INTERPRETATION BULLETIN

SUBJECT:	INCOME TAX ACT	Meaning of "Private Health Services Plan"
NO.:	IT-339R2	DATE: AUGUST 8, 1989
REFERENCE:	Subsection 248(1) (also paragraphs 6(1)(a), 18(1)(a), 118.2(2)(q) and 118.2(3)(b))	

APPLICATION

The provisions discussed below are effective for the 1988 and subsequent taxation years.
For taxation years prior to 1988, refer to Interpretation Bulletin IT-339R dated June 1, 1983.

SUMMARY

This bulletin discusses the meaning of a "private health services plan" and describes some of the arrangements for covering the cost of medical and hospital care under such a plan. It also discusses the tax status of contributions made to such a plan by an employer on behalf of an employee and the circumstances under which the premium costs incurred by an employee qualify as medical expenses for purposes of the medical expense tax credit.

DISCUSSION AND INTERPRETATION

1. Contributions made by an employer to or under a private health services plan on behalf of an employee are excluded from the employee's income from an office or employment by virtue of subparagraph 6(1)(a)(i). On the other hand, an amount paid by an employee as a premium, contribution or other consideration to a private health services plan qualifies as a medical expense for purposes of the medical expense tax credit by virtue of paragraph 118.2(2)(q). The amounts so paid must be for one or more of

(a) the employee
(b) the employee's spouse and
(c) any member of the employee's household with whom the employee is connected by blood relationship, marriage or adoption.

For further comments on the medical expense tax credit see the current version of IT-519. For purposes of the Act, a "private health services plan" is defined in subsection 248(1).

2. The contracts of insurance and medical or hospital care insurance plans referred to in paragraphs (a) and (b) of the definition in subsection 248(1) of "private health services plan" include contracts or plans that are either in whole or in part in respect of dental care and expenses.

3. A private health services plan qualifying under paragraphs (a) or (b) of the definition in subsection 248(1) is a plan in the nature of insurance. In this respect the plan must contain the following basic elements:

(a) an undertaking by one person,
(b) to indemnify another person,
(c) for an agreed consideration,
(d) from a loss or liability in respect of an event,
(e) the happening of which is uncertain.

4. Coverage under a plan must be in respect of hospital care or expense or medical care or expense which normally would otherwise have qualified as a medical expense under the provisions of subsection 118.2(2) in the determination of the medical expense tax credit (see IT-519).

5. If the agreed consideration is in the form of cash premiums, they usually relate closely to the coverage provided by the plan and are based on computations involving actuarial or similar studies. Plans involving contracts of insurance in an arm's length situation normally contain the basic elements outlined in 3 above.

6. In a "cost plus" plan an employer contracts with a trusteed plan or insurance company for the provision of indemnification of employees' claims on defined risks under the plan. The employer promises to reimburse the cost of such claims plus an administration fee to the plan or insurance company. The employee's contract of employment requires the employer to reimburse the plan or insurance company for proper claims (filed by the employee) paid, and a contract exists between the employee and the trusteed plan or insurance company in which the latter agrees to indemnify the employee for claims on the defined risks so long as the employment contract is in good standing. Provided that the risks to be indemnified are those described in paragraphs (a) and (b) of the definition of "private health services plan" in subsection 248(1), such a plan qualifies as a private health services plan.

7. An arrangement where an employer reimburses its employees for the cost of medical or hospital care may come within the definition of private health services plan. This occurs where the employer is obligated under the employment contract to reimburse such expenses incurred by the employees or their dependants. The consideration given by the employee is considered to be the employee's covenants as found in the collective agreement or in the contract of service.

8. Medical and hospital insurance plans offered by Blue Cross, Liberty Health and various life insurers, for example, are considered private health services plans within the meaning of subsection 248(1). In addition, the Group Surgical Medical Insurance Plan covering federal government employees qualifies as a private health services plan within the meaning of subsection 248(1). Therefore, payments made by an individual under any such plan qualify as medical expenses by virtue of paragraph 118.2(2)(q).

9. Private health services plan premiums, contributions or other consideration paid for by the employer are not included as medical expenses of the employee under paragraph 118.2(2)(q) by virtue of paragraph 118.2(3)(b) and are not employee benefits (see 1 above). They are however, business outlays or expenses of the employer for purposes of paragraph 8(1)(a). On the other hand, contributions or premiums qualify as medical expenses under paragraph 118.2(2)(q) where they are paid directly by the employee, or are paid by the employer out of deductions from the employee's pay. The amounts so paid must be for one or more of

(a) the employee,

(b) the employee's spouse and

(c) any member of the employee's household with whom the employee is connected by blood relationship, marriage or adoption.