Tax & Estate Planning

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All about eligible medical expenses

Help your client claim these non-refundable tax credits

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Justine and Cornell are a typical Canadian couple (invented for the purposes of this column). Each tax season they do their best to maximize the income tax deductions available to them. However, one potential deduction they never seem to use is for medical expenses. Justine and Cornell realize that medical expenses are a non-refundable tax credit, which can be subtracted from taxes owing, but they find the credit confusing.

What is an eligible medical expense?

Expenses incurred for necessary medical or reconstructive purposes are eligible. Generally, expenses for treatment that was purely cosmetic in nature isn't an eligible medical expense.

The Canada Revenue Agency (CRA) has a useful list to determine if an expense is eligible. Eligible expenses are very broad, and some of the items on the approved list may be surprising. For instance, up to $1,000 or 50% of the amount paid for an air conditioner for a person with a severe chronic ailment, disease or disorder is eligible, as are the incremental costs associated with gluten-free food products for those with celiac disease.

The takeaway is to never assume. When determining if an expense qualifies, Justine and Cornell should review the CRA website or speak to their tax advisor.

Can Justine and Cornell use old medical expenses?

Justine and Cornell haven't claimed medical expenses for several years and wonder if they can make use of older expenses. Unfortunately, the answer is no. Cornell can claim only medical expenses he or Justine (the credits can be claimed for spouses or common-law partners) paid in any 12-month period ending in the previous tax year. Therefore, any expense older than last year is of no use to them.

If a child of the taxpayer or their spouse or common law partner is a dependant, expenses paid for by the family for the year can be used in calculating eligible expenses. In fact, medical expenses of the taxpayer's (or their spouse's or common-law partner's) dependent parents, grandparents, brothers, sisters, uncles, aunts, nephews or nieces who were residents of Canada at any time in the year are eligible.

What are net medical expenses?

Together, Justine and Cornell incurred medical expenses of $7,500 last year. However, eligible expenses don't equal total expenses. Justine's employer provides a group health plan, and her company-sponsored insurance reimbursed the household $2,500. Eligible expenses are net of any reimbursement, and therefore only $5,000 of their expenses may be claimed unless the reimbursed amount was claimed in either Justine's or Cornell's income on their tax returns.

However, there is one more step in determining net eligible medical expenses. The CRA has a prescribed threshold that is deducted from eligible medical expenses to determine net eligible medical expenses. The prescribed threshold is the lesser of 3% of the taxpayer's net income or $2,421 (for 2021) or $2,479 (for 2022).

After determining net eligible expenses, a provincial and federal credit is applied to determine net credit available to the taxpayer.

Should Justine or Cornell claim net eligible medical expenses?

Medical expenses can be claimed on either of their returns or split between their returns. Usually, it's more advantageous to claim all expenses on one return.

Last year Justine earned $150,000, and Cornell earned $36,000.

If Justine were to claim the expenses, the net credit would be $517:

Eligible medical expenses incurred	$5,000
Less: CRA prescribed threshold	($2,421)
Net eligible medical expenses	**$2,579**

Federal credit @ 15%	$387
Provincial credit @ 5.05% (Ontario)	$130
Net credit available	**$517**

If Cornell were to claim the expenses, the net credit would be $786:

Eligible medical expenses incurred	$5,000
Less: CRA prescribed threshold	($1,080)
Net eligible medical expenses	**$3,920**
Federal credit @ 15%	$588
Provincial credit @ 5.05% (Ontario)	$198
Net credit available	**$786**

So, in Justine and Cornell's case, it's better to have the eligible expenses claimed on Cornell's return.

Other considerations for Justine and Cornell

Justine and Cornell are snowbirds and spend several months each year in Georgia. They should keep in mind that an expense doesn't have to be incurred or paid in Canada to be eligible, so it's important to properly document all expenses regardless of where they're incurred.

They also should consider being proactive in their expense management. It may be possible to realize expenses in such a way as to take advantage of the credit, despite the threshold.

For instance, this year Cornell will require expensive dental treatment that will likely exceed the threshold. Justine may want to consider having the eye surgery she's been considering in the same year as Cornell's dental work to maximize the credit in a year when it's available.

Finally, Justine and Cornell should speak to their financial planner or tax preparer for more information about this and other credits available to them.

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