

THE HELPING HAND · HEALTH SPENDING ACCOUNTS

Why HSAs win

How a Health Spending Account turns everyday health costs into tax-free benefits, and what it really costs the business.

HOW IT WORKS

An employer-funded account, not an insurance pool

1

Employer sets the amount

A fixed annual amount per employee class, chosen before the year starts.

2

Employee pays the provider

Dentist, optometrist, physio, pharmacy: any eligible service.

3

Submits the receipt

Online or by app, through a third-party administrator.

4

Reimbursed 100%, tax-free

The business is billed only for the claim, plus fees and taxes.

Eligible expenses follow CRA's Medical Expense Tax Credit list, which is far broader than most insured plans.

WHY PLAN MEMBERS COME OUT AHEAD

The business gets the deduction. The employee gets tax-free money.

A \$1,500 raise

Income tax at ~30%	-\$450
Left to spend	\$1,050
Dental and vision bill	-\$1,500
Employee is short	-\$450

\$1,500 through an HSA

Tax on the benefit	\$0
Bill reimbursed	\$1,500
CPP and EI on it	\$0
Employee is short	\$0

"CAN'T I JUST CLAIM IT ON MY TAXES?"

The medical tax credit rarely closes the gap

A large, bold, maroon-colored text element consisting of a dollar sign followed by the number zero, representing zero dollars.

credit on a \$1,500 bill at a
\$60,000 income

Only expenses above the lower of **3% of net income** or a fixed threshold (about \$2,800–\$2,900) count. At \$60,000, 3% is \$1,800, so a \$1,500 bill earns nothing.

Even above the threshold, the credit returns only about **20¢ per dollar** in Ontario. An HSA covers the **full dollar**.

THE COST TO THE BUSINESS

What \$4,000 of claims really costs in Ontario

Item	10% admin fee	5% admin fee
Claims reimbursed	\$4,000	\$4,000
Admin fee	\$400	\$200
HST on admin fee (13%)	\$52	\$26
Premium tax (2% of claims + fee)	\$88	\$84
Sales tax (8% of claims)	\$320	\$320
Total cost to the business	\$4,860	\$4,630
After the corporate tax deduction (~12.2%)	~\$4,267	~\$4,065

THE ONE-LINE RULE

When does an HSA beat paying yourself?

~18%

break-even marginal tax rate

An HSA adds about **21¢ per \$1** of claims (10% fee), or about 16¢ (5% fee).

Paying personally means first paying income tax of **20–43%** on the money used.

Ontario's lowest combined bracket is about 20%, so the HSA comes out ahead for almost everyone.

WORKED SCENARIO

A three-person Ontario firm

An owner and two staff, with about \$4,000 a year in dental, vision and other health costs.

Person	Health spend	Salary needed to cover it	HSA cost (10% fee)
Owner (~43% tax rate)	\$1,000	~\$1,767	\$1,215
Employee A (~30% tax rate)	\$1,500	~\$2,143	\$1,823
Employee B (~30% tax rate)	\$1,500	~\$2,143	\$1,823
Total	\$4,000	~\$6,053	\$4,860

THE RESULT

Same coverage. About \$1,200 less a year.

Roughly 20% cheaper than covering the same costs through salary, before CPP and EI, which make the gap wider.

CHOOSING THE STRUCTURE

Use each tool for the cost it fits

Routine costs fit an HSA. Rare, expensive risks fit insurance.

HSA only

Best for: the smallest, most price-sensitive teams.

Trade-off: no cover for a large drug or hospital bill.

RECOMMENDED

Lean hybrid

Insured core: drugs, hospital, travel emergency and life.

HSA: dental, vision and paramedical.

Full insured plan

Best for: teams that want everything pooled.

Trade-off: paying insurance load on predictable costs.

Four decisions shape the plan

Classes and amounts

An annual amount per employee class. Equal amounts for everyone are the simplest and safest.

Carry-forward

No carry-over, carry over unused funds, or carry over unpaid claims, for one year.

Pay-as-you-go

Cost-plus plans bill only for claims actually made. Unused allocation costs nothing.

Eligible expenses

CRA's Medical Expense Tax Credit list: dental, vision, drugs, paramedical and more.

STAYING COMPLIANT

Five rules that keep an HSA tax-free

- ✓ Amounts are set before the plan year starts and can't be cashed out.
- ✓ Shareholders are covered as employees, with amounts in line with an arm's-length employee in a similar role.
- ⚠ A plan for a sole shareholder who is the only employee may not qualify. Confirm with an accountant.
- ✓ Unincorporated owners need a third-party plan, and their deduction is capped under the Income Tax Act.
- ✓ In Quebec, reimbursements are taxable provincially, though still tax-free federally.

NEXT STEP

Let's model your numbers

Bring your team size and rough annual health spend. We'll compare HSA-only, lean hybrid and full plan options with after-tax costs.

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Figures are illustrative. HLVC is not a tax advisor; confirm tax treatment with your accountant.