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Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CCRA.

Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ADRC.

PRINCIPAL ISSUES: Whether a self-administered health care plan qualifies as a PHSP.

POSITION: Possible but a question of fact.

REASONS: Must meet the definition of PHSP in the Act.

XXXXXXXXXX 2003-005054

J. Gibbons, CGA

January 6, 2004

Dear XXXXXXXXXXXX :

We are replying to your letter dated November 18, 2003, regarding the income tax rules for a private health services plan ("PHSP"). In particular, you asked for our views whether an in-house plan, as contemplated by your company, would qualify as a PHSP.

Our comments are of a general nature only since we cannot confirm the tax implications of particular transactions unless the transactions are proposed and are the subject matter of an advance ruling request submitted in the manner set out in Information Circular IC 70-6R5. Further, in regard to your request for assistance in establishing a PHSP for your company, you should note that the CCRA does not provide tax planning advice.

The requirements for establishing a PHSP are set out in Interpretation Bulletin IT-339R2, Meaning of "private health services plan." Paragraph 7 of that bulletin addresses the issue of self-administered plans. It indicates that an arrangement under which an employer reimburses medical or hospital expenses incurred by employees or their dependents may come within the definition of a PHSP provided that the employer is obligated under the employment contract to reimburse the employees for such expenses.

Unless a shareholder is actively engaged as an employee of a company, any benefit derived by the shareholder as a result of PHSP coverage is not exempt under subparagraph 6(1)(a)(i) of the Income Tax Act (the "Act"), but rather is taxable under subsection 15(1) of the Act. However, if a shareholder is actively engaged as an employee of the company, and the benefits received by the shareholder under the PHSP (including the applicable limits) are reasonable having regard to all of the circumstances, it is our general view that the benefits would be

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derived by virtue of the individual's employment and exempt under subparagraph 6(1)(a)(i).

We trust that our comments will be of assistance.

Yours truly,

Wayne Antle, CGA
for Director
Business and Partnerships Division
Income Tax Rulings Directorate
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