

Cost Plus: Tax Preferred Medical Reimbursement

What is Cost Plus?

Cost-Plus is a tax-effective means of allowing the company to reimburse uninsured medical and dental expenses for employees and owners. In order to use Cost Plus, an employee benefits program must be in place.

What can be reimbursed using Cost Plus?

Any expense that is not covered by the benefits program, but that is considered under CRA guidelines to be an eligible medical expense, may be claimed on a Cost Plus basis. This includes expenses that are covered under the insured plan, but where a maximum reimbursement level has been reached.

Cost Plus is commonly used for orthodontic or major dental work, medical devices, elective surgeries or alternative medical treatment. The company may decide to cover expensive medical treatments to help an employee facing a hardship situation.

How does it work?

The steps are as follows:

- 1.) The employee pays the medical expense out-of-pocket; the receipt is submitted to the employer.
- 2.) The employer writes a company cheque to the insurer for the amount of the expense, adding an administration fee (around 10%, to a dollar maximum). The cheque is submitted to the insurer along with a Cost-Plus claim form.
- 3.) The insurance company directly reimburses the employee for the expense.
- 4.) The expense is added by the insurer to the next monthly bill for the company's benefit plan.
- 5.) The expense, now billed to the company, is tax deductible as an employee benefit expense.

The administration fee of approximately 10% is partially remitted to the government as tax, and partially kept by the insurance company as a handling fee.

Who can use Cost-Plus?

Generally, the company must decide in advance which employees or class of employees are eligible to submit Cost-Plus claims; it is the employer's decision as to the total reimbursement that will be provided. In order to be eligible for Cost-Plus claims, the claimant must be a member of the benefits plan, and be insured under the government medical services plan.

Cost-Plus is a common strategy used by companies of all sizes, and every insurance carrier is set up to facilitate these types of claims.