

Health Spending Accounts

What is a Health Spending Account?

A Health Spending Account (HSA) is like a bank savings account earmarked for the sole purpose of health care spending and is an excellent solution for incorporated professionals. HSA's are fully recognized by CRA (Canada Revenue Agency) and **allow the individual to pay for their family's annual healthcare costs in pre-tax dollars**. CRA recognizes these "contributions" to the fund as a 100% business deduction! It converts your personal medical costs into business deductions which saves significant money in taxes.

If you are an incorporated professional paying for your family health care expenses out of pocket, a Health Spending Account is definitely worth a look.

Each year you determine the amount of money you wish to fund your HSA based on the estimated annual health and dental expenditures for you and your family. Contribution and carry forward limits are different depending if you are incorporated or not.

Incorporated Professionals

- There is no limit on the amount you can contribute as long as the amount is reasonable. Any excess funds not used in the year they are contributed roll over indefinitely.
- Consequently, it is possible to accumulate funds for use later in life when there might be bigger health expenses.

Non-Incorporated Professionals

- The annual contribution limit to the plan is capped at \$1500 per adult (18 years of age and older) and \$750 per

child. Excess funds that are not used within 24 months of contribution are forfeited. The amount of contribution allowable is pro-rated based on the tax year.

With every deposit, you are charged an administration fee to cover the cost of adjudicating claims, plus taxes. However, HSA deposits allows the professional corporation to deduct the expenses as a business expense instead of paying with after-tax dollars and claiming the expenses at a low rate as a personal medical expense on your tax return.

Here is a practical example of how an HSA can be used:

Mary is an incorporated professional and is about to pay \$5000 for laser eye surgery.

Prior to having an HSA, Mary needs to earn \$9000 so that after income taxes and source deductions, she is left with \$5000 for her surgery.

\$9000 - earnings
- \$4000 - source deductions (EI, CPP, Income Tax)
\$ 5000 - net income to pay for surgery

Mary instead opened an HSA and had her professional corporation deposit \$5600. After applicable fees and taxes, Mary is once again left with \$5000 for her surgery.

\$5600 - Deposit into HSA
- \$ 600 - Administration fee + applicable taxes
\$ 5000 - for surgery

By opening a Health Savings Account, Mary saved \$3400.

[Contact Paul for an information brochure with more details](#)

Paul offers Health Spending Accounts through [Benecaid Health Benefits Solutions Inc.](#)