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TAX SAVINGS FOR YOU!

Menuflex Medical & Dental Spending Account (MDSA) Program™

WHAT IF?

What if you could access a “**private health services plan**”, as defined in the Income Tax Act that would **enable you to deduct the cost of your medical and dental expenses** in a **more tax effective manner** than under the Medical Expense Tax Credit on your personal Tax Return?

Maclagan Inc. has formed a strategic alliance with **Alternative Benefit Solutions Inc., (ABS)** a Third Party Administrator of health and welfare programs for individuals, associations and employer groups. Under this arrangement you may be able to take advantage of the unique features of the **Menuflex Medical & Dental Spending Account Program™ (MDSA)** which qualifies as a “**private health services plan**” under Interpretation Bulletin IT-339R2. Your employment status will influence the degree to which this Program may provide you with significant tax savings!

The **MDSA Program** is available to you on an individual basis participation basis. It can be utilized to meet all or most of your family’s needs for health and dental protection. Supplementary “top-up” insurance protection is also available, if desired.

WHO IS ELIGIBLE TO PARTICIPATE?

The MDSA Program is available to:

1. **Incorporated self-employed entrepreneurs;**
2. **Sole Proprietors (subject to CCRA contribution limits);**
3. **Businesses of any size; and**
4. **Employees (who work for a “flexible” employer).**

The following questions and answers will assist in your understanding of the concept.

1. Why should I consider the MDSA “defined contribution” approach instead of a traditional individual health and dental program?

Traditional individual health and dental programs offer limited coverage in comparison to the wide range of eligible medical and dental expenses that can be claimed at 100% reimbursement with no deductibles, or limits other than the amount contributed to the MDSA.

2. What is a Medical & Dental Spending Account?

It is a “**Health Spending Account**”, a vehicle permitted under the Income Tax Act as a “**private health services plan**” (IT339R2) that enables “employers” (including the incorporated self-employed and sole proprietors) to cover participants’ eligible medical and dental expenses as defined under Section 118.2 (2) of the Act. The net funds contributed (after the administration fee) may be used to pay for any eligible medical or dental expense. The MDSA operates on a “Calendar Year” basis. Prior to the start of each year you determine how much you will need to contribute to cover anticipated

medical expenses for the following calendar year. It is not an “insurance plan”, rather a unique tax sheltered vehicle that you may be able to utilize to reduce the cost of your medical and dental expenses.

3. What is the cost?

You determine how much to contribute based on your needs and those of any eligible employees. The minimum monthly contribution for the **Menuflex™ MDSA** is \$49.02 per month and this provides a net annual MDSA account of \$500 to be spent on the participant’s eligible expenses. The following illustrates the monthly cost of varying net annual MDSA accounts:

\$500/annum = \$49.02 per month (includes all administration fees and applicable taxes)
\$750/annum = \$73.53 per month
\$1,000/annum = \$98.04 per month
\$1,500/annum = \$147.06 per month
\$2,000/annum = \$196.08 per month
\$5000/annum = \$490.20 per month

The MDSA can be utilized to meet all or most of a family’s needs for health and dental protection. Additional protection is available through supplementary insurance programs described on the following pages.

The foregoing amounts are illustrative contribution amounts and can be increased as long as the expense to be covered would be viewed by CCRA as “**reasonable and customary**” in the circumstances. For example, an individual with a qualifying medical expense of \$25,000 or more could run it through the MDSA if desired. The monthly contributions above include the standard administration and claims payment fees and related taxes for individuals.

4. What if I am an “employee” rather than a business owner?

You may approach your employer to see if they will agree to enter into a compensation arrangement on a year to year basis. Under such a formalized arrangement **that does not cost the employer anything other than a change to payroll for you individually**, you would take a reduction in salary of “X” thousand dollars per year (including the MDSA administration fees) and have the employer contribute this amount in pre-tax dollars to the your personal MDSA account. This enables you to have sufficient funds available in a tax sheltered vehicle to cover your family’s medical or dental expense. Unfortunately, not all employers may agree to participate in such an arrangement.

5. Is A Medical Required?

No, the MDSA does not require any health evidence. If you decide to access one of the available “top-up” supplementary insurance plans you will be required to complete a Personal Health Declaration for each family member to be covered. The insurer will review the PHD to determine if coverage can be offered at standard rates, or if a “surcharge” is required to provide full coverage rather than require an exclusion for a pre-existing condition. Any surcharge amount may be claimed as an eligible expense against the MDSA.

6. What happens to my unused MDSA contributions at the end of a year?

Unused contributions from the first plan year are not lost – they carry forward to the second plan year, and if not used by the end of that plan year are forfeited back to the **contributing employer. The forfeited contributions cannot be returned directly to the employee per Revenue Canada’s rules, however, the employer could deposit the amounts received into the employee’s RRSP, or pay them out as a new bonus. In either case the employer receives a tax deduction for the business expense to offset the receipt of the forfeitures that was written off two years earlier and the employee receives a new benefit.**

Unfortunately Revenue Canada has advised that sole proprietors are not eligible to receive the forfeiture of unused MDSA funds at the end of each second plan year. Sole Proprietors are limited by the Income Tax Act to \$1,500 for themselves, \$1,500 for their spouse and \$750 for each

child in terms of the amounts they can deduct from their business income as qualifying medical insurance premiums. If you are in a partnership and/or have employees the rules become more complex as outlined in the CCRA T4002 Business and Professional Income Guide available from the CCRA web site.

7. How safe are my contributions?

Monthly contributions are collected by Alternative Benefit Solutions Inc. (ABS) and are held in a Trust Account until required to make MDSA claim payments. **There is no interest credited on the contributions on deposit as the funds have to be available on short notice to pay claims.**

8. Who pays the MDSA claims?

ABS pays the MDSA claims up to the amount available in the employee’s account, and any supplementary insurance claims for coverage purchased to “top-up” the MDSA.

9. How does the MDSA and any other group or individual coverage work together?

You decide whether you wish claims to be claimed first against your MDSA, or the insured benefits that you are also covered by. Any co-insurance amount that you pay out of your own pocket or deductibles that you must pay are eligible to be claimed from your MDSA account.

10. Will I be able to claim the full annual amount of my MDSA even though contributions are being made monthly?

MDSA claims are paid up to the amount in your MDSA account at time of claim, unless the employer has paid the annual contribution amount in advance.

11. What expenses may be claimed against the MDSA?

A partial List of Eligible Medical & Dental Expenses that may be claimed from the MDSA (please see Section 118.2 (2) of the Income Tax Act and IT-519R2) is presented below:

Acupuncture	Dental Implants	Naturopathic Products**
Artificial Limbs.	Dental Treatment	Occupational Therapist
Athletic Therapy*	Dental Whitening	Optometrist
Attendant Care	Dentures	Orthopedic Shoes
Birth Control Pills**	Orthodontics	Oxygen & Equipment
Botox Treatments*	Dermatologist Fees	Optician
Chiropractor	Fertility Treatments	Registered Masseur
Chiropodist	Hair Replacement	Skin Care
Chinese Medicine*	Hydrotherapy**	Psychologist
Contact Lenses**	Laser Eye Surgery	Physiotherapist
Contraceptive Devices**	Laser Hair Removal*	Podiatrist
Cosmetic Surgery	Vitamins**	Prescription Drugs
Crowns & Bridgework	Therapy Equipment	Psychotherapy*
X-rays	Wheelchairs	Psychiatrist
Vein Removal	Viagra, Cialis, Levitra	& more per Section 118.2 (2) of Income Tax Act

* Must be performed by a licensed medical practitioner

** Must be prescribed by a licensed medical practitioner and dispensed by a licensed pharmacist or licensed medical practitioner as part of their medical services.

12. Can the employer’s contributions be left in the MDSA to accumulate over a period of years to cover a large anticipated medical expense?

No, based on Advanced Rulings secured from CCRA over the past 10 years, the funds in the MDSA at the end of each second plan year from the immediately prior plan year must be forfeited back to the employer under what CCRA terms their “use it or lose it” principle. This is the “element of insurance” required to have the MDSA qualify as a “Private Health Services Plan” as described in Interpretation Bulletin IT-339R2.

13. Is there a maximum amount that may be contributed to the MDSA?

Revenue Canada takes the position that the expense claimed from a Health Spending Account (MDSA) must be considered “reasonable and customary”. In the case of expenses for Autistic children that can run as high as \$50,000 or more per year they advised that this would be considered as reasonable and customary dependent on the level of care required.

14. What are the tax advantages of a self-employed incorporated business owner in utilizing the MDSA approach versus deducting his medical/dental expenses on his personal Income Tax Return?

Qualifying Medical Expenses in excess of 3% of your net income or \$1,884, whichever is less for the taxation year 2006, may be claimed on your personal Income Tax Return. Thus anyone with earnings at the top marginal tax rate of 46.41% (combined Federal & Ontario taxes) would receive a 21.05% combined tax credit of \$655.92 ($\$5,000 - \$1,884 = \$3,116 \times 21.05\%$) on medical expenses of \$5,000. If the \$5,000 is contributed in pre-tax earnings to the MDSA the savings would be approximately \$2,320.50 ($\$5,000 \times 46.41\%$).

For the incorporated small business owner the MDSA contribution is a legitimate business expense that can be deducted in full against the corporation’s revenues and the tax savings depend on the taxable status of the corporation.

Qualifying Medical Expenses	Personal Tax Credit	MDSA Sole Proprietor (Family of 4)*	MDSA Incorporated Business Owner	MDSA Employee Compensation Arrangement
\$5,000	$\$5,000 - \$1,844 = \$3,116 \times 21.05\% =$ Tax Credit $= \$655.92$	\$4,500 may be deducted from business income	$\$5,000^{***} +$ admin fee may be deducted as employer contribution to a PHSP**	$\$5,000^{***} +$ admin fee may be contributed in pre-tax earnings. Tax savings \$2,320+.
\$10,000	$\$10,000 - \$1,844 =$ $\$81,16 \times 21.05\% =$ Tax Credit $= \$1,708.42$	\$4,500 may be deducted from business income	$\$10,000^{***} +$ admin fee may be deducted as employer contribution to a PHSP**	$\$10,000^{***} +$ admin fee may be contributed in pre-tax earnings. Tax savings \$4,641+.
\$25,000	$\$25,000 - \$1,844 =$ $\$23,116 \times 21.05\%$ $=$ Tax Credit $= \$4,865.92$	\$4,500 may be deducted from business income	$\$25,000^{***} +$ admin fee may be deducted as employer contribution to PHSP**	$\$25,000^{***} +$ admin fee may be contributed in pre-tax earnings. Tax savings \$11,603+

*Income Tax Act limits Sole Proprietor to a deduction of \$1,500 for himself, plus \$1,500 for a spouse and \$750 for each child. **PHSP = Private Health Services Plan per IT-339R2. ***Amount excludes administration fee. Tax savings based on someone in 46.41% tax bracket. If the individual is in the 32.98% marginal tax bracket the savings would be \$1,649; \$3,298; or \$8,245 respectively, excluding admin fee.

15. What if I cannot accurately forecast my anticipated medical or dental expenses?

You may purchase additional supplementary insurance protection under one of the following Optional Programs as outlined in the following pages.

Menulflex OPTIONAL BENEFIT PROGRAMS

The following Optional Benefit Programs can be purchased as Supplementary coverage to the MDSA Program. These Programs require completion of a Personal Health Declaration or Health Statement (dependent on the insurer) for approval by the insurer before coverage can become effective.

OPTIONAL PROGRAMS

1. Accidental Death & Dismemberment:

Optional AD&D coverage is available for you only, or you and all family members in units of \$50,000, up to a maximum of \$300,000. No Health Evidence is required.

If you elect Family coverage, your spouse is insured for 60% of your selected amount, unless there are eligible dependent children; in that case your spouse is insured for 50%, and each child 15%. If you only have dependent children and no spouse, each child will be insured for 20% of your selected coverage amount.

2. Critical Illness:

Participants and/or their spouse may purchase Optional Critical Illness protection in amounts of \$10,000, \$25,000, or a maximum of \$50,000. A separate Health Statement must be completed for approval by the insurer, ACE INA Insurance. Coverage becomes effective on the 1st of the month following date of approval. Please contact the Maclagan Inc. if you wish to secure an Optional Benefits Application/Health Statement and premium rate summary for this coverage.

Benefits are tax-free and are paid based on a specific diagnosis, not an inability to work or proof of reduction in income. The benefits can be used for any purpose, including securing medical services outside of Canada.

Premium rates are based on your or your spouse's attained age, sex and smoker status. Coverage is renewable to age 65 as long as you are a participant covered under the Menuflex Benefits Program™.

Critical Illness coverage protects against **TEN life threatening** conditions, including: **CANCER; KIDNEY FAILURE; STROKE; DEAFNESS; RECIPIENT MAJOR ORGAN TRANSPLANT; HEART ATTACK; MULTIPLE SCLEROSIS; PARALYSIS; BLINDNESS; CORONARY BY-PASS SURGERY.**

3. Disability Insurance

Your ability to earn an income is your greatest personal asset. Take away that ability because of illness or accident and it can result in financial hardship for most individuals. You can purchase Temporary Total Disability coverage of up to \$1,000 per week for 24 months following a 30 day waiting period; as well as Permanent & Total Disability coverage of 5 X annual earnings, subject to a maximum of \$500,000 in a tax-free lump sum. A separate brochure detailing the Program and application are available upon request.

How do I find out more about the available MDSA Program and supplementary insurance protection on a no cost or obligation basis?

Maclagan Inc. would be pleased to provide any additional information required. Simply contact:

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