



March 31, 2022

Miodrag Jovanovic, Assistant Deputy Minister  
Department of Finance  
140 O'Connor Street  
Ottawa, ON K1A 0G5#  
[miodrag.jovanovic@fin.gc.ca](mailto:miodrag.jovanovic@fin.gc.ca)

DELIVERED VIA EMAIL

Dear Mr. Jovanovic:

**Re: PHSP Limits under Section 20.01 and 144.1 of the Income Tax Act**

On behalf of the Conference for Advanced Life Underwriting (CALU), we are writing to request the Department of Finance (Finance Canada) consider an increase in the deduction permitted under section 20.01 of the Income Tax Act (the Act) for sole proprietors and partners in respect of premiums or contributions to a private health services plan (PHSP). We are further requesting that indexing be provided for the deduction limit under section 20.01 and an equivalent rule in the legislation relating to employee life and health trusts (ELHTs) when providing PHSP benefits to “key employees” under section 144.1 of the Act.

CALU is the only national professional organization dedicated to advanced planning issues related to life underwriting, tax planning and wealth management. CALU’s industry leading members include insurance and financial advisors as well as accounting, tax, legal and actuarial experts. Through a strategic partnership with Advocis, we advocate on behalf of more than 17,000 member-clients in support of fair and competitive public policies to grow and preserve the financial well-being of Canadian families and businesses.

**Background**

Section 20.01 permits an individual to deduct, in computing the individual’s income from a business carried on by the individual and in which the individual is actively engaged on a regular and continuous basis,<sup>1</sup> amounts

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<sup>1</sup> Either directly or as a member of a partnership.



payable under a PHSP<sup>2</sup> for the benefit of the individual, the individual's spouse and certain members of the individual's household.<sup>3</sup>

Assuming the various criteria provided in subsection 20.01(1) are satisfied, and there are no arm's length employees in the business,<sup>4</sup> the total amount of the deduction in respect of the costs of PHSP benefits is limited to \$1,500 for the business owner and adult family members, and \$750 for family members under the age of 18.<sup>5</sup> For example, if the sole proprietor is married and has two young children, and there are no arm's length employees in the business, the total annual deduction for amounts paid in respect of PHSP benefits would be limited to \$4,500.

Where premium payments exceed the limits specified in subsection 20.01(1), a medical expense tax credit can be claimed for the excess amount under paragraph 118.2(2)(q) of the Act.

### **Increasing the PHSP Limits under Section 20.01**

The limits established in subsection 20.01(2)(c) have not been updated since they first become effective in 1998. However, based on Canada's annual rates of annual inflation, it would take \$1.58 today to purchase the equivalent of \$1 in goods and services in 2018.<sup>6</sup> In other words, the equivalent amount of health benefits (based on \$1500 in 1998) would cost \$2,400 in 2021. This inflation adjusted amount is comparable to the \$2,500 limit for PHSP benefits that can be provided under an ELHT to each of a key employee, the employee's spouse or common law partner and each child who is living with the employee or dependent on the employee for support.<sup>7</sup> In addition, the ELHT limits do not differentiate between minor and adult family members who otherwise qualify as a beneficiary under an ELHT.<sup>8</sup>

Given there is a similar policy rationale for the PHSP limits relating to sole proprietors in section 20.01 and those applicable to key employees under an ELHT, we believe the limits under section 20.01 should be increased to equal \$2,500 for sole proprietors and other family members described in paragraph 20.01(2)(c). In other words, we recommend that both the \$1,500 limit for adult members and the \$750 limit for minors be increased to a \$2,500.

### **Indexing of Limits**

It can be expected that the costs associated with providing PHSP benefits (in particular dentistry/ optometry services and prescription drugs) will continue to increase in the future, possibly at a rate greater than the general rate of inflation. Maintaining the current approach of having a fixed limit for PHSP benefits will

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<sup>2</sup> As defined in section 248(1).

<sup>3</sup> This deduction was effective for fiscal periods commencing after 1997.

<sup>4</sup> There are different rules for determining the amount of the deduction where there are arm's length employees of the business (paragraph 20.01(2)(b)).

<sup>5</sup> Paragraph 20.01(2)(c).

<sup>6</sup> <https://www.bankofcanada.ca/rates/related/inflation-calculator/>

<sup>7</sup> Subparagraph 144.1(2)( e)(ii).

<sup>8</sup> Subparagraph 144.1(2)(d)(ii).



therefore result in a significant reduction in the inflation adjusted limit for PHSP benefits over time, putting sole proprietors and key employees<sup>9</sup> under an ELHT at a disadvantage in relation to other employers and their employees. We are therefore recommending that the deduction limit under paragraph 20.01(2)(c) and subparagraph 144.1(2)(e)(ii) be indexed on an annual basis in a manner similar to the annual TFSA contribution limits,<sup>10</sup> with the amount rounded to the nearest multiple of \$250 to reflect the lower PHSP limits.

Thank you for your consideration of our submission and we would be pleased to discuss it further with you.

Your truly,

A handwritten signature in blue ink, appearing to read "Guy Legault".

Guy Legault  
President & CEO

A handwritten signature in blue ink, appearing to read "Barry Pascal".

Barry Pascal  
Chair, Board of Directors

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<sup>9</sup> And family members.

<sup>10</sup> See paragraph (d) of the definition of TFSA dollar limit in subsection 207.01(1).