

TAX TALK

Tax Rx: Three tips for deducting medical expenses

When you're sick, the last guy you want to see is your accountant (he's probably the only person who can deliver worse news than your doctor). But as you prepare your income tax return, it's important to understand how medical expenses affect your taxes and financial planning. The reason, of course, is that health care costs can add up in a hurry. It's smart to know the rules and take any opportunity to reduce your tax obligation.

As you review your expenses, here are three questions to consider:

Whose expenses can I claim?

Canada Revenue Agency breaks down the medical expense schedule into two parts.

The first is for all allowable medical expenses for your immediate family, meaning you, your spouse (or common law), and children who



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were born no later than 1994.

The second is a separate line on your tax return for medical expenses you paid for extended family including your parents, grandparents, brother, sister, aunt, uncle, niece, or nephew who was a resident of Canada at any time in 2011.

You can also claim eligible medical expenses you paid for your children born before 1993.

What is an eligible expense?

You're allowed to claim eligible medical expenses paid within any 12-month period ending in 2011. Notice the word is "paid," not "in-

voiced" or "billed" to you. Generally, you can claim all amounts paid, even if they were not paid in Canada.

CRA publishes quite the list of eligible medical expenses on its Web site (www.cra-arc.gc.ca, search for Medical and Disability-Related Information).

The agency also has a list of expenses that are not allowable, like health club memberships and over-the-counter meds.

Here are three items that I get asked about all the time:

Hot tubs: I'm sure you've heard that as long you have a note from your doctor, you can claim the installation of a hot tub in your home. Not true. (However, if you really need swirling water to ease your back problems, whirlpool bath treatments are eligible).

Naturalist, herbal, or organic

food: If you're on a special diet because of advice from some practitioner or of your own design, the food costs are not deductible. The exception is if you have celiac disease, you can claim the incremental cost of gluten-free products.

Travel: If you had to travel at least 40 kilometres (one way) from your home for medical services, you may be able to claim your vehicle or public transportation expenses as medical expenses.

Likewise, if you had to travel at least 80 kilometres (one way), you may be able to claim accommodation, meal, and parking expenses as well.

Travel expenses are allowable only when equivalent medical services were not available near your home, and CRA believes the travel (including your route) was reasonable. If you're unable to go alone because of your medical condition, you can also claim the travel expenses of someone who accompanies you.

Can I expense my insurance premiums?

If you're an owner/operator with private health insurance, in the past you could include the premiums on your tax return as a medical expense as discussed above. Now you can expense this cost directly on your business income statement.

This can be quite a bit of savings. The medical expense deduction is reduced by 3% of your net income. This carve-out greatly reduces the deduction and often, unfortunately, prevents any sort of claim. By expensing 100% of the cost, you get to save tax every year on this deduction.

Be careful, though. Like any other claim, there are rules and guidelines.

If your benefit premium includes life and disability insurance, the amounts included in your monthly payment for these should be backed out. Additionally, there are rules capping the amount of the expense you can write off for yourself, your spouse and children.

If you're not incorporated, the maximum annual claim for you, your spouse, and each household member over 18 at the beginning of the period is \$1,500 each.

The claim is \$750 each for younger members. Any non-deducted or excess premium can then be included in your medical expense tax credit.

Also, if you have employees you must balance the coverage and expense you pay for them with the coverage and expense for you.

These deduction limits do not apply to incorporated owner/operators. It's another good reason to book a check-up with your accountant and talk about how incorporating can improve your financial fitness. □

– Scott Taylor is vice-president of TFS Group, providing accounting, bookkeeping, tax return preparation, and other business services for owner/operators. Learn more at www.tfsgroup.com or call 1-800-461-5970.