APPENDIX “I”

northern telecom

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December 16, 1979

Mr. C.W. Mavor
Director General
Non-Corporate Rulings
Revenue Canada, Taxation
88 Metcalfe
5th floor
Ottawa, Ontario

Dear Mr. Mavor:

This is a request for an advance income tax ruling pursuant to the Department of National Revenue Information Circular No. 70-6 dated September 14, 1970 and No. 71-25 dated November 21, 1971. Enclosed is our cheque for $150.00.

Relevant fact:

Effective January 1, 1980 or as current contracts with present insurance companies terminate (none of these contracts are to expire before 1980), Northern Telecom Limited, Bell Northern Research, Bell Northern Software Research, Northern Telecom Canada, hereinafter referred to as the "Company" propose to establish a Health and Welfare Trust Fund through which the following benefit plans for eligible employees, service pensioners and dependents will be provided:

(a) Health care (Medical & Dental)
(b) Sickness and Accident
(c) Long Term Disability
(d) Survivor Income Benefit
(e) Group Life Insurance

The benefits will be paid in accordance with plan descriptions and governed by a Master Trust Agreement. Copies of these documents are enclosed for your review. The hereinafter referred to as the "Trustee" will be responsible for receiving the Company's contributions to the plans together with the employees' contributions in the case of Survivor Income Benefit Plan & Group Life Insurance and arranging for payment of benefits to eligible employees and dependents and payment of premiums to the insurance company hereinafter referred to the "Carrier". The Company's contributions will be sufficient to cover actual claims and/or may be actuarially determined dependent on the benefit plan or plans.

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The Company also proposes to enter into an arrangement with the Carrier to provide umbrella stop-loss coverage for all the five(5) benefit plans. The trigger point has yet to be determined but it is anticipated that it will be in the range of 110% to 130% of claims.

Following is a brief explanation of the funding arrangement between the Company, the Trust & the Carrier:

(a) Health Care Plan

This plan will be in the nature of an Administrative Service Only (ASO) contract with stop loss insurance with a licensed carrier. More specifically, the Company will make contributions to the trust to satisfy the claims liability. All eligible claims by employees and dependents will be submitted to the Carrier for settlement. The Carrier will issue a draft to the claimant(s) drawn on the trust's account. The Company may from time to time wish to fund expected future claims, however, these contributions will be actuarially determined by the Carrier.

The premium and claims settlement charges will be paid directly by the Company to the Carrier.

(b) Sickness and Accident Plan

This plan will be in the nature of a self-insured and self-administered plan. It is antici-pated that these benefits will be funded on a pay-as-you-go basis i.e. the Company will reimburse the Trust for all claims. However the Company may from time to time wish to make contributions to the plan based on an actuarial valuation or some other reasonable basis.

Eligible claims by employees will be submitted to the Company for settlement. The Company will then make the payments on behalf of the Trustee and these checks will be drawn on the trust's account. The Company's name may or may not appear on the cheques, this notwithstanding, the Company will be the sole administrator of the Plan.

(c) Long Term Disability Plan

As in the Health Care Plan, this plan will be in the nature of a self-insured arrangement with stop-loss coverage, and the use of a Carrier/Administrator or the Company to provide administrative services. Under this plan eligible claims by employees will be submitted to the administrator for settlement. The administrator

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(c) (cont'd)

will then issue a draft to the claimant(s) drawn on the trust's account. The Company's contributions to the trust will be sufficient to satisfy all claims. However, the Company may from time to time wish to make additional/ increased contributions based on an actuarial valuation or some other reasonable basis.

(d) Survivor Income Benefit Plan

The funding media is identical to that of Long Term Disability. However, employees will be required to make contributions to this Plan.

(e) Group Life Insurance Plan (Part I-Basic & Part II-Optional)

This plan will be in the nature of an insured arrangement with the Carrier. Under this plan the Carrier will provide the Company with a composite premium rate for both active and retired employees' group life insurance coverage as at present. Based on this, the Company will then make contributions to the Trust sufficient to pay the premiums. Contributions (both the active employees' and the Company's) not immediately applied against claims & expenses of the Carrier will be deposited/transferred to a sub-account of the Trust called the "Pensioners Insurance Fund".

At present the Pensioners' Insurance Fund totalling approximately $11 million is with Mutual Life Assurance of Canada. Mutual has agreed to transfer these monies into the trust fund.

Group Life Insurance (Part II) is paid totally by the employees and is optional. These employees' contributions will form part of the trust fund but will be kept in a separate sub-account.

Under this plan (both Part I and Part II) the Carrier will receive and settle all claims and receive settlement of its premium at that time from the Trust. As a matter of record keeping claims together with the Carrier's claim expense charges will be charged to the respective sub-accounts. It is anticipated that four(4) such sub-accounts will be created, each holding (1) active employees' premium contributions (Part I) - Basic, (2) the Company's premium contributions (Part I) - Basic, (3) Unapplied Premium - Forming the Pensioners Insurance Fund and (4) active employees'premium contributions (Part II)-Optional.

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Ruling Requested

Based on the foregoing we request a ruling that:

(a) (i) The Health Care plan qualifies as a "private health services plan" within the meaning of Section 110(8)(a) of the Income Tax Act, so that benefits received by employees will reduce medical expenses otherwise deductible.

(ii) Benefits received (expenses reimbursed) under the plan will not be taxable to the employees under Section 6 of the Income Tax Act.

(iii) The Company's contributions will not result in a taxable benefit to the employees by virtue of Section 6(1)(a) of the Income Tax Act.

(iv) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred.

(b) (i) The Sickness and Accident benefits received by the employees under the plan will be taxable when received by virtue of Section 6(1)(f) of the Income Tax Act and reported on T4 Forms by the Trustee.

(ii) The Company's contributions will not result in a taxable benefit to the employees by virtue of Section 6(1)(a) of the Income Tax Act.

(iii) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred.

(iv) The Sickness and Accident benefits received by the employees under the plan will be subject to CPP and UIC contributions.

(c) (i) The Long Term Disability benefits received by the employees under the plan will be taxable when received by virtue of Section 6(1)(f) of the Income Tax Act and will be reported on T4A Forms by the Trustee.

(ii) The Company's contributions will not result in a taxable benefit to the employees by virtue of Section 6(1)(a) of the Income Tax Act.

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(c) (cont'd)

(iii) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred.

(d) (i) The Survivor Income Benefit payments received by the beneficiaries qualify as a "death benefit" as defined by Section 248(1) of the Income Tax Act. Furthermore the death benefit is reduced proportionately by such an amount that the employee's contribution is of the employer's contributions. These amounts will be reported on T4A Forms by the Trustee.

(ii) The employee's contributions will not be deductible in computing his income subject to tax.

(iii) The contributions made by the Company will not result in a taxable benefit to the employees.

(iv) The Company's contributions will be deductible as ordinary business expenses in the year in which they are incurred.

(e) (i) The Group Life Insurance proceeds received under the plan (Part I & II) by beneficiaries as a consequence of the death of an employee will be exempt from tax.

(ii) The premiums paid by the Trust (Part I only) will result in a taxable benefit to the employees which will be computed in accordance with Section 6(4) of the Income Tax Act and reported on T4 Forms by the Company, where applicable.

(iii) The contributions made by the Company (Part I only) will be deductible as ordinary business expenses in the year in which they are incurred.

(iv) The employee's contributions will not be deductible in computing his income subject to tax.

(v) The Pensioners Insurance Fund with Mutual totalling approximately $11 Million will be included in computing the Company's income subject to tax in the year in which they are transferred from Mutual.

(vi) The contributions to the Pensioners' Insurance Fund totalling approximately $11 Million will be deductible in computing the Company's income as ordinary business expenses in the year in which these monies are transferred to the trust fund.

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(f) Taxation of Trust

The trust' income for each year will be determined in accordance with Section 104 of the Income Tax Act. In computing the income of the trust, contributions and premiums paid to the Trust by the Company and employees, the lump-sum transfer of the Pensioners' Insurance Fund to the trust will not be considered as income. Benefits paid in the year to employees and premiums paid to the Carrier will be deductible with the exception of amounts paid under the Health Care Plan.

(g) Stop-loss premiums paid to the Carrier by the Company will be deductible as ordinary business expenses in the year in which they are incurred.

We would be most grateful if you would give the matter your prompt attention. Once you have had the opportunity to review our request for ruling, we would like to meet with you or your delegate to discuss this matter further and provide whatever additional information and clarification that may be required.

We are sending a copy of this letter to your Mr. P.M. Paquette, Coverage Policy and Legislation Section Accounting and Collections Division, to rule on the question of CPP & UIC contributions.

We would appreciate you telephoning us at (514)931-5711 to confirm the date for our meeting with you or your delegate in Ottawa.

Yours truly,

M.A. Leduc
Director, Taxes

MAL/NFF/dh

cc P.M. Paquette