



# Getting Started



## Quick Reference for Financial Advisors (continued)

### Are shareholders eligible?

It is important to distinguish between benefits received as a shareholder and benefits received as an employee. Canada Revenue Agency has stated that where a particular benefit is made available only to shareholders, there is a presumption that the benefit is made in his/her capacity as a shareholder.

In order to argue that the benefit is received as an employee, it may need to be demonstrated that Cost Plus is available to all employees, or a class of employees, for example, senior executives. If the only person entitled to use Cost Plus is a shareholder who is also the company President, you could argue that it is reasonable to provide a certain amount of Cost Plus benefits based on an overall remuneration package that you would need to offer an unrelated person to perform the same job.

With income tax legislation, a corporation is considered a separate person. Accordingly, the test noted above (“an undertaking by person to indemnify another person”) can be met even in a one-person business. The dollar limits mentioned above in respect of unincorporated businesses do not apply in the case of a corporation.

In all cases, there are general rules in Income Tax that require an expense be reasonable and be paid in the course of earning income from a business. This test may become more onerous in cases of Cost Plus claims by a corporation whose only employee is also a shareholder, or in cases where Cost Plus is made available only to a class of senior executives.

### What are the employer’s responsibilities?

There are several things an employer can do to ensure their Cost Plus program flows smoothly and minimizes taxation risk.

- Though we can review the Cost Plus claim for reasonableness, we are not making an assertion that the medical expense is allowable under the Income Tax Act. Employers must ensure any items submitted under a Cost Plus claim are eligible expenses under the Act.

- Document the availability of Cost Plus to employees, including dollar limits if applicable.
- Since we don’t necessarily know the legal structure of each business, employers must ensure any Cost Plus claims submitted are for eligible individuals and within any dollar limits imposed by Canada Revenue Agency

### Are there any risks?

Though Cost Plus has been used for many years and is widely recognized by insurers, brokers, tax professionals and Canada Revenue Agency, as with any transaction involving a tax deduction or benefit, there are risks. In general, the risk factors associated with a Cost Plus claim include:

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