Why an Accountant Isn't Always Enough

When it comes to your finances it is best to have a team of professionals, each with different knowledge and skill sets, giving you advice. Your team should not solely include an accountant, but also a lawyer, financial planner, portfolio manager, and more. Each of these professionals brings a different opinion to the table and occasionally one may bring a unique way to help that the others may not have thought of. Nothing exemplifies this more than a recent conversation I had with an accountant about one of their clients.

This accountant was excited to share how he was able to save his client $450 by using the Healthcare Tax Credit. (That is the tax credit you receive if you do not have a drug and dental benefits plan through your work). His client was a small business owner and despite his wife having benefits at work, they still spent $3,500 on co-pays and deductibles, that weren't covered under her plan. Since the couple was in a high tax bracket (47+%), they had to earn over $6,600 to pay the 47% income tax and net out the $3,500 to pay the expenses. Then they had to wait until they got their tax-return to get the $450 back. I mentioned to the accountant that there is a better way.

Traditional Health and Dental insurance plans have been a popular benefit for employers to offer to their employees. It is the only benefit in the Income Tax Act that is 100% tax-deductible to an employer AND tax-free to the employee. The old school insurance solution would be for the husband's company to purchase another Health and Dental Insurance Policy that would pay for the portion of the co-pays and deductibles that the wife's existing plan doesn't.
Unfortunately, this may not cover all the expenses and the cost to the company may exceed the benefits received.

This is where a Healthcare Spending Account (HSA) is a better option. An HSA is administered by a third party company and acts in the nature of insurance, but it is a way to self-insure your health costs and utilize the tax benefits in the Income Tax Act. Whenever this family had an expense that was not covered under the existing insurance plan, they could submit the bill to the HSA administrator who would verify the expense and debit the husband's business account. The amount of the expense would be deposited into their personal bank account without any tax consequences.

Had the accountant suggested that a Health Spending Account be set up, the client would have only had to earn $3 850 ($3 500 plus a fee of 10%), in his company in order to pay the co-pays and deductibles. (The only tax that needed to be paid by either him or his corporation is the GST on the HSA administration fee). This would have saved $2,750 compared to the $450 savings with the Healthcare Tax Credit.

Are you interested in having a financial team? Are you interested in learning more about Health Spending Accounts or other ways to save? You can set up a complimentary, 30-minute phone consultation at calendly.com/mjhfinancial OR email me at michael@mjhfinancial.ca.

After all, what do you have to lose... besides your hard-earned money to the taxman?