

## **Letter from Collins Barrow - Chartered Accountants**

December 6, 1999

To Whom It May Concern:

Our firm has reviewed the Olympia Trust Health Plan, the relevant provisions of the Income Tax Act Canada ("the Act") and information published by Canada Customs and Revenue Agency ("CCRA") dealing with this subject.

The Olympia Trust Health Plan will allow the corporation to pay within reason, for all eligible medical costs (which are substantially all medical costs permitted by the Act excluding provincial health care premium) of the employee.

CCRA Technical Interpretation 9815645 dated July, 1998 clarified the issue with respect to the Olympia Health Plan not being a shareholder benefit. When equivalent coverage under a private health services plan is extended to all employees, including the employees who are shareholders, the benefit provided to the employee-shareholders from such coverage is normally considered to be an employment benefit rather than a shareholder benefit. Similarly, when all employees of a corporation are shareholders and it is reasonable to conclude, based on the particular facts of the situation, that the private health service plan coverage has been provided as part of a reasonable remuneration package, the benefit from such coverage is also considered to be an employment benefit rather than a shareholder benefit. The importance of the distinction is that an employment benefit of this nature is not taxable, whereas a shareholder benefit is taxable.

We conclude that for incorporated business where the persons covered in the plan receive T4 or T4A income and they perform substantially all the normal duties of an employee, then utilization of the Olympia Trust Health Plan permits these persons to receive a non-taxable employment benefit provided they receive the benefit by virtue of the employment. The corporate employer is entitled to a deduction in respect of the contributions made for the coverage, subject to the usual requirements for the deduction of an expense.

With respect to reasonable medical costs, the amount of coverage should consider such factors as employment status and term of service. The plan should be comparable to what would be offered by other employers in arm's length situations if non-arm's length employees are included (e.g. owners and related persons).

If you have any questions, please do not hesitate to contact us.

Yours very truly,

COLLINS BARROW