

Health trusts can help keep the bottom line fit: The self-employed can claim 100% of medical expenses on tax returns

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Illustration: Black & White Photo: Brent Foster, National Post / Libby Znaimer lost her hair during chemotherapy treatment for breast cancer, but not all her money.

If you have been following my series, "The Lump," in Weekend Post, you will know that I have breast cancer. You should also know that I am coping with thousands of dollars in unexpected health-care costs with a little-known, under-used benefit for the self-employed.

It's called a health and welfare trust, and it's a great way to augment your health plan or to pay for costs your plan doesn't cover at all. If you own a corporation, you can use it for yourself and your family, or give it to key personnel.

"A health trust will help you get the biggest bang for your medical dollar, whether you're having lots of dental work, cosmetic surgery or taking expensive cancer drugs," says Colin Fisher, a financial advisor with Berkshire Securities in Toronto.

I first heard about these trusts when I incorporated my company two years ago. My new accountant, Brian Bowes, explained that a health trust could help with the costs of services, such as chiropractic or massage services, or even for perks like facials performed in a doctor's office. At the time, I remember thinking it sounded too good to be true. I wondered why I hadn't heard of it before.

But there was no rush then. I had health insurance from a former employer and, when that ran out, I would be covered by my husband's group plan.

Then I was diagnosed with breast cancer. The \$5,000-limit for drug benefits on my husband's plan wouldn't be enough. The government covers the chemotherapy drugs you receive in the hospital, but after that, you are on the hook for all the drugs that will help you recover from these toxic cocktails.

All patients need anti-nausea pills, which can cost \$20 a pop. Some, like me, can fill a medicine cabinet with other stuff like antibiotics, cold-sore treatments and ointments necessary to deal with the side effects of chemo.

But I still didn't follow up on my accountant's suggestion to set up a health trust until I heard about the injection.

It's called Neulasta, and it's relatively new. My doctor

prescribed it when my blood count dropped after my first round of chemotherapy. Normally, that would mean I'd have to postpone treatment. But this shot, injected the day after each chemo session, boosts my blood cells and allows me to continue on schedule. The cost is staggering -- more than \$2,600 for a single needle. I will need a total of three.

I knew the second injection would exceed the limits on my plan, so I scrambled to get the paperwork done for my trust. All the expenses paid out of my health trust will be completely tax deductible for my corporation. Otherwise, my only option would be to claim those expenses on my personal taxes, and that's not exactly a big break: Medical expenses only become deductible once they reach 3% of your income, or \$1,844, and then the tax credit is only 21%.

Mr. Fisher sets up health trust accounts through a company called Benecaid, a service provider for group benefits and health and welfare trusts. He says their fees are relatively low -- 10% plus tax on all the money in your health trust.

There are other ways of doing this. Some people opt to establish their own trust structures. That's much more costly. A lawyer has to set it up, an accountant has to do the tax return and trustees have to administer it at arm's length. According to Mr. Fisher, none of that is necessary when going through Benecaid or other companies, mostly insurance firms, that offer this service.

Mr. Fisher advised me to calculate my medical expenses on a rolling 12-month basis, and add a cushion. Then of course, I would need to indicate an amount that would be deposited into the trust every month. That money won't earn interest, but I will be able to claim 100% of my expenses as I incur them -- and I'll be paying them with pre-tax dollars.

It's a huge savings.

"It's a highly effective tax-planning tool," says Mr. Fisher. "I had one client who saved \$35,000 in taxes on medical procedures."

The caveat is, you have to be incorporated. However, the health trust can pay for any treatment or drug

that's offered by a licensed medical practitioner -- including expenses most employer plans won't cover, such as dental whitening, acupuncture, botox and implants.

So, why aren't more people aware of this? "It's not exactly a secret," says Mr. Fisher, "though a lot of people don't know it exists."