Tax Strategies For Someone Who Has Disabilities

Tax Planning For Someone Who Has Disabilities

By: Joe the Investor

The word disability can be of a mental, cognitive or physiological in nature, and this is identified in the Canadian tax code as a "disability". If this is your situation, there are many options available that can help you from a tax perspective. Many of the options come through filling out the tax return, but help can also come from government programs, both provincial and federal. Note that the examples in this article are based on someone living on Ontario, Canada. Other provinces have different rules, as would other countries. Credit amounts are given for the 2013 taxation year. The numbers will exist for other taxation years, but may be lower in prior years and higher in years after 2013 due to inflation adjustment (indexing) of some of the credit amounts. The Canada Revenue Agency should be consulted as the final say on tax matters – this article is designed to alert you to what is possible and what to look for.

Disability Tax Credit

If you have a disability in Ontario, you can apply for a disability credit using a form T2201, which is submitted to the Canada Revenue Agency or CRA.(1) This is submitted in paper form to the CRA as of the time of writing, but any tax returns submitted after providing this form can be submitted electronically. This form should be filled out by the person who has a disability as well as their licensed physician or specialist. The disability should be prolonged and restrictive for at least 12 months. This form allows the tax credit for 5 or 10 years. If there is a delay from the CRA in processing the form, past tax returns can be adjusted retroactively for the disability credits to collect money from previous tax returns up to the approval date. When it is time for a renewal of your situation, the CRA would remind you to resubmit the form to extend the use of the disability credit or not. For each prior year, a T1-adjustment form should be mailed to the Canada Revenue Agency listing the line number (in this case Line 316) to be changed from $0 (without a disability credit) to $7697 for 2013. Each prior year will have a different amount, so this should be checked on the CRA web site. T1 adjustments are submitted on paper as opposed to an electronic format.

One of the cardinal rules in taxation is that you would not get a refund unless you paid taxes during the year. One exception to this rule is obtaining credits for low income or social assistance. These are not refunds in that they are not paid to you when you do your tax return, but at preset dates during the year. In order to get any type of assistance, tax return filings have to be kept up to date. If you have not filed taxes for some years in the past, and you have not received government assistance or credits, this could be the reason why.

In the case of a credit, it would not be useful to you if there was no income to offset it against. Some people who have disabilities would have income because they are working, or are deriving income from investments. Other people are not able to work and are being cared for by someone else. If you don't have enough income to use this credit, you can transfer it to someone who is caring for you. It is typically someone who is related to you and supports you to do everyday functions.

Children With Disabilities

If a child has disabilities, allowable child care expense credits are increased compared to a child that does not have disabilities. The maximum amount of child care is $10,000 for a disability situation versus $7,000 for a child under 7 years old and $4000 for any other child.

If you are caring for a child who has disabilities, you can make a higher claim than for someone who does not. There is a family caregiver amount which allows you to claim an extra $2000 for each child under 18 years old with disabilities. If the child is over 18 years old, a claim can still be made if they are dependent on you because they had an impairment of physical or mental functions. This is also known as the disability supplement.

If you are claiming the Ontario fitness amount, the claim for a disabled child is maximized at $1000 instead of $500 per year. Receipts should also be available in case of a CRA request. Another cardinal rule in taxation is that if you are going to make a claim, make sure you have a receipt from a third party to substantiate what you are claiming.

Working Tax Benefit (WITB)

This is a benefit given to people who are working but have lower incomes. The maximum benefit is $989 without a disability, but with a disability there is an additional $495 which is available as a credit per year. This benefit requires a minimum income and would start declining as the income goes up, eventually petering out to zero.

Medical Expenses

Medical expenses can be claimed by anyone. There is an income restriction of 3% of income or more for a given taxation year. If the medical expenses total more than 3% of your income, any amount above that number would be given a credit of 15% of the amount paid. As an example, if you made $30,000 in income in the tax year in question, 3% of this amount is $900. If you spend more than $900 in a given year on medical expenses, such as $1200, then $1200 less $900 or $300 would be credited to you. At a 15% credit rate, this equates to a credit of $45. If medical expenses are not enough to make a claim in a given year, they can be carried over to the following year, but the medical expenses claimed have to fall within a 12 month window ending in the current taxation year. As an example, if you had dental bills of $500 dated May 1, 2012, an eye exam for $200 dated August 1, 2012 and $500 in prescription drugs dated February 1, 2013, you can claim all of these expenses in the 2013 tax year if you use a 12 month window ending February 1, 2013. The ending date of that window has to fall within the taxation year you are filing, and then go 12 months back from that date. Medical expenses have to be paid by you as opposed to an insurance company or government insurance, and must be incurred from a qualified or licensed practitioner in the province you live in. This list of practitioners is being expanded each year, so check this list with the CRA to see if what expense you have meets the criteria.

Attendant Care

People who have disabilities can have an assistant who helps them with their daily duties. This assistant or attendant expense can be deducted on their tax return, but there is a limit of $10,000 available for deduction in a given year. Should the expenses exceed $10,000, the full cost can be deducted, but the disability credit cannot be claimed. The other option is to limit the attendant expenses at $10,000 and claim the disability amount as well. The two choices would have to be tested and the most beneficial option used for the taxation year in question.

Nursing Home Expenses

Should the person in question be in a nursing home, the disability credit and attendant expenses would not be applicable, but the cost of the nursing home expenses can be claimed on the tax return. These expenses will vary depending on how much care is being provided versus how independent the person is. The general rule is that expenses that are claimed are related only to the care that is needed. These expenses should match the criteria set by the CRA, and be itemized in the receipt from the nursing home.

Travel Expenses

Travel expenses are generally not allowed to be claimed for personal use unless it is for moving related to employment. If you need to travel more than 40 kilometres from home to do a medical procedure and there are no other alternatives available, these travel expenses can be claimed with medical expenses. In the event that there are many ways to travel to a destination, the least expensive way that is available would be used as a guideline for how much you can claim.

Renovations to Your Dwelling

If you need to make alterations to your home to make it accessible for someone who has disabilities, these renovation expenses can be claimed. The criteria are that the renovations are being done to create better access to the home or within the home, the renovations are not expected to increase the value of the home, and these renovations would not be done if there was not someone living there who has disabilities who would benefit from the renovations.

This article looks at areas of the Canadian tax code that are applicable for persons with disabilities. To do future tax planning, more work should be done concerning future income and where it will come from. The tax code should also be consulted for any changes to the tax laws as changes can occur frequently.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are.

Sources:

1) http://www.cra-arc.gc.ca/E/pbg/tf/t2201/README.html