

Behind the Counter – March 24, 2010

Medical Expenses

I thought that while we are waiting for the last of the T3 slips to be issued, that this would be a good opportunity to discuss the medical tax credit. When people are contemplating filing their tax returns, they usually have an idea of whether they will need to pay or if they will get a refund. Many times that decision is based on the amount of medical receipts that they are planning to claim.

Most people know that in order to claim a medical item, the payment must have been made to a medical practitioner, a dentist or a registered nurse or be for prescription medication. They also know that the receipts must be for the current period. Where people seem to get tripped up is when they think that they can deduct 100% of the medical expenses that they paid.

Another thing that isn't readily known is that the receipts can be for any twelve month period as long as the ending period is sometime during the current calendar year. Medical expenses can be taken by one spouse for both spouses and also for your dependants even though they may no longer live with you.

The proof that the Canada Revenue Agency (CRA) requires when taking the medical expense credit for a dependent is that you paid the expense.

Those people who participate in an extended health and dental plan can deduct the medical expense portion that is not covered by the plan. For example, if your plan only covers 80% of your expenses, the other 20% would be deductible. Alternatively, if your plan covers 100% of your expenses, but doesn't reimburse you for the first \$200 every year, then that \$200 would be deductible.

The medical expense credit is a non-refundable tax credit. What that means is that a credit is given to the taxpayer that will be deducted directly off their taxes payable based on certain criteria. It is not refunded to the tax payer. If the tax payer doesn't have enough taxes owing to take the entire medical credit, the rest of the credit is lost.

Herein lies a crucial difference between a tax preparer and a tax consultant. The tax preparer will just take the receipts as received and file them as is. On the other hand, the tax consultant will look at the fact that some of the medical expense credit would be lost, so they may change the claim period and hold back some of the receipts to be used on next year's tax return. This is not considered tax avoidance, but rather tax planning.

The first stipulation of taking this credit is that the amount of medical expense needs to be greater than 3% of your net income. For example, if your net income (Line 236 on the return) is 45,000; then 3%

would be \$1350, so you would need to have more than \$1350 in medical receipts to get any sort of credit.

Here again is another tax planning tip for couples. If one spouse makes less or very little income, it would make sense for that spouse to take the medical expense credit because there would be more medical expenses available for credit. Continuing with the example above, if your spouse made \$15000 on line 236 of their return, then 3% of that would be \$450. So if your total medical receipts for you and your spouse were \$1000, then you would not be able to deduct them yourself ($\$1000 - \$1350 = \$0$), but you would be able to deduct ($\$1000 - \$450 = \$550$) from your spouse's return.

So you would think at this point that you would get the \$550 as the deduction but that is not so. This \$550 becomes part of the rest of your other non-refundable tax credits such as your basic personal deduction of 10,320, your CPP, deduction for children, home renovation tax credit deduction, pension deduction and others that might apply. These credits are totaled together and then multiplied by 15% which is the amount that is taken off the federal and provincial taxes payable that were calculated from your taxable income amount. In other words you would only get 15% of the \$550 or \$82.50 as a deduction.

To recap, we started with \$1000 in medical expenses and now have received a deduction of \$82.50 of your spouse's tax payable. That is quite a difference and why you cannot count on the total of your medical expenses when trying to figure out if you will have to pay or get a refund and how much that might be.

There have been a couple of significant changes to the deductibility of medical expenses, the first one affects us this year and has to do with those over the counter items that might be prescribed by a doctor. The rule now is that if you can buy it over the counter without a prescription, that even though you have a prescription, the item will not be deductible. There are still some exceptions to the rule.

The next pertains to cosmetic procedures which according to the new Federal Budget will not be deductible after March 4, 2010. That will impact us next tax season.

What do you need to bring your tax consultant? You need the actual medical receipt along with proof of payment. The debit card slips by themselves are not accepted by CRA and will not qualify for the credit.

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