



When a Shareholder participates in an HSA – the general assumption is that it is a shareholder benefit unless the facts prove otherwise.*

The limit must be reasonable

The PHSP industry leaders have determined that an annual limit should be within 10-15% of the income of a fairly compensated employee in the same role. The CRA in the case of a single owner-employee would likely claim that the HSA given is a shareholders benefit (offside), so upon setting-up the limits—especially for a single owner/operator—you should consider as to why it is a fair compensation plan for the person receiving, regardless of ownership.

The shareholder must have T4 income

If they are only taking dividend income then a letter must be provided from the client's accountant indicating the Shareholder is also an employee of the company, even though there is no T4 income. The letter should also specify that the annual limit is reasonable to what a fairly compensated employee would be.

Shareholder benefit or employee benefit quiz

1. When all participating employees are shareholders or persons related to a shareholder, is the benefit coverage comparable (in nature, amount, and cost-sharing ratio) to coverage given to non-shareholder employees of similar-sized businesses, who perform similar services and have similar responsibilities?

Yes No

2. Is participation in the plan open to all employees, including those who are neither shareholders nor related to a shareholder? If not, is there a logical reason to exclude some employees?

Yes No – If no, is there a logical reason to exclude some employees?

3. Is the benefit coverage for shareholders or persons related to a shareholder, comparable (in nature, amount, and cost-sharing ratio) to coverage given to other participating non-shareholder employees of the business, who perform similar services and have similar responsibilities?

Yes No

If you have answered **Yes** to all of the above, you are on the right track to providing an Employee Benefit.
If you have answered **No** to any of the questions above, you may be setting up a Shareholder benefit.

*This is our interpretation of the CRA's guidelines – it is in the best interest of the client to always seek the advice of a tax expert