# Taxation of Medical Expenses

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# TAXATION OF MEDICAL EXPENSES

Everyone needs medical care at one time or another, and consequently, notwithstanding our government-sponsored medicare system, virtually everyone incurs costs related to that medical care. In many cases, the out-of-pocket expenses incurred can be recouped, in whole or in part, through a medical expense tax credit claimed on the annual tax return.

## What's an eligible medical expense?

The answer to this question might seem self-evident, but in fact the list of what is (and is not) an eligible medical expense runs to several pages in the Canada Revenue Agency (CRA) publications on this subject. As a starting point, the CRA identifies the following as the most common eligible medical expenses:

- payments made to a medical doctor, dentist, nurse, or certain other medical professionals, or to a public or licensed private hospital;
- premiums paid to private health care services plans, where those premiums are not paid by an employer;
- premiums paid under provincial or territorial drug prescription or pharmacare programs, but not premiums paid under government-sponsored medical or hospitalization plans; and
- payments for prescription drugs, prescription eyeglasses or contact lenses, dentures, hearing aids, pacemakers, wheelchairs, crutches and other qualifying medical devices.

Many taxpayers are covered by employer-sponsored extended health care plans, under which many of these expenses are paid, in whole or in part. In such cases, the rule is that the taxpayer/employee can claim only the part of the expense for which he or she is not reimbursed (for example, a co-payment or deductible). However, if the employer's payment or reimbursement of eligible expenses is shown as a taxable benefit on the employee's T4 slip for the year, then the employee can claim the entire amount on his or her tax return.

The list of expenses eligible for the Medical Expense Tax Credit excludes expenses incurred after March 4, 2010 for purely cosmetic purposes, including related services and other expenses (such as travel). This includes surgical and non-surgical procedures aimed solely at enhancing one's appearance such as liposuction, hair replacement procedures, botulinum toxin injections, and teeth whitening.

Cosmetic procedures (including those noted above) will continue to qualify for this credit if they are required for medical or reconstructive purposes. Such situations include surgery with respect to a deformity relating to a congenital abnormality, a personal injury stemming from an accident or trauma, or from a disfiguring disease.

## What doesn't qualify?

The following is a list of items which do not qualify as claimable medical expenses:

- Toothpaste
- Birth control devices (non-prescription)
- Wigs—unless made to order for individuals who have suffered abnormal hair loss owing to disease, medical treatment, or accident
- Maternity clothes
- Funeral, cremation or burials, cemetery plot, monument, mausoleum
- Illegal operations, illegal treatments, or drugs illegally procured
- Health programs offered by resort hotels, health clubs, and gyms
- Athletic club expenses to keep physically fit
- Payments to a municipality where the municipality employed a doctor to provide medical services to the residents of the municipality
- Medical expenses for which you are reimbursed or are entitled to be reimbursed
- Scales for weighing food

In one case—*Mangillo v. The Queen*, 95 DTC 199 (T.C.C.)—the cost of specialized food required by an allergy sufferer in accordance with a doctor's advice was held not to be an eligible medical expense. Although admittedly required by the patient's medical condition, there was simply no provision permitting such a deduction. The closest permissive provision, for substances for the treatment of disease, requires the substances to be provided by a licensed pharmacist. Note that a statutory exception now exists for the incremental cost of gluten-free food required by a person with celiac disease.

## Claiming the credit—the general rules

First of all, it's important to note that the tax "break" given to taxpayers who incur eligible medical expenses is in the nature of a non-refundable tax credit, and not a deduction from income. The medical expense tax credit, like all such non-refundable tax credits, works by reducing federal (and provincial) tax which would otherwise be payable by the taxpayer claiming the credit. Eligible medical expenses are not deducted from income, and the medical expense tax credit, since it is a non-refundable tax credit, cannot create a tax refund – it can only reduce taxes which would otherwise have been owed.

The second point to be remembered is that the availability and amount of any medical expense tax credit which may be claimed by a taxpayer depends both on the amount of eligible medical expenses paid and the taxpayer's income for the year.

The rule in claiming the credit is that a taxpayer may claim medical expenses paid that were more than 3% of the taxpayer's net income (the amount that appears on line 236 of the taxpayer's tax return) or $2,237 (in 2016), whichever is less. That's not a formula which is easily understood, but there is a rule of thumb. If


your income is more than $74,567, then you can claim medical expenses paid which were over the $2,237 threshold. If your net income was less than $74,567, then you need to calculate 3% of that net income number, and claim medical expenses which were over the 3% figure, as in the following example.

*John, a single taxpayer, had a net income of $50,000 in 2016. Consequently, he can claim eligible medical expenses paid of more than 3% of $50,000, or $1,500. If John's medical expenses for the year are less than $1,500, then he cannot make any claim for the medical expense tax credit. If John's medical expenses for the year are more than $1,500, he can claim the amount paid in excess of the $1,500 threshold figure. So, if John incurred $2,100 in medical expenses for the year, he can make a claim for $600 ($2,100 - $1,500) in medical expenses on his return.*

A single taxpayer who has no dependants can claim only those medical expenses which he or she has paid. A taxpayer who is married, or has a common-law spouse or minor dependants, however, is entitled to add together all medical expenses incurred by that spouse, common-law partner and minor child or children and claim the total expenses on his or her return. Such accumulation of expenses obviously makes it easier to bring total medical expenses over the 3%/$2,237 threshold required to make a claim, as in the following example.

John, our taxpayer from the example above, is now married with two children, aged 12 and 10. His net income remains at $50,000. As shown in the example above, John cannot make any claim for his medical expenses unless those expenses exceed the 3% of net income threshold, or $1,500. However, both John's wife, Jean, and their two children have also incurred medical expenses for the year as follows:

| Name | Medical Expense |
|---|---|
| John | $1,500 |
| Jean | $1,000 |
| Alec (age 12) | $1,800 |
| Adam (age 10) | $1,000 |

The family's total medical expenses for the year are therefore $5,300. Since their combined eligible expenses now exceed the $1,500 threshold, John can make a claim for medical expenses of $3,800 ($5,300 - $1,500). That amount is then multiplied by the lowest federal tax rate (15% for 2016) to arrive at a non-refundable tax credit of $570, claimed on line 330 of John's tax return.

## Who should make the claim?

Although the example above shows John claiming the family's medical expenses, such expenses can in fact be claimed by either spouse (or common-law partner). Because the amount of medical expenses which may be claimed is determined in part by the net income of the person making the claim, it usually makes sense for the claim to be made by the spouse with the lower net income.

Continuing with the above example, assume that Jean had net income for the year of $30,000. Her income threshold for claiming medical expenses for the year would therefore be $900 ($30,000 × 3%). Consequently, if Jean claimed the family's medical expenses, her claim would be for $4,400 in expenses ($5,300 - $900) which, when multiplied by the 15% tax rate, would result in a credit of $660—$90 more than John's claim, for the same expenses.

It goes without saying, of course, that only one spouse can claim the family's medical expenses for the year.

## Timing the medical expense claim

Most of the time, for income tax purposes, expenses can be claimed only in the year that the expense is paid. However, the rules for claiming medical expenses are slightly different, in a way that can work to the advantage of the taxpayer. When it comes to medical expenses, the taxpayer can claim eligible medical expenses incurred during any 12-month period that ends during the tax year. While that rule sounds a little confusing, it's actually fairly straightforward in its application.

Assume that John and Jean's family, in the above example, paid $1,000 in eligible medical expenses between February and December 2015. Since Jean's income threshold for claiming medical expenses for that year is $900, she could claim the $100 in expenses incurred over that threshold on her 2015 return and receive a federal tax credit of $15 (15% of $100). However, suppose that two members of the family incurred costs in January 2013 for dental care and new eyeglasses, at a total cost of $700. If Jean chooses to defer making her medical expense claim until she files her 2016 tax return, she can claim eligible medical expenses paid in the 12-month period between February 1, 2015 and January 31, 2016. Those expenses now total $1700 ($1,000 + $700). If Jean's income threshold remains at $900 for the 2016 taxation year, her medical expense claim will be for $800 ($1,700 - $900), resulting in a tax credit of $120 ($800 × 15%).

There is, unfortunately, no hard and fast rule, or even a rule of thumb, which can be used to determine just which 12-month period should be chosen in which to accumulate medical expenses. Each case is different, depending on the income of the taxpayer claiming the credit, the amount of medical expenses incurred, and just when those bills were paid. That said, in situations where it's possible to manage the timing of eligible medical expenses (for example, for routine dental work or new eyeglasses), it's a good general rule to incur those expenses before the end of the calendar year. Such a practice (while not necessarily easier from a cash flow perspective) will maximize eligible expenses in the current year, increasing both the medical expense credit which may be claimed and the likelihood that it won't be more advantageous to defer the claim until the next taxation year, as in the example above. At the end of the day, however, working out the best timing for a medical expense claim scenario comes down to sitting down with a calculator and working out the results provided by the various timing options.

## Claiming medical expenses of other dependants

It's not uncommon for taxpayers to be responsible for the medical expenses of relatives other than their spouse or children. Where, for instance, an elderly parent lives with one of his or her adult children, it wouldn't be unusual for that adult child to pay any prescription drug costs needed for his or her parent. Once again, such costs constitute eligible medical expenses for purposes of the medical expense tax credit, assuming that qualifying criteria are met.

The general rule in this area is that eligible medical expenses paid by the taxpayer or his or her spouse or common-law partner for the parent, grandparent, brother, sister, aunt, uncle, niece, nephew, grandchild or adult child of the taxpayer or that spouse or common-law partner may be claimed by either of them. In order to claim the expenses for one or more of these relatives, the relative must have been dependent on the taxpayer (or his spouse or partner) for support during the tax year. As well, the 12-month period used to calculate eligible expenses must be the same period as that used to calculate such expenses for the taxpayer and his or her immediate family.

As with all other medical expense claims, there is an income threshold requirement. In this case, the income used to determine the threshold (once again, the lesser of $2,237 or 3% of net income) is that of the dependant relative, and not the supporting taxpayer who is making the claim.

Continuing with the example above, suppose that Jean's mother lived with John and Jean's family during the year. Jean paid $600 for her mother's required prescription medicine during the year. Her mother's only source of income for the year was $6,000 in Old Age Security payments.

In this case, the income threshold for determining the eligible medical expense claim is Jean's mother's income of $6,840. The threshold for claiming her expenses is $6,840 × 3%, or $205. Consequently Jean (or John) will be able to claim $395 in eligible medical expenses ($600 - $205) for Jean's mother for the year.

The maximum amount that may be claimed is $10,000 in medical expenses per dependant.

## Year of death medical expenses

The general rule as outlined above is that only medical expenses incurred in a 12-month period ending in the year can be claimed for purposes of the medical expense tax credit. Where a taxpayer has died during the year, the rules are somewhat more generous. Specifically, on the return for a person who died during the year, a claim can be made for qualifying expenses paid in any 24-month period that includes the date of death. As well, where the claim for those expenses is being made by a supporting person, the same 24-month rule applies.

## Out-of-country medical expenses

Many Canadians travel out of Canada in the course of the year and many of them will inevitably incur costs for medical expenses while out of the country. The general rule is that allowable medical expenses are not limited to those incurred in Canada. In other words, where an expense which would be eligible for the medical expense tax credit if paid in Canada is incurred and paid while on a winter vacation in Florida, that expense will qualify for the medical expense tax credit on the Canadian tax return. All such expenses are, of course, subject to the usual 3% of net income/$2,237 threshold.


Many Canadian snowbirds who travel to the U.S. during the winter months take out extended medical insurance to cover the cost of any medical care which might be needed while in the U.S. Premiums paid for such coverage are an eligible expense for purposes of the medical expense tax credit.

## Travel and meal expenses related to medical care

Anyone who's ever undergone extensive or prolonged medical care or who has had to seek specialized treatment outside of their own community knows that the actual medical costs incurred can be just the tip of the iceberg. Our tax system recognizes that people undergoing medical treatment may incur unavoidable costs for necessary travel, meal or accommodation expenses, by allowing taxpayers to claim such costs as part of their medical expense credit claim.

Taxpayers who are required to travel more than 40 kilometres to obtain necessary medical treatment are entitled to claim travel expenses incurred to get to and from the treatment center. Where a taxpayer is required to travel at least 80 kilometres to obtain medical treatment, related accommodation and meal expenses may also be included.

There are two methods available to taxpayers to calculate and claim such expenses. Using the first, "detailed" method, the taxpayer can obtain and keep all receipts related to eligible meal, accommodation and travel expenses. While meal and accommodation expenses are relatively straightforward, the calculation of eligible traveling expenses is more complicated. For purposes of the medical expense credit, eligible travel expenses include operating expenses of a vehicle, including fuel, oil, tires, licence fees, insurance, maintenance and repairs, as well as ownership expenses like depreciation, provincial tax and finance charges. In order to determine the percentage of such expenses which may be claimed for purposes of the medical expense tax credit, the taxpayer must keep track of the number of kilometers driven over the 12-month period for which medical expenses are claimed, as well as the number of such kilometers which were related to obtaining medical treatment. For example, if the taxpayer put 10,000 kilometres on his or her car during the 12-month period, and 2,000 of those kilometers related to trips taken to obtain medical care or treatment, 20 percent of vehicle expenses would be claimable as part of the medical expense tax credit.

If that sounds like a lot of record keeping and calculating, it is, especially at a time when health, and not taxes, should be the priority. Fortunately, there's an alternative. The CRA permits taxpayers to use the "simplified" method in calculating both meal expenses and travel costs for purposes of the medical expense tax credit. That simplified method allows the taxpayer to use a "flat rate" for both meal and travel expenses, with that flat rate multiplied by the number of kilometres or days for which such expenses were incurred.

The flat rate for meal expenses is $17 per meal, to a maximum of $51 per day, regardless of where the taxpayer lives. For travel costs, the flat per kilometer rate varies by province. The most current rates available on the CRA Web site for the different provinces and territories are as follows:

| Province or Territory | Cents/kilometre |
|---|---|
| Alberta | 44.5 |
| British Columbia | 48.5 |
| Manitoba | 47.0 |
| New Brunswick | 49.0 |
| Newfoundland & Labrador | 52.0 |
| Northwest Territories | 61.5 |
| Nova Scotia | 49.5 |
| Nunavut | 61.0 |
| Ontario | 55.0 |
| Prince Edward Island | 48.5 |
| Quebec | 50.5 |
| Saskatchewan | 46.5 |
| Yukon | 60.5 |

For example, if a taxpayer living in Ontario had to travel 100 kilometres (200 kilometres per round trip) on 18 separate days to obtain chemotherapy and radiation treatment, he or she could claim the following meal and travel expenses:

*18 days × $51 = **$918** for meal expenses*

*18 × 200 × 55 cents = **$1,980** for travel expenses*

Total medical expenses related to travel and meal costs for the 12-month period would therefore be $2,898 ($918 plus $1,980), with no supporting receipts required.

## Keeping the receipts

It's important to remember that the "no-receipts required" exception outlined above is limited to travel and meal costs related to medical care where the taxpayer uses the flat rate method. In all other cases (prescription drugs, dental care, prescription eyeglasses, etc.) it's necessary to obtain and keep receipts documenting the expense. When the return on which those expenses are claimed is paper-filed, the supporting receipts must be filed with the return (and it's always a good idea to keep copies of any receipts). Where the return is e-filed or net-filed, the receipts should be kept in case the CRA wants to verify any expenses claimed.

## Conclusion

Medical expenses aren't the kinds of expenditures any of us would choose to incur, and significant medical expenses can create real financial hardship for individuals and families. While our tax system doesn't completely compensate taxpayers for such expenses, tax relief is available, and it's worth taking the time to ensure that all possible claims are made, to minimize those after-tax costs as much as possible.