
PLAN DESCRIPTION

ELITE U.S. Healthcare™ is a comprehensive health care service and insurance plan that provides participants and members of their families with access to:

- \$5 million USD of major medical insurance funding
- top-quality care, and
- medical second opinion services

ELITE U.S. Healthcare™ utilizes the services of Global Excel Management Inc. to access \$5 million USD of funding through major medical insurance coverage provided by Royal & Sun Alliance Insurance Company of Canada, information via the second opinion services of an

independent network of doctors, experts in their respective fields, and top quality medical care through a network of American healthcare facilities with a proven reputation in the treatment of serious medical conditions.

ELITE U.S. Healthcare™ is an individual plan that can be owned by the insured, or it may be owned by a third party. However, the cost of the plan need not necessarily be borne by the policy owner. For example, an employer may pay the costs of ELITE U.S. Healthcare™ on behalf of individual employee policy owners, or groups of employee policy owners as part of their compensation packages.

GENERAL

This memorandum summarizes the Canadian federal and provincial income tax treatment of amounts paid for the coverage and benefits received under ELITE U.S. Healthcare™ in a variety of circumstances. The income tax considerations related to ELITE U.S. Healthcare™ are essentially the same under federal and provincial legislation, except in the province of Quebec. The relevant differences between the federal and Quebec tax treatment are summarized below under the heading Quebec Income Tax Considerations.

Any comments are based on the federal and provincial income tax legislation and our understanding of the administrative practices of the

Canada Revenue Agency (CRA) as of March 31, 2008. It is only possible to address tax issues in general and this document is not to be considered an exhaustive analysis of all federal and provincial income tax considerations. This memorandum should not be construed as providing legal or tax advice. Individuals or businesses considering the purchase of ELITE U.S. Healthcare™ should seek independent professional advice concerning any tax consequences in their particular situations.

TAX STATUS OF ELITE U.S. HEALTHCARE™

The income tax legislation contains special provisions related to "private health services plans" (PHSP). The definition of a PHSP includes "...a contract of insurance in respect of hospital expenses, medical expenses or any combination of such expenses...". Specifically excluded are publicly funded medical insurance plans established under federal or provincial legislation. The CRA has published Interpretation Bulletin IT-339R2, which discusses the meaning of the term PHSP. It is CRA's view that coverage under a PHSP must be in respect of hospital care or expense or medical care or expense which normally would otherwise

have qualified as a "medical expense" for purposes of the medical expense tax credit under the Income Tax Act.

Based on the above definition, ELITE U.S. Healthcare™ will qualify as a PHSP. This qualification results in favourable tax treatment for the participant with respect to the premiums and benefits paid whether individually paid for or paid for by an employer. Both of these applications are discussed below.

INDIVIDUAL APPLICATIONS

Where individuals acquire ELITE U.S. Healthcare™ for themselves or for members of their families and pay for the costs personally, the income tax consequences are as follows:

1. The premiums are not deductible in calculating the individual's taxable income.
2. The premiums paid for by the individual in respect of one or more of the individual, the individual's spouse and any member of the individual's household with whom the individual is connected by blood relationship, marriage or adoption, will qualify as a "medical expense" for purposes of the medical expense tax credit.

3. All benefits received by the individual or members of their families under ELITE U.S. Healthcare™ will not be subject to tax.
4. The medical expenses which are paid for, or for which the individual is reimbursed, under ELITE U.S. Healthcare™ will not qualify for purposes of the medical expense tax credit. However, amounts paid by the individual pursuant to the deductible provisions of the policy will qualify.

EMPLOYEE BENEFIT APPLICATIONS

The most tax-effective application of ELITE U.S. Healthcare™ is in the context of employee benefits. Where an employer covers the cost of ELITE U.S. Healthcare™ for an individual employee or selected groups of employees and members of their families, the tax consequences are as follows:

1. The premiums for ELITE U.S. Healthcare™ paid by the employer on behalf of employees and members of their families will be tax deductible to the employer as a normal business expense.
2. The payment by the employer of the ELITE U.S. Healthcare™ premium on behalf of employees and members of their families should not be included in the employee's income as a taxable benefit. The legislation provides specific exemptions from the taxable employment benefit rules for: "any benefit derived from the contributions of the taxpayer's employer to or under a... private health services plan..."
3. An employer may provide ELITE U.S. Healthcare™ for the benefit of employees and members of their families through a Health and Welfare Trust. The employer's contributions to the trust in respect of ELITE U.S. Healthcare™ will:
 - a) be tax deductible to the employer, and
 - b) not be included in the employees' income as a taxable benefit.
4. All benefits received by employees or members of their families under ELITE U.S. Healthcare™ will not be subject to tax.
5. Neither the premiums paid by the employer in respect of ELITE U.S. Healthcare™ nor the medical expenses that are paid for or reimbursed under ELITE U.S. Healthcare™ will qualify as "medical expenses" for purposes of the employees' medical expense tax credit. However, amounts paid by the employee pursuant to the deductible provisions of the policy will qualify.

SOLE PROPRIETOR AND PARTNERSHIP APPLICATIONS

Where ELITE U.S. Healthcare™ is established for individuals and members of their families who carry on unincorporated businesses alone or in partnership, in which the individual is actively engaged on a regular and continuous basis, the income tax consequences are as follows:

1. The individual proprietor or partner may be entitled to a tax deduction for all or a portion of the ELITE U.S. Healthcare™ premiums paid for themselves and/or members of their families. However, there are significant restrictions on the amounts that can be deducted. In general terms, the restrictions are as follows:
 - a) No deduction may be claimed unless the individual's income from the business represents more than 50% of the individual's total income or the individual does not earn more than \$10,000 from other sources.
 - b) Where the number of arm's length full-time employees to whom ELITE U.S. Healthcare™ has been made available is at least equal to the number of proprietors or partners and members of their families who are employed in the business, the deduction for the cost for the individual proprietor's or partner's coverage is restricted to the "cost of equivalent coverage" in respect of the arm's length employees. For example, if ELITE U.S. Healthcare™ is made available to all arm's length employees, but only 50% of the plan costs are paid for by the employer, then only 50% of the premium costs for the ELITE U.S. Healthcare™ coverage for the proprietor or partner will be tax deductible. Similarly, if ELITE U.S. Healthcare™ coverage is made available only to the arm's length employees but not to their spouses or family members, the proprietor or partner will not be entitled to a deduction for any portion of the premiums that they may pay for their spouses or other members of their families.
 - c) Where the number of individual proprietors or partners and members of their families who are employed in the business exceeds the number of arm's length employees, the deduction is further restricted to the lesser of:
 - i) the cost of equivalent coverage in respect of the arm's length employees as described in (b) above, and
 - ii) \$1,500 in respect of each of the individual, the individual's spouse and each adult child covered under the plan and \$750 for each minor child.
 - d) Where no arm's length individuals are employed in the business, the deduction is limited to \$1,500 in respect of each of the individual, the individual's spouse and each adult child covered under the plan and \$750 for each minor child.
 2. All benefits received by the proprietors or partners or the members of their families under ELITE U.S. Healthcare™ will not be subject to tax.
 3. To the extent that the premiums paid by individual proprietors or partners for ELITE U.S. Healthcare™ in respect of themselves or members of their families are not deductible as described in 1. above, such amounts will qualify as "medical expenses" for purposes of the proprietor's or partner's medical expense tax credit. In addition, amounts paid by the proprietor or partner pursuant to the deductible provisions of the policy will also qualify.
- Many accountants, lawyers and other professionals have established professional corporations, which participate as the partners in their firms. The individuals are then employed by their own professional corporations. Many other professional firms have established management services corporations that employ the partners and provide administrative services to the partnership on a fee basis.
- In situations where professional corporations or management services corporations are involved, it would likely be more tax effective for these corporations to pay the costs of ELITE U.S. Healthcare™ for the professionals as part of their employment compensation packages rather than having the professional or the partnership pay for the premiums. Where this is done, the tax consequences will be as described above under the heading Employee Benefit Applications, subject to the comments below under the heading Shareholder/Employee Applications.

SHAREHOLDER/EMPLOYEE APPLICATIONS

Where a corporation pays the cost of ELITE U.S. Healthcare™ for the benefit of a shareholder and/or members of the shareholder's family, the tax consequences will depend on whether the shareholder is also employed by the corporation.

Non-employed Shareholders

If the shareholder is not employed by the corporation, the tax consequences are as follows:

1. The ELITE U.S. Healthcare™ premiums paid by the corporation for the shareholder or members of the shareholder's family are not tax deductible to the corporation.
2. All amounts paid by the corporation in respect of ELITE U.S. Healthcare™ for the shareholder or members of the shareholder's family will be included in the shareholder's income as a taxable benefit.
3. All benefits received by the shareholders or members of the shareholder's family under ELITE U.S. Healthcare™ are not subject to tax.
4. The premiums paid by the corporation for ELITE U.S. Healthcare™ for the shareholders or members of their families will not qualify as "medical expenses" for purposes of the shareholders' medical expense tax credit. However, amounts paid by the shareholders pursuant to the deductible provisions of the policy will qualify.

Shareholder/Employees

If the shareholder is also employed by the corporation, the income tax consequences will depend on whether the payment of the ELITE U.S. Healthcare™ premium by the corporation is considered to be a benefit conferred upon the individual in his or her capacity as a shareholder or as an employee. If the payment of the ELITE U.S. Healthcare™ premium by the corporation is treated as a shareholder benefit, the income tax

consequences are as described immediately above. However, if such payments are found to have been conferred upon by virtue of employment, the more favourable tax treatment as described under the heading Employee Benefit Applications would apply.

There are no definitive legislative rules for distinguishing between cases where the benefits will be treated as received by virtue of being a shareholder and those that will be treated as benefits received by virtue of employment. Each case must be considered separately having regard to all the relevant facts and circumstances. However, in responding to various requests for technical interpretations, the CRA has offered the following general guidelines:

1. When participation in a plan is extended to employee-shareholders of a corporation and excludes employees who are not shareholders, CRA will presume that the benefit is received because of the individual's shareholdings rather than by reason of the individual's employment.
2. When participation in a plan is extended to all employees, or a group of employees which includes individuals who are not shareholders, participation in the plan by the shareholder employees will normally be considered to have been received by them by virtue of their employment.
3. When all employees of a corporation are shareholders and it is reasonable to conclude that participation in the plan has been provided as part of a reasonable remuneration package and the amount is consistent with benefits that would be offered to an arm's length employee performing similar service, the benefit from such participation will be considered to relate to the individuals' capacity as employees and not shareholders.

QUEBEC INCOME TAX CONSIDERATIONS

The computation of an individual's taxable income under federal and Quebec income tax legislation are similar. However, there are differences that have a significant impact on the income tax consequences for employees in situations where an employer pays the costs of ELITE U.S. Healthcare™ established for employees or members of their families.

The federal income tax legislation specifically provides that benefits derived by employees from contributions made by the employer to a PHSP in respect of the health of the employee or members of the

employee's family are not included in the employee's income as taxable benefits. The Quebec legislation does not have similar exemptions. Consequently, ELITE U.S. Healthcare™ premiums paid by an employer on behalf of employees who are resident in Quebec must be included in their income for provincial income tax purposes.

In all other respects, the income tax consequences related to ELITE U.S. Healthcare™ in the circumstances described in this memorandum are the same for federal and Quebec tax purposes.