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(Small Business)**

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## **EMPLOYEE HEALTH CARE PLANS**

### **Introduction**

Employee benefits is a constantly changing landscape of what benefits to provide and how best to provide the targeted benefits. As such, traditional health benefit plans of insurance are restrictive by nature and tend to force employers into a pre-designed package that may or may not be right for each employee.

Olympia Trust is in the business of establishing and administering a Private Health Services Plan (PHSP) which represents a significant divergence from what is otherwise available in the marketplace. The Olympia Trust PHSP is a cost effective alternative to common premium-paying extended health plans.

### **Meaning of Private Health Services Plan (PHSP)**

Olympia Trusts' Employee Health Care Plan is a Private Health Services Plan (PHSP) as defined by Section 248 (1) of the Income Tax Act and by Interpretation Bulletin No. IT339R2. The Tax Act allows a PHSP to take a number of different forms. The Interpretation Bulletin describes arrangements for covering medical costs (all-inclusive) and hospital care and outlines the tax status of contributions made to such plans by an employer.

Provided the PHSP includes a contract of insurance as part of its definitions, EMPLOYER contributions to a PHSP on behalf of an EMPLOYEE are not part of an employee's income and are thus not taxed. Said contributions by the employer are considered business outlays or expenses.

Reduced to its simplest form, for explanation purposes, employer contributions to an employee, for eligible medical expenses, are 100% TAX FREE to the employees and 100% deductible by the employer.

### **No Premiums. No Restrictions.**

The Olympia Trust PHSP is not an insurance plan per se. Therefore, there are no premiums and there are no restrictions in coverage. The plan maximizes the opportunity to fully utilize all health and dental services and, at the same time, take advantage of Canadian Tax laws.

Businesses will purchase this plan to achieve a wider range of health and dental services more cost effectively and utilize this plan as a tax-planning vehicle.

## *Advantages for Small Business*

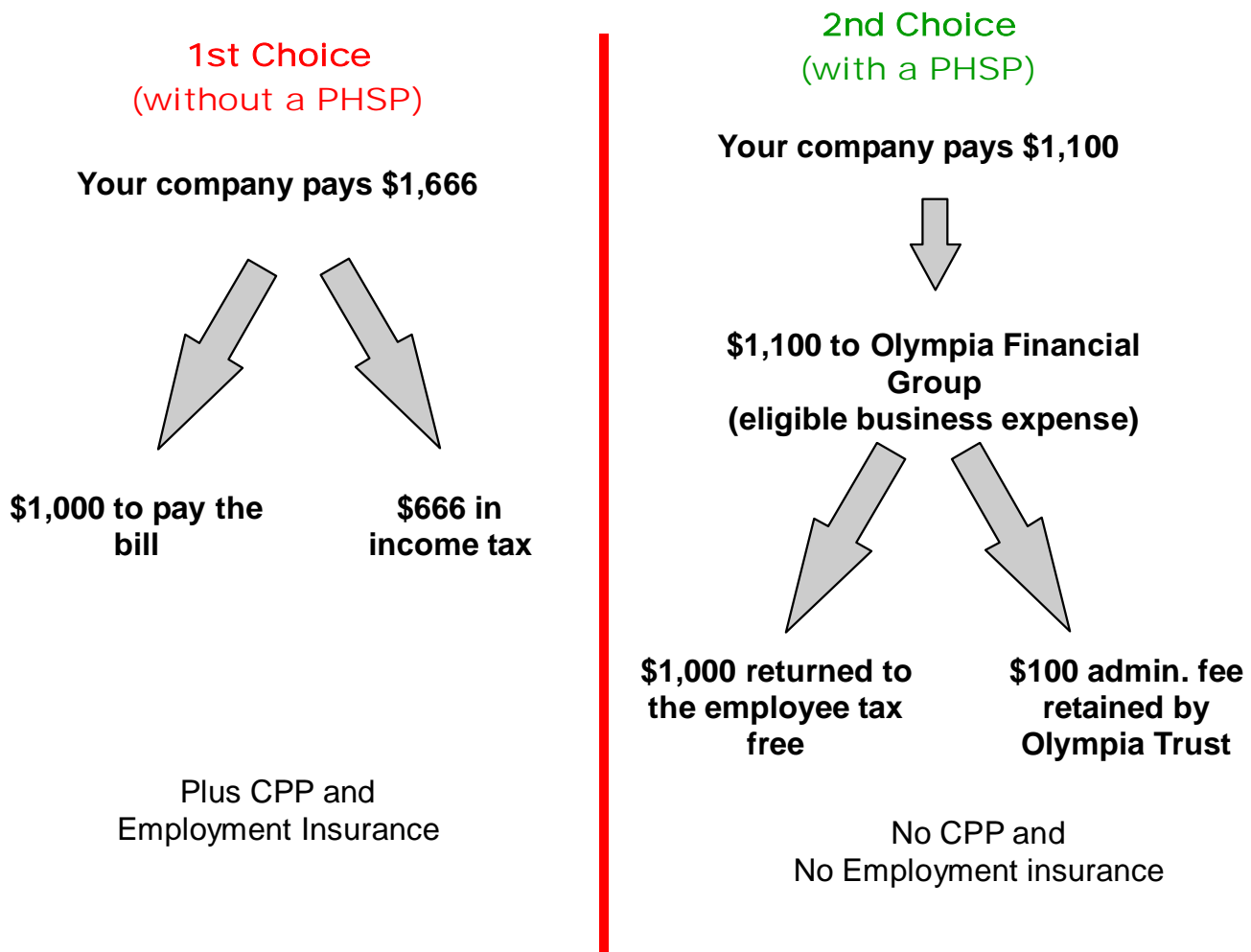
Typically, a small business (one to ten employees), especially an owner operated incorporated business, has difficulty attaining a cost-effective health benefit package. Traditional plans of insurance do not cater to small groups. By implementation of the Olympia Trust PHSP, the small business owner can offer complete coverage for its employees, cost effectively by setting up a health benefit account for each classification of employee.

Please refer to the example below.

### **Tax Savings Illustration – Corporation**

You have a \$1,000 health care or dental bill, and you are in a 40% marginal tax bracket.

It is now time to pay the bill. You have two choices on how to do that.



## Tax Savings Illustrations Self-Employed

The first illustration is based on \$40,000 of taxable income with 1,000 in medical expenses

The second is based on \$40,000 of taxable income with 3,000 in medical expense

### Illustration #1

#### Medical Expense Tax Credit

#### Private Health Services Plan

Income \$40,000  
Medical expenses 1,000  
Manitoba Marginal Tax Rate 35%  
CPP 10%

Non refundable tax credit through the medical expense tax credit

\$0 (Zero Dollars)

In this case your medical expenses are less than the exempt amount. The medical expense tax credit does nothing.

Income \$40,000  
Medical expenses 1,000  
Manitoba Marginal Tax Rate 35%  
CPP 10%

Your business expenses cost plus 10%  
\$1100

You are reimbursed \$1000 (non taxable)

Total cash cost \$100

Reduction in tax payable, 45% of \$1100 is \$495 less

Savings to you of \$395

The choice is clear zero savings vs. \$395 on \$1000 of medical expenses.

## Tax Savings Illustrations Self-Employed

### Illustration #2

#### Medical Expense Tax Credit

Income \$40,000  
Medical expenses 3,000  
Manitoba Marginal Tax Rate 35%  
CPP 10%

Non refundable tax credit through the medical expense tax credit 466.20.

In this illustration you have accumulated enough medical expenses to qualify for some tax relief from the medical expense tax credit.  
\$466.20

#### Private Health Services Plan

Income \$40,000  
Medical expenses 3,000  
Manitoba Marginal Tax Rate 35%  
CPP 10%

Your business expenses cost plus 10%  
\$3300

You are reimbursed \$3000 (non taxable)

Total cash cost \$300

Reduction in tax payable, 45% of \$3300 is \$1485

Savings \$1185

Again the choice is clear, \$466 vs. \$1185 on \$3000 of medical expenses.  
That's over double the savings

## ***Role of Olympia Trust***

Olympia Trust acts as an arms length administrator and trustee, providing among other things, that compliance with regulations set by Revenue Canada are met and followed. Some of these regulations are stringent.

Olympia Trust offers a simple product and understandable contract to the client. The client will also be requested to complete a detailed questionnaire, which will highlight any potential conflict that may prevent the client from establishing a Private Health Services Plan (PHSP) with Olympia Trust. The completed questionnaire will become the principal source document for establishing a computer account in Olympia's DataBase. The document will establish the employee and employer master files and profiles. The master files then become the basis of audit controls on each account on a real time basis for all transactions subsequently entered into the account.

To summarize, for small firms or owner-operated businesses, Olympia Trust is selling an extremely attractive, no-risk tax-planning vehicle. The owner is already spending the funds on health care, so he/she might as well get the tax break. Unlike traditional premium plans, you only have to pay for what you use. *There are no premiums!* So the amount you pay is entirely up to you. Olympia Trust administers the plan on a cost plus 10% basis. There are no age limits, no medical restrictions, no waiting periods. If you own an incorporated business, or a Professional Corporation, or are self-employed, you qualify. Should an owner of the Plan have no expense in a given year, the cost would be nil ( $10\% \times \$0 = \$0$ ).

## ***The Sign Up***

To become enrolled in the Olympia Trust PHSP, there is a ONE TIME tax deductible fee of \$335 plus \$40 for each employee.

## List of Eligible Expenditures

*Note: If you have any questions regarding eligibility Of medical expenditures for tax purposes, please call Olympia Trust Company.*

### Premiums for Health Care Plans

Premiums paid to any non-government medical or hospital care plan. For example, Blue Cross, London Life, Travel Insurance, etc.

### Professional Services

Any services performed by a qualified medical practitioner including but not limited to the following:

- Acupuncturist
- All Optical Services
- Chiropodist
- Chiropractor
- Christian Science Practitioner
- Dental Mechanic
- Dentist
- Dermatologist
- Gynecologist
- Laser Eye Surgery
- Naturopath
- Neurologist
- Obstetrician
- Occultist
- Ophthalmologist
- Optician
- Optometrist
- Orthodontist
- Orthopedist
- Osteopath
- Pediatrician
- Physician
- Physiotherapist
- Plastic Surgeon
- Podiatrist
- Practical Nurse (for medical services)
- Psychiatrist
- Psychoanalyst
- Psychologist (if licensed)
- Registered Nurse
- Speech Therapist (if treated for pathological or audiological)
- Surgeon
- Therapist

Note: A qualified medical practitioner means a person who is authorized to practice in accordance to the laws of the province and certified according to the practitioner's governing body.

### All Dental Services

- Dental X-Rays
- Denture Repair & Replacement
- Examinations
- Extracting Teeth
- Filling Teeth
- Gum Treatment
- Oral Surgery (e.g. root canal)
- Straightening Teeth (e.g. braces)

### Laboratory Examinations and Tests

- Blood Tests
- Cardiographs
- Metabolism Tests
- Spinal Fluid Tests
- Stool Examination
- Urine Analyses
- X-ray Examination

### Hospital Services

- Anaesthetist
- Hospital Bills
- Oxygen Masks, Tent
- Use of Operating Room
- Vaccines
- X-Ray Technician

## Medicines

- Any non-prescribed medicines (over the counter), prescribed by a qualified medical practitioner and recorded by a licensed pharmacist
- All Prescription Drugs
- Insulin or Substitutes
- Liver Extract – injectable for pernicious anemia
- Oxygen
- Tapes or Tablets – for sugar content tests by diabetics, if prescribed
- Vitamin B12 – for pernicious anemia

## Prescribed Medical Treatment

- Blood Transfusion
- Bone Marrow or Organ Transplant
- Insulin Treatments
- Diathermy
- Electric Shock Treatments
- Healing Services
- Hydrotherapy
- Injections
- Nursing (by Registered Nurse)
- Pre-Natal, Post Natal Treatments
- Psychotherapy
- Radium Therapy
- Speech Pathology or Audiology
- Ultra-violet Ray Treatments
- Whirlpool Baths
- X-Ray Treatments

## Materials and Apparatus Which are Prescribed by a Recognized Medical Practitioner

- An external breast prosthesis
- Any device designed to assist walking where the individual has a mobility impairment
- Contact lenses
- Devices designed to assist a person to use bathtubs, showers or toilets
- Devices designed to enable individuals with a mobility impairment to operate a vehicle
- Devices used by individuals suffering from a chronic respiratory ailment or a severe chronic immune system disregulation
- Electronic or computerized environmental control systems for individuals with sever and prolonged mobility restrictions
- Electronic speech synthesizers for most individuals
- Equipment that enables deaf or mute persons to make and receive telephone calls including visual ringing indicators, acoustic coupler, teletypewriter, which makes telephone communication possible with other persons.
- Extremity pumps or elastic support hose to reduce lymph edema swelling
- Eye glasses
- Heath monitors or pace makers
- Hospital bed, if required in home
- Inductive coupling osteogenesis stimulator
- Infusion pumps for diabetes including peripherals
- Monitors attached to babies identified as being prone to sudden infant death syndrome
- Optical scanners or similar devices for a blind individual to enable him to read print
- Orthopedic shoes or boots
- Oxygen tent
- Power-operated guided chair installation for stairways
- Power-operated lifts and transportation equipment designed to allow access to building, vehicles or to allow wheelchair access to a vehicle
- Synthetic speech systems, Braille printers and large print-on-screen devices that enable blind persons to utilize computers
- Syringes
- Television closed captioned decoders
- Wigs if required as a result of disease, accident or medical treatment

## **Other Materials and Apparatus Which Don't Require a Prescription**

- Any apparatus or material, paid to a doctor, dentist, nurse or hospital
- Any device to aid the hearing of a deaf person including bone-conduction telephone receivers, extra-loud audible signals and devices to permit volume adjustment of telephone equipment above normal levels
- Artificial eye
- Artificial kidney machine, including installation, operating costs
- Artificial limb
- Blood sugar level measuring devices for diabetics
- Brace for a limb
- Catheters, catheter trays, tubing, diapers, disposable briefs required by incontinent persons
- Colostomy supplies
- Crutches
- Hernia truss
- Ileostomy supplies
- Iron lung
- Laryngeal speaking aid
- Rocking bed for polio victim
- Spinal brace
- Wheelchair

## **Other Expenditures**

- Ambulance charges
- Home Care Facility or Extended Care Home charges for a dependent
- Home Maker Service and Home Care (attendant must be a non-relative)
- Prescription birth control pills
- Reasonable costs for adapting a residence to accommodate a disabled person (e.g. wheelchair ramp, lifts, bath facilities).
- Rehabilitative therapy, lip reading and sign language training
- Specially trained animals to assist blind, deaf, or severely impaired persons, including the cost of its care and maintenance
- Transportation costs - to hospital, clinic or doctor's office to obtain services not otherwise available
- Transportation, meals and accommodation (reasonable expenses for meals, accommodation and travel costs for a patient and an accompanying attendant may be deductible if: 1) equivalent medical services are not available locally; 2) the route travelled is reasonably direct; 3) medical treatment is reasonable and distance travel is at least 80 kilometers).

## **The Following Expenditures Would NOT be Covered Under this Plan**

- Acupuncture treatments if they are not performed by a licensed physician
- Air conditioners, humidifiers, dehumidifiers or air cleaners
- Antiseptic diaper service
- Health programs offered by resort hotels, health clubs
- Illegal operations, treatment or drugs
- Maternity clothes
- Medical expenses for which you are reimbursed or are entitled to be reimbursed from other plans
- (Non-prescription) birth control devices
- Payments to a municipality where the municipality employed a doctor to provide medical services to the residents of the municipality
- Scales for weighing food
- Special foods or beverages are not a deductible expense for tax purposes. However, if said food or beverages are taken to alleviate or treat an illness and not nutritional, they may be allowed. Such claims must be accompanied by a letter from a medical doctor.
- Toothpaste
- Wigs - unless made to order for individuals who have suffered abnormal hair loss owing to disease, medical treatment or accident
- IMPORTANT - Provincial Health Care Premiums are not eligible expenditures

## OLYMPIA TRUST COMPANY

### **Employee Health Care Plans**

For Review by your Accountant or other Professional Advisor

#### **DEFINITION**

Olympia Trust's Employee Health Care Plan is a Private Health Service Plan (PHSP) as defined by Section 248 (1) of the Income Tax Act (ITA) and by Interpretation Bulletin No. IT-339R2. The Act allows a PHSP to take a number of different forms, but the Plan must include a contract of insurance as part of its definition.

#### **SERVICES OFFERED**

Olympia Trust has developed a program for which we will administer a Private Health Service Plan that a corporation has for its employees. Specifically, we are offering the following:

1. Olympia Trust contracts with an employer for the purpose of indemnification of an employee's health services as defined by the specific terms of the contract.
2. Eligible health services are defined by Paragraph 118.2 (2) of the Income Tax Act and limited to items elected by the employer.
3. Employers will be given the option of funding its obligations under the plan in advance, or funding the plan at the time that the employee submits health care receipts.
4. Olympia Trust will reimburse employees for eligible receipts that have been submitted under the plan.
5. Olympia Trust provides a statement of expense to the employer for all claims.
6. Olympia Trust charges an administration fee to the employer for this service.

#### **GENERAL CONTRACTUAL TERMS**

The actual requirements of the PHSP to ensure that it qualifies to Revenue Canada's satisfaction can get extremely complicated. As an integral part of the services that Olympia Trust offers, our contract with the employer specifies a number of key points which are undertaken to ensure that the Plan remains a non-taxable Benefit to our client's employees under Paragraph 6(1)(a)(i) of the Income Tax Act.

1. The employer is under a legal obligation to fund the plan for as long as the plan exists. That is, the employer self-insures this program for employees and is the underwriter.
2. The contract allows Olympia Trust to deduct administration fees and employee reimbursements from funds paid into the plan by the employer.

3. The contract will define such items as, which employees are eligible, which expenditures are eligible, to what level expenditures are covered, and how long the agreement is in effect.
4. Olympia Trust agrees to indemnify each employee for health care costs incurred, as long as the terms of the contract are complied with. These terms will include:
  - i) The expenditures are eligible under the specific terms of the plan.
  - ii) The expenditure was incurred by an eligible employee, spouse and/or dependent as defined by the plan.
  - iii) The expenditures do not exceed the maximum allowed under specific terms of the plan as elected by the employer.
  - iv) The employer has funded the plan adequately to cover administration fees and eligible expenditures to employees.

By outlining our contract in this manner, the following objectives are achieved:

1. The plan remains a non-taxable Benefit under Paragraph 6(1)(a)(i) of the Income Tax Act. Because the employee is uncertain if he will utilize the benefit and is not compensated if the benefit is not completely exhausted, the plan provides health insurance to the employee and qualifies as a Private Health Services Plan.
2. The role of Olympia Trust remains one of administrator and trustee as Olympia Trust does not undertake to assume any unknown obligation or liability, nor does it underwrite the claims of either the employee or employer. This is consistent with and falls into the definition of Subsection 248 (1) of the Income Tax Act.

### **QUALITY CONTROL**

Olympia Trust offers a simple product and understandable contract to the client. The client will also be requested to complete a detailed questionnaire, which will highlight any potential conflict that may prevent the client from establishing a PHSP with Olympia Trust. The completed questionnaire will become the principle source document for establishing a computer account in Olympia's Data Base. The document will establish the employee and employer master files and profiles. The master files then become the basis of audit controls on each account on a real time basis, for all transactions subsequently entered into the account.

In addition, should the questionnaire indicate that a client's current corporate status or employee profile may be incompatible with acceptable PHSP practices, the computer will generate an Exception Report that will be reviewed by a senior executive. Olympia Trust will then provide the client with the necessary information they need to insure that they are meeting the basic requirements of a PHSP as established by Revenue Canada.