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A Business Owner's Guide to
Health Spending Accounts

Ray Bukovy CFP CPCA
Certified Financial Planner | Retirement Income Planning Specialist
Ste 400-905 Tungsten Street Thunder Bay ON (807) 684-1820
info@bfinancial.com www.bfinancial.com

About Us

Bukovy Financial Services is a financial services company that focuses our expertise on aiding business owners to understand and implement little known benefits and tax strategies within the Income Tax Act. We work with our client's trusted and established team of professional advisors in three main areas:

1. Increasing their cash flow
2. Decreasing their Tax Liabilities
3. Increasing their Retirement Benefits

This diversified approach creates a unique cross function focus on both the personal/family and business situations of the business owner to maximize results and benefits.

The Bottom Line

At Bukovy Financial Services, we clearly understand our clients' needs. We strive to provide the guidance and clarity we would look for as a client, and we are committed to giving service beyond expectations.

Bukovy Financial Services adds excellent value. With over 30 years of providing first-class solutions and great service to business owners in the Thunder Bay area.

“Business Owner Helping Business Owners”



A Business Owner's Guide to Health Spending Accounts

Introduction

Building a successful business is hard work. Finding an affordable, quality health insurance plan does not have to be. Whether you're self-employed and working out of your garage, or the owner of a small business with multiple employees, you face special challenges when it comes to finding and getting health coverage.

Over the thirty years of being a business owner myself, I've found that while the needs of every business owner are unique, there are a number of issues and needs that are common. These issues typically include:

Small business owners need:	Business	Personal
<u>Protect the business</u> - ensuring the business is in a position to continue is critically important should the unexpected happen to the owner or a key employee	✓	
<u>Explore tax-effective strategies</u> - taxes are one of the top concerns or "pain points" of small business owners	✓	✓
<u>Manage costs effectively</u> - making cost-effective decisions can help free up funds to support growth or other objectives	✓	✓
<u>Reduce employee turnover</u> - employee benefits can help business owners retain good people	✓	
<u>Protect assets from creditors</u> - creditor protection strategies to protect their personal assets against creditor claims		✓
<u>Design a succession plan</u> - it's never too soon to develop strategies for transferring ownership of the business when the time comes	✓	✓

Introducing – “*The Health Spending Account*” Canada Revenue Agencies “Best Kept Tax Secret”

Small business owners across Canada are looking for health insurance alternatives. Small businesses need choices that will allow them to offer the most affordable health coverage, without incurring personal income taxes.

As the owner of a small business, you can provide health care benefits that could make a big difference to you and your employees - without breaking your budget. A viable alternative that has been adopted by Canada’s small business community is the ***Health Spending Account***.

The purpose of this guide is to provide a fundamental understanding of the ***Health Spending Account*** and how it can be used to create value for the small business owner.



Contents

1. What is a Health Spending Account?
2. Why use it?
3. Who qualifies?
4. What kind of expenses can be claimed?
5. How does a claim work?
6. How does the product save money?
7. Conclusion

What is a Health Spending Account?

A Health Spending Account (HSA) is a platform for small business owners to cost effectively pay for their personal medical expenses. Instead of paying for medical expenses personally, as an after-tax expense, small business owners can pay for medical expenses through their business, as a before tax expense.

A Healthcare Spending Account is a pre-determined amount of money provided to employees at the beginning of each benefit year for coverage of their medical and dental expenses.

Why use a Health Spending Account?

A small business owner has 3 options to pay for medical expenses:

The first option is to use a traditional health insurance plan. Many small business owners discover insurance plans are expensive, restrictive, and complicated.

The second option is to pay for medical expenses without insurance. By opting to self-insure, the business owner is on the right path but soon discovers the tax consequences of paying for a medical expense personally (with after tax dollars).

The third option is the **Health Spending Account**. The small business owner effectively uses the HSA as a tax vehicle and converts personal medical expenses into a legitimate business expense. In the process, the business saves thousands of dollars in taxes. With no premiums, restrictions, and considerable savings, the HSA has become the go to alternative for small business owners to pay for personal medical expenses.

Healthcare Spending Accounts are practical, affordable, flexible, and a cost-effective way to meet the changing needs of many Canadian employers and diverse needs of many employees. A Healthcare Spending Account can replace or exist alongside conventional medical and dental coverage.



Who Qualifies

A small business owner is a perfect candidate for a Health Spending Account if **YES** can be answered to the following questions:

- ✓ **I operate a business**
- ✓ **I have medical expenses**
- ✓ **I pay income tax**

What kind of expenses can I claim?

There is a wide and deep range of eligible expenses for a Health Spending Account. Here is a highlight of these examples:

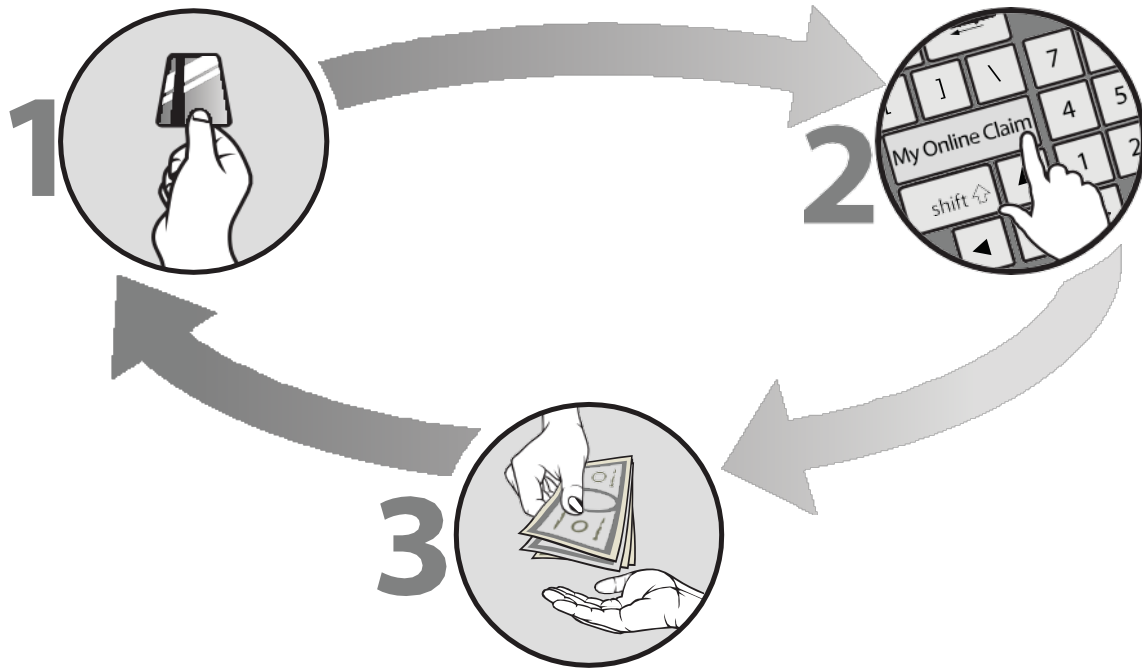
- All prescription drugs
- All dental – includes orthodontics
- All optical – includes laser eye surgery
- Paramedical – includes chiropractor, massage, physiotherapy, orthotics
- Premiums - health and dental premiums paid through spousal plan
- Other expenses – MRI, tuition for special needs

Health Spending Accounts also provide savings to business owners where one spouse has a traditional insured plan. The good news is spousal plan contributions can be submitted through the Health Spending Account. Co-payments for excluded items and deductibles are also eligible expenses with a Health Spending Account.

Eligible dependents are considered members of your Health Spending Account. An eligible dependent is defined as a spouse or any member of the household with whom you are connected by blood relationship, marriage or adoption, and who is financially dependent upon you at some point in the year. In addition, this dependent must be a Canadian resident, having resided in Canada for a minimum of 6 months out of the year.

How does a claim work?

Here is an example of the step by step process of making an online claim with a HSA. We will use a \$1,000 dental expense in this example:



1. The business owner pays the dentist with a personal credit card. The claim is then submitted online to the HSA administrator. This involves entering details from the expense: name of the patient, the type of service, service date and the amount (-\$1,000).
2. After submitting the claim, the business remits an online payment to the HSA provider for the amount of the expense. This creates a trail of receipts for record keeping (-\$1,000).
3. The HSA administrator will reimburse the business owner personally for the initial out of pocket expense (+\$1,000).

The reimbursement the business owner receives is 100% tax free.

The \$1000 payment from the business is 100% tax deductible.

At the end of the fiscal year, all reimbursements from the HSA provider are **excluded** from the business owner's taxable income. All of the payments to the HSA provider **are deducted by the business.**

How does a Health Spending Account save my business money?

As the owner of a corporation, there are two options for paying medical expenses:



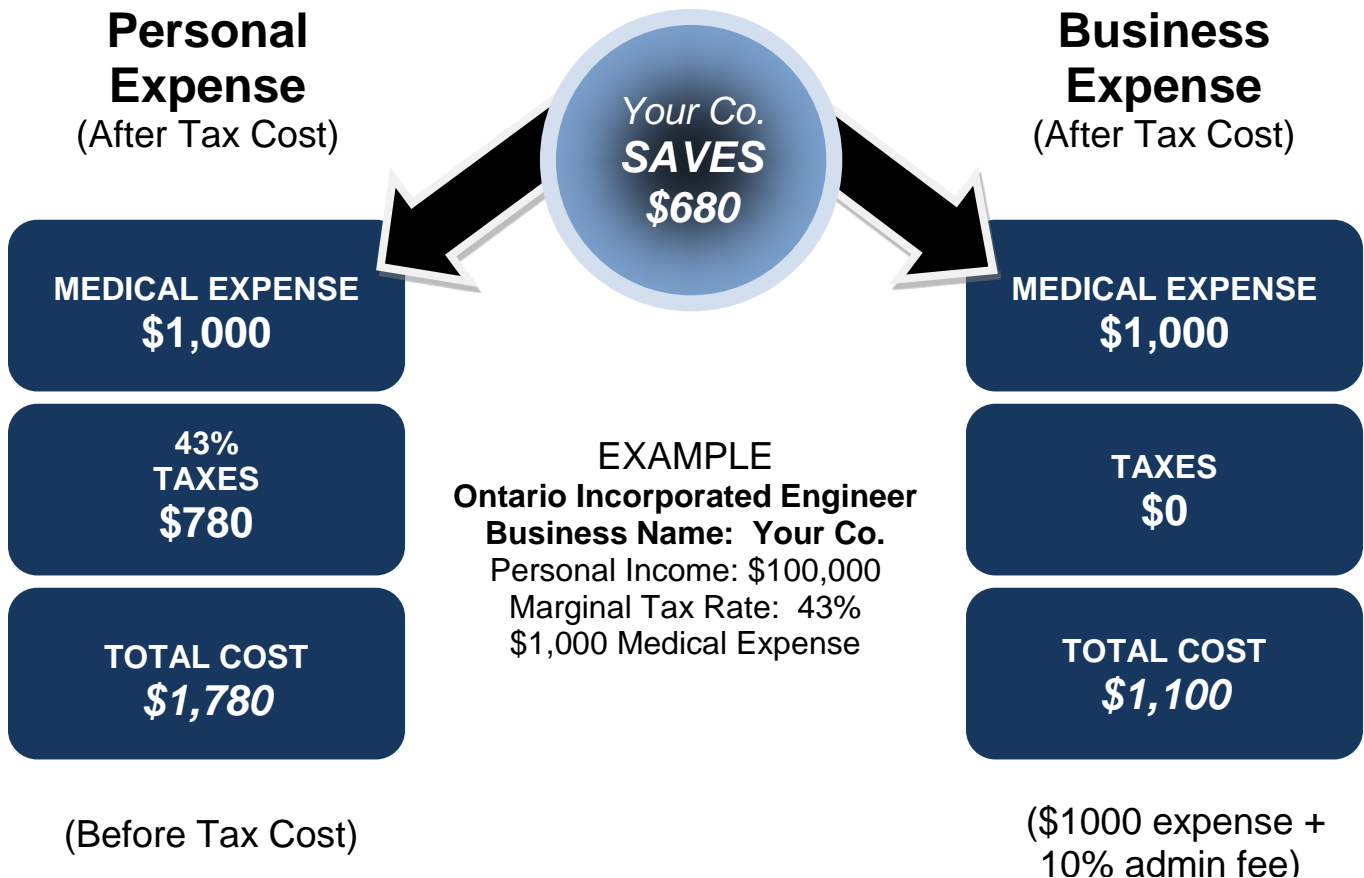
You have no insurance plan and pay for your medical expenses out of pocket.



You pay for your medical expenses through your corporation with a Health Spending Account.

Let's compare how much money a business will save when the \$1,000 medical expense is paid for personally versus through the business:

SAVINGS COMPARISON



Explanation

Personal Expense

Paying for a medical expense personally means the business owner will be using after tax dollars. An after-tax dollar is the amount remaining after personal income tax is paid.

In this example, the business owner would need to gross \$1,780. \$780 or 43% would be the amount of tax paid. \$1,000 remains after tax to pay for the medical expense.

Explained differently, each \$1 a business owner spends on personal medical expenses requires the business to pay approximately \$1.78 before tax. 43% (or 78 cents) is paid in tax to Canada Revenue Agency in the form of provincial and federal taxes.

Business Expense

Paying for a medical expense through the business means the business owner will use before tax dollars. Effectively, the business owner is able to withdraw money from the business without paying tax. Value is created by keeping the additional 43% tax inside the business.



Bukovy Financial Services “All-in-one” Benefits Program



HEALTH SPENDING ACCOUNTS

Optimize your Health Benefits
and make claims online



TRAVEL MEDICAL INSURANCE

Protect yourself and your family
on your next vacation



EMERGENCY MEDICAL INSURANCE

Prepare for life’s unexpected
emergencies



Hopefully this guide has given some orientation in the world of Health Spending Accounts. Here's a quick review of what we covered:

1. A Health Spending Account is a product a small business owner may use as an alternative (or supplement) to a traditional insurance plan.
2. A business owner is a great candidate for a Health Spending Account if you own a business, have medical bills, and pay income tax.
3. There is a comprehensive range of eligible expenses to protect the business owner and their family.
4. Health Spending Account claims are made online with payments from the business being reimbursed to the business owner. The payment from the business is considered a 100% tax deduction. The reimbursement to the business owner is 100% tax free.
5. A Health Spending Account saves the business owner and the business money by paying for a personal medical expense with before tax dollars.

Next Steps: Contact Me Now.

Let's get together for 15 minutes and I will show you how easy it is to enroll and answer any further questions you may have. Email me, call me, or visit our website.



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Bukovy Financial Services

1-807- 684 - 1820

Email: info@bfinancial.com

Website: <http://www.bfinancial.com>



Bukovy Financial: Our Personalized Range of Services

Business Risk Planning

Today's business owners are faced with a complexity of issues and are generally too busy building their enterprise to take the time to deal with the risks that can devastate their efforts. Many issues, such as Buy-Sell Agreements, Holding Companies, Corporate Owned Life Insurance, Estate Freezes as well as many Tax and Estate issues are best dealt with by a professional who shares your business concerns and has the experience to eliminate the risks.

Tax Planning & Preparation

"Ouch!" Taxes are a very touchy subject with most business owners especially since the tax system is highly complex and can be very frustrating. This is an area that is best left up to the experts. Therefore, we use tax experts to assist us in making effective recommendations for our clients.

Insurance Planning & Risk Management

Insurance Planning ties into financial planning by uncovering and verifying your insurance needs without leaving you to unknown vulnerabilities or unnecessary coverage. The world of insurance planning has evolved to encompass a wide range of solutions including Life, Disability, Critical Illness and Long Term Care Insurance.

Strategic Alliances

We recognize the unique nature of a business owner's financial situation. Therefore, we use strategic alliances with specialists in related areas to ensure the most appropriate solutions are found. In addition, we have strong relationships with major financial institutions, accountants and lawyers to aid us in our search for the best possible solutions for our clients.

Retirement Income Planning & Investment Planning

Your Retirement: Panic or Peace of mind? Do you have a retirement plan? Are your investments structured to best manage market downturns? Our RIP (Retire in Peace) Planning Process enables you to answer these questions. Retirement Planning enables us to clarify what will be most important during your retirement and formulating a plan that best suits your needs. With your goals and objectives as the foundation of the plan, regular monitoring and in-depth annual reviews you can rest assured your future retirement will encompass everything that is important to you... while providing peace of mind today.

Estate Planning

Wills, Power of Attorney, Probate, Estate Taxes, Charitable Donations, Creditor Protection and Business Succession Planning are but a few factors involved in the area of estate planning. As complicated as it may be, estate planning is an intricate part of the financial planning process and can alleviate stress and confusion during difficult times.

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