

Canadian Tax Planners Newsletter

September October 2006

Despite the generous tax support for medical expenses, all too often the various deductions and credits are unclaimed as taxpayers are unaware which expenditures will qualify. Consider the following questions:

- Does marijuana smoked for medicinal purposes qualify as a medical expense?
- Do prescription birth control pills qualify?
- If your child has a learning disability, can the costs of a tutor be claimed?
- If a disabled individual resides in your home, do structural changes to the residence qualify as a medical expense?

The answer to all of these questions is – yes. The income tax act provides tax relief to individuals with a physical or mental condition by offering three types of assistance:

- 1) a tax credit for many medical expenses;
- 2) generous credits for the disabled, who often earn a minimum level of income; and
- 3) tax incentives for taxpayers that care for individuals with disabilities.

In this edition of the Canadian Tax Planners Newsletter, we shall review the tax assistance that is available to families that must deal with various health issues, with an emphasis on identifying expenses that may otherwise be overlooked. We shall also review the tax support available to parents who wish to adopt a child.

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Medical Expenses

Many expenses that are not covered by Canada's health care system or reimbursed by one's employer may qualify for the medical tax credit. The eligible credit is the total medical expenses minus the lesser of 3% of one's income or \$1,884. This latter amount is indexed annually. Individuals can claim their medical expenses, plus those of their spouse and dependants. If the dependant is other than a child or spouse, there is a \$10,000 per annum limit. Medical expenses do not have to be claimed for a calendar year; rather the reporting period is any 12 month period that ends in the year. For example, assume an individual was sick for the six month period ending March 2006 and during each month of the illness, the individual spent \$1000 for qualifying medical expenses. Rather than claim \$3000 on both the 2005 and 2006 return, the individual may be in a superior position if he chose a 12 month period ending September 30, 2006. The entire \$6,000 would be included in the same reporting period and it would lessen the impact of reducing the medical claim by 3% of income or \$1,884. This flexibility allows individuals to maximize their claim. If the medical expenses relate to an individual who died, a 24 month period, rather than a 12 month period can be selected.

Tax Planning Point – It is CRA's position that either spouse can claim the medical expenses of the other. In such cases, the lower income spouse should normally claim the medical expenses in order to minimize the impact of the 3% of income reduction.

This list of expenditures that qualify for the medical tax credit is quite exhaustive, but the most common expenses are:

Medical Services – Payments for medical services are the most frequent expenditures for most taxpayers. Typical expenses would include:

- payments to a "medical practitioner," dentist or hospital. The term medical practitioner includes the following – medical doctors, chiropractors, physiotherapist, psychologists, acupuncturists and dieticians
- eyeglasses, contact lenses, hearing aids, prescription drugs and medical equipment including wheelchairs, crutches and artificial limbs

Vehicle and Residence Expenditures – The following expenditures related to an individual's residence or vehicle would qualify as a medical expense:

- payments to adapt a vehicle to transport a person with a disability

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