



Pay Less Tax

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In the spring of 2004, the federal budget proposed that taxpayers could claim more of the medical expenses they paid for dependent relatives. On December 6, 2004, the Minister of Finance tabled draft legislation including formulas for the calculation of medical expense credits. Canada Revenue Agency has changed the tax return medical expense form for 2004 to include this change. It is not unusual for tax law in Canada to be implemented before it is actually law.

Who qualifies as a dependent relative?

A dependent relative is:

- A resident in Canada at any time in the year, and
- The taxpayer's parent or grandparent and at least 65 years old.

Or

- Eighteen or older at the end of the year and dependant on the taxpayer because of mental or physical infirmity and any of child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew of the taxpayer or the taxpayer's spouse or common-law partner. A minor child, who is under the age of 18 years at the end of the year, is not a dependent relative.

What makes a relative dependent?

They do not have to live with you. You must support them by paying for expenses such as clothing, comforts, medical expenses and hospital plan premiums. You may support them on those occasions when they are able to be out of a hospital or care facility. You must have receipts to prove that you support them. Gifts are not considered support.

What could you claim prior to 2004?

A "medical notch provision" severely limited the amount of medical expense you could claim for a dependent relative. In order to claim medical expenses for a dependent relative, medical expenses had to exceed a combination of two thresholds:

- First, your own threshold of 3% of net income, to a maximum of \$1,755 (2003), and

- Second, the "medical notch provision" calculated by taking the dependent's net income, subtracting the personal credit, and multiplying the result by 4.25.

If your total family medical expenses were more than 3% (maximum \$1,755) plus the medical notch provision, you could make a claim for medical expenses.

To give you an idea of how punitive this was, if your income exceeded \$58,500 (in 2003) and you were claiming medical expenses for a dependent relative with \$10,000 in net income, medical expenses would need to exceed \$11,292 (\$9,537 plus \$1,755) for your entire family before you could claim any medical expenses.

What's new for 2004?

Take a peek at the revised medical expenses worksheet in your tax return package for 2004. Here's what you will find:

- Minor children's medical expenses are now pooled with the parent's medical expenses.
- There is no medical notch provision for minor children.
- The threshold for claiming medical expenses for you, your spouse and minor children is 3% of net income up to a maximum of \$1,813 (for 2004).
- Other dependent relatives' medical expenses are recorded in a separate section on the medical expenses worksheet.
- The threshold for claiming each dependent relatives' medical expense is 3% of that dependent relative's net income. (It is possible to have multiple dependent relatives.)
- The maximum you can claim for each dependent relative is \$5,000.

A word of caution about tax credit transfers between family members. You are required to report dependent relative's net income as well as credits they have claimed to support your claim. You might want to obtain professional advice on your obligation for the accuracy of the information.

If you thought it was not worth calculating in the past...

Saving those receipts and insurance reimbursement reports could pay off. Consider this:

- 1) If your net income is over \$60,433, every cent you paid for medical expenses above \$1,813 is claimable.
- 2) If your spouse's net income was \$15,000, every cent over \$450 is claimable because you can shift the expenses between spouses to maximize the claim.
- 3) Medical expenses include over 60 different categories. Here are a few:
 - Premiums on your extended health and dental insurance,
 - Costs not covered by your health and dental insurance, usually 50% of dental, 20% of prescription drugs, excess over \$200 for glasses or contacts,
 - Renovations for mobility impairment,
 - Chiropractor, massage, psychologist, therapist, orthotics (take note, those of you who run),
 - Hearing aids, incontinence products, attendant care, retirement or nursing homes.
- 4) If the dependent relative's net income is \$10,000, every cent you paid for medical expenses over \$300 is claimable (\$10,000 x 3%).

Will this new formula benefit you?

Here's an example:

Mary is a single person earning \$75,000.

Mary supports her mother.

Mary's mother has \$10,000 in net income.

Mary's mother is certified as disabled on Form 2201.

Mary's mother resides in a retirement home.

Maximum claim for medical expense is \$10,000 for attendant care (\$20,000 in year of death).

Under this new formula, Mary can claim her mother's medical expenses up to a maximum of \$5,000.

Mary will save \$1,694 as follows:

- 1) The medical expense claim of \$5,000 is responsible for \$800 in tax savings.
- 2) A combination of reduced tax rates and personal tax credits adjusted for inflation is responsible for an \$894 tax savings.

If Mary's mother aged 65 or over, lived with Mary, even just for part of the year, there could be a transferable caregiver credit, which would generate additional tax savings of \$831.

Mary could have an immediate increase in take-home pay by completing payroll forms available from Canada Revenue Agency (TD1 or T1213).

Why not prepare a family tree for your accountant?

A family tree is an effective tool to communicate information to your accountant. Include everyone who is living with you, or not living with you, but dependent on you. Information for an accountant includes: birth date, rela-

tionship, health, details of support you provide, net income and tax credits such as age, pension, disability, caregiver, infirm over 18 years, medical.

Your accountant might find it advisable to prepare tax returns for an entire family unit in order to ascertain the most beneficial filing position. I recommend hiring a professional to calculate your tax return if you have dependent relatives. Assessing which spouse claims which credits and who transfers which credits to whom could make a significant difference in the amount of tax your family pays.

Need to know more?

If you want to know more about personal tax credits and medical expenses, sources include:

- Canada Revenue Agency website (Search under Individuals, and M for medical) at <http://www.cra-arc.gc.ca/tax/individuals/topics-index/m-gen-e.html>
- Fact Sheets for seniors who are eligible to claim the disability amount can claim attendant-care expenses paid to a retirement home as a medical expense at <http://www.cra-arc.gc.ca/newsroom/factsheets/2003/april/seniors-e.html>
- IT 513 Personal Tax Credits at <http://www.cra-arc.gc.ca/E/pub/tp/it513r/README.html>

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