

# Benefits Bulletin

## Information Update for Group Benefits Plan Sponsors and Plan Advisors

### 2005 QUEBEC BUDGET: PROPOSED CHANGES TO QUEBEC PROVINCIAL INCOME TAX MEDICAL EXPENSE TAX CREDIT

The Quebec Provincial Government tabled its 2005 spring budget on April 21, 2005, proposing changes that will impact the province's Income Tax Medical Expense Tax Credit. These changes clarify, add and remove expenses eligible for the Tax Credit, which is used as part of the calculation of an individual's Quebec provincial taxes.

Manulife Financial has analyzed these changes and determined that they do not impact the list of eligible expenses for Extended Health, Health Care Spending Account (HCSA) or Cost Plus plans administered by Manulife in the Province of Quebec.

#### Background

The eligible expenses for the Federal Government Income Tax Medical Expense Tax Credit form the basis of the eligible expenses for Extended Health Plans and Health Care Spending Accounts (HCSA) for Group Insurance plans.

According to federal tax rules governing Extended Health Plans and HCSAs, health and dental (including HCSA) premiums (or premium equivalents for ASO plans) paid on behalf of a plan member that are eligible under a Private Health Services Plan (PHSP) are considered deductible as a business expense for plan sponsors, and as a non-taxable benefit to plan members.

However, for provincial income tax purposes in the province of Quebec, health and dental (including HCSA) premiums (or



premium equivalents for ASO plans) paid on behalf of a plan member are considered deductible as a business expense for plan sponsors, and as a **taxable** benefit to plan members.

#### What is a Private Health Services Plan (PHSP)?

In order for a PHSP to be a deductible business expense for plan sponsors, and a **non-taxable** benefit for plan members, it must meet the following Canada Revenue Agency (CRA) criteria:

- The Plan must be of an insurance nature;
- Its coverage is restricted to hospital and medical/dental expenses;
- Medical expenses in s.118.2(2) of the ITA (personal medical expense tax credit); and
- Its coverage is for employees and dependents.

*This information is intended for the purposes of administering and managing group benefits plans. It is not intended for public use.*

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## Impact to Group Benefits plans

The Federal Government references the Federal Income Tax Act Personal Medical Expense Tax Credit when defining eligible expenses for a PHSP. The Quebec Income Tax Medical Expense Tax Credit is used as part of the calculation of an individual's Quebec provincial taxes but is not used as part of the Federal Government definition of PHSP.

There is no impact to Manulife's list of eligible expenses for an Extended Health Plan or HCSA as a result the changes to

Quebec's Medical Expense Tax Credit. The proposed changes only impact the type of expense that a resident of Quebec can use as a medical expense tax credit for their personal tax return.

If you have specific questions regarding the proposed changes, please contact your Manulife Financial representative. To view the complete budget, go to [http://www.budget.finances.gouv.qc.ca/budget/2005-2006/index\\_en.asp](http://www.budget.finances.gouv.qc.ca/budget/2005-2006/index_en.asp).

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