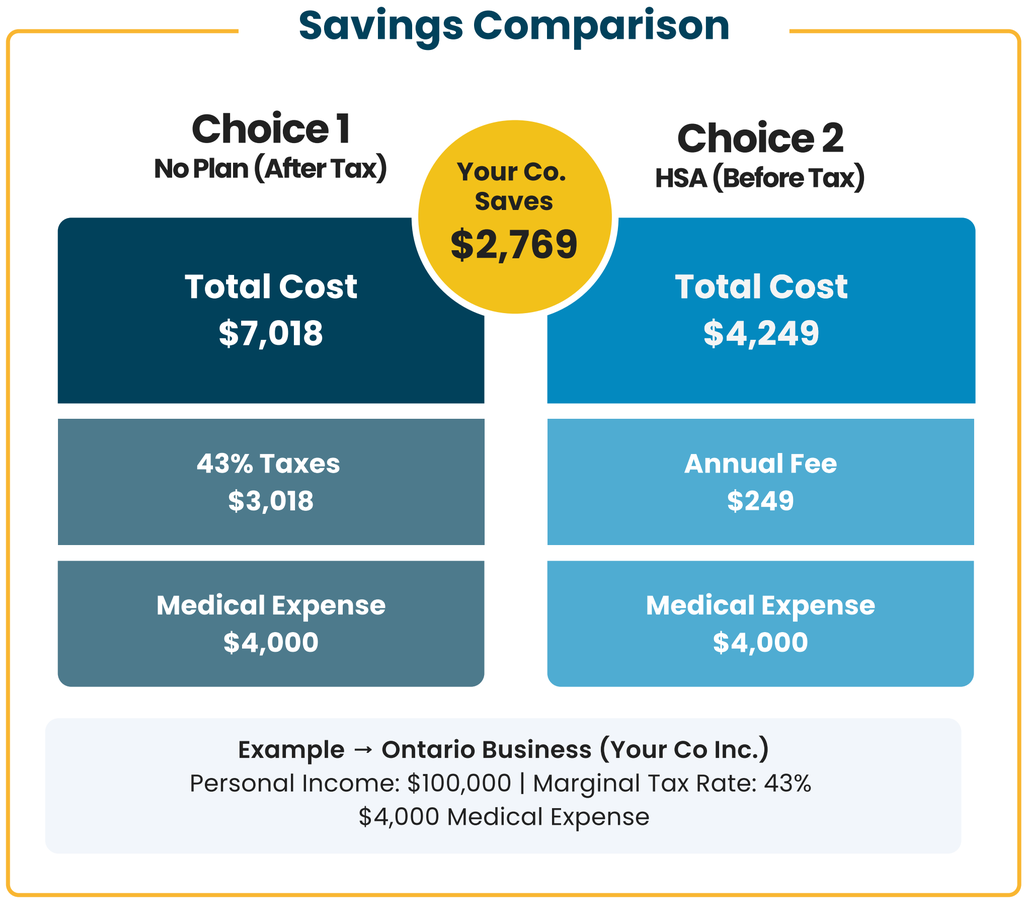
Complete list of Eligible Expenses

EXAMPLE INCORPORATED COMPANY

Let's use an example of an incorporated business owner in Ontario.

> "She pays herself a salary of $100,000 and has a marginal tax rate of 43%. In the upcoming year, she expects to spend $4,000 on her family's medical and dental costs. She has no plan of insurance in place. 100% of the cost is going to be paid out of pocket."

In the diagram, we see a savings comparison between paying for the the costs out of pocket versus using a Health Spending Account.



Choice 1
Out of pocket (After Tax Expense)

With no plan of insurance (remember it's not so easy to find a dental plan for a one person company), the cost is paid for out of pocket with after tax dollars. For her marginal tax rate, the company will have to pay out $7,018, with 43% of that amount being reserved to pay her income tax ($3,018).

In other words, each dollar she spends on her dental costs require the company to pay her $1.78. 78 cents (43%) of this pay goes to Canada Revenue Agency in the form of provincial and federal taxes. The true cost for a $1 of dental work is therefore $1.78 when you factor in the additional cost of taxes.

Choice 2
Health Spending Account: Before Tax

By using a Health Spending Account, she is able to write off 100% of her dental costs through her corporation. The after tax expense from choice 1 now becomes a before tax expense. Instead of paying an additional 43% on every dollar she spends on dental, a flat rate annual fee is paid to the provider of her Health Spending Account.

In our example, her company will save approximately 40% on every dollar she spends. The higher the tax bracket (the top tax bracket in Ontario for 2013 was $49.53%), the more she saves. For top earners in Ontario, this means you can cut your dental costs in half. In every tax bracket, you will save money by paying for your dental costs through your company, as a before tax expense, with a Health Spending Account.

Medical Expense Tax Credit:
You may also wish to compare an HSA to the METC. Click on the button to view the comparison.

HSA & METC

Pricing

The Olympia HSA Basic is a better way for an incorporated business to save on health and dental costs.

The Basic Health Spending Account costs **$249/year** and has no administration or setup fees.

Additional taxes apply if you are a resident of Ontario.

Taxes

Ontario has a unique tax treatment for the HSA compared to the other eligible provinces (AB, BC, SASK, MB, ON, and NS).

HSA Taxation By Province

Features

- $15,000 claim limit per employee (maximum 2: owner + spouse)
- The claim limit is shared between the family (for example, 2 employees means $30,000 limit shared between everyone in the family)
- Dependents are eligible (under 21 or full-time student up to 25)
- Online claims platform that is secure and fast
- 10 day guaranteed reimbursement on an approved claim
- Customer service – live chat, phone, or email
- Unused dollars in the claim limit can be rolled over 1 year
- 100% of expenses are reimbursed
- Eligible expenses determined by CRA
- Plan is effective the day of sign up

CONCLUSION

We have covered an explanation of the Olympia HSA Basic – a no administration, no setup fee Health Spending Account for a small business with up to 2 employees. We defined a Health Spending Account, including the qualification criteria. Next, we looked at the Olympia claim process and eligibility of expenses. To finish off, we showed you two concrete examples of how the Olympia product can save your client money.

We hope this guide has proved to be a reliable resource for you and ultimately a tool to facilitate discussions with your clients.



APPENDIX

With respect to the shareholder-manager of a corporation, there is a general presumption that a benefit with respect to a private health services plan would be conferred on the individual in his or her capacity as a shareholder and included in income pursuant to subsection 15(1) (see Technical Interpretation No. 9505265). Revenue Canada appears to have reversed this position.

In a recent interpretation, Revenue Canada indicated that:

"when equivalent coverage under a private health services plan is extended to all employees, including the employees who are shareholders, the benefit provided to the employee-shareholders from such coverage is normally considered to be an employment benefit rather than a shareholder benefit".

Where all employees of the corporation are shareholders, Revenue Canada states:

"Similarly, when all employees of a corporation are shareholders and it is reasonable to conclude, based on the particular facts of the situation that the private health services plan coverage has been provided as part of a reasonable remuneration package, the benefit from such coverage is also considered to be an employment benefit rather than a shareholder benefit. In such a case, the benefit is not included in the employee-shareholders"
income by reason of the exclusion in subparagraph 6(1)(a)(i) of the Act, and the corporate employer is entitled to a deduction in respect of the contributions made for such coverage, subject to any limitations imposed under the Act".

Technical Interpretation, Business and Publications Division, July 27, 1998, Document No. 9815645

Private Health Services Plans Must Provide for a Degree of Risk

It is Revenue Canada's belief that a health insurance plan must involve a reasonable degree of risk in order to meet the definition of "private health services plan" in subsection 248(1). Plans that provide an indefinite carry forward of unclaimed medical expenses would not involve a reasonable degree of risk. However, a plan would have a reasonable degree of risk if it provided that any unused balances be forfeited.

Technical Interpretation, Business and General Division June 2, 1992, Revenue Canada File Number 9210485

Rollover of Unused Credits in a PHSP
Is it permissible for unused credits in a health care plan established under a cafeteria plan to be rolled over to future years?

Department's Position

Yes. However, for the health care plan to qualify as a PHSP, the plan must involve a reasonable element of risk that is assumed by the employer. Plans that permit the choice of a rollover or a cash-out of unused credits will not qualify as PHSPs. A plan that permits the rollover of unused expenses as well as credits also is not likely to qualify. Plans that permit the rollover of unused credits to be applied to other plans under a cafeteria plan are not considered PHSPs.

On the assumption that your current plan qualifies as a Private Health Services Plan, expenses and co-insurance amounts eligible for reimbursement under the health spending account option will be limited to amounts which would otherwise qualify as medical expenses of the individual within the meaning of subsection 118.2 of the Act. Eligible amounts may be claimed in the plan year in which they are incurred or within 12 months of the end of the plan year. The individual subscriber forfeits any credit remaining at the end of a plan year.

Technical Interpretation, Business and General Division, Revenue Canada File Number 9428595

PLAN OF INSURANCE

BULLETIN IT-339R2
(Meaning of private health services plan) paragraph 6 – a PHSP must be in the nature of insurance in order to properly qualify. The following comparison shows how the Olympia Health Spending Account qualifies.

Olympia Health Spending Account

- **a** One entity indemnifies another
- **b** For an agreed consideration
- **c** From a loss or liability in respect of an event the happening of which is uncertain (ie: risk)

Olympia Health Spending Account

- **a** Employer indemnifies employee.
- **b** Benefit level is established. $15,000/ year per employee for a corporation.
- **c** Employer accepts a reasonable degree of risk by establishing a set benefit level for employee and does not know if employee will claim the amount available. Likewise, the employee is uncertain if the allowable level offered will be used. The employee will forfeit any unused credits after the prescribed period of time.

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