Canadian Health Insurance Tax Guide
The Medical Expense Tax Credit
September 2021

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Individuals may not deduct hospital and medical expenses from their income, but they may be able to claim a tax credit for them. The first part of this article discusses what the medical expense tax credit (METC) is, generally what expenses are covered, and how it's calculated. The second part discusses whether and to what extent the METC may be able to help offset the costs of different forms of health insurance.

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DEDUCTION OR CREDIT – WHAT'S THE DIFFERENCE?

A tax deduction allows a taxpayer to reduce the amount of income on which they pay tax, and thereby save the tax they would otherwise pay on that income. For example, registered retirement savings plan (RRSP) contributions are a widely used way to get a tax deduction. If a taxpayer earns $50,000, and contributes $9,000 to their RRSP, they can use the RRSP contribution to reduce their taxable income from $50,000 to $41,000.

The amount of tax saved through a deduction depends on the taxpayer's income and marginal tax rate. If a taxpayer's marginal federal/provincial tax rate was 40%, a $9,000 RRSP contribution would save $3,600 in federal and provincial income tax ($9,000 X 40%). But a taxpayer in the 45% tax bracket would save $4,050 in taxes by making the same RRSP contribution ($9,000 X 45%).[1]

A tax credit, on the other hand, directly reduces a taxpayer's tax bill. If a taxpayer paid a $100 expense that entitled them to a 20% tax credit, the tax credit would reduce their tax bill by $20. Tax credits in Canada are calculated using the lowest federal and provincial tax brackets. Therefore, unlike a deduction, the size of a tax credit does not change with changes in the taxpayer's income.

There are two types of tax credits – refundable and non-refundable. A refundable tax credit can be used entirely, even if it reduces the tax bill to below zero – the government will then owe the taxpayer a refund. A non-refundable tax credit, on the other hand, can only be used to the extent that it eliminates the taxpayer's tax liability. It cannot be used to produce a tax refund.

Refundable, in this sense, doesn't refer to the refunds many taxpayers receive because they have had more income tax deducted from their paycheques and other payments during the year than what they owe when they file their tax returns. Instead, it means that the government owes the taxpayer money, regardless of the amount of tax the taxpayer owes, even if the refund exceeds the amount of tax the taxpayer owes.

[1] Federal and provincial tax rates are available at http://www.cra-arc.gc.ca/tx/ndvdls/fq/txrts-eng.html.

WHAT IS THE METC?

The METC is a non-refundable tax credit for individuals who have incurred significant medical expenses for themselves, their spouse and dependents.[2] The credit equals a percentage of the amount by which an individual's eligible medical expenses (plus those of their spouse and dependents) exceed a certain threshold. The federal threshold is 3% of the individual's net income, or $2,421 (2021 amount, indexed to inflation), whichever is less.[3] Each province (other than Quebec) also uses 3% of the individual's net income, but sets its own threshold level. For example, Ontario's threshold level for 2021 is $2,462. The three territories follow the federal government's thresholds. Net income is the taxpayer's income after deductions like RRSP contributions, union and professional dues, child care expenses and investment losses, to name a few.

The percentage amount used to determine the tax credit is the lowest individual income tax rate for the year. In 2021, that rate is 15% federally. Each province and territory also uses its lowest individual income tax rate. In Ontario, for example, the lowest tax rate in 2021 is 5.05%. As a result, for an Ontario taxpayer in 2021, the credit equals 20.05% of the amount by which their family's medical expenses exceed the federal and provincial thresholds or percentage amounts. For example, if someone was earning $100,000, and had $5,000 in eligible medical expenses, they would be able to claim a $386.85 federal credit (($5,000 - $2,421) X 15%) plus a $128.17 Ontario credit (($5,000 – $2,462) X 5.05%), for a total METC of $515.02. The provincial threshold amounts and lowest combined rates for the federal government and for each province and territory are included at the end of this article.

[2] S1-F1-C1: Medical Expense Tax Credit, para. 1.1.

[3] https://www.canada.ca/en/revenue-agency/services/tax/individuals/frequently-asked-questions-individuals/adjustment-personal-income-tax-benefit-amounts.html#nrtc-metc. In Quebec, for provincial income tax purposes, the threshold is 3% of both spouses' combined net income. There is no "lesser of" limit.

WHO MAY CLAIM THE CREDIT?

Any taxpayer with eligible medical expenses may claim the credit. Between spouses, it does not matter which spouse incurs the medical expenses, pays them or claims the credit. One spouse may pay all the family's medical expenses, but the other spouse may claim the METC on their tax return. In order to maximize the benefit of the tax credit, only one spouse should claim it. If both spouses claim the credit they would add another threshold amount to overcome before they could obtain any tax relief.

The federal $2,421 threshold amount equals 3% of 80,700. If both spouses earn that amount or more, it will not matter which spouse claims the credit, since they will both be subject to the same $2,421 threshold. If one or both spouses earn less than $80,700, though, it can make sense for the lower income spouse to claim the credit, since that spouse's threshold amount will be lower, and more of the family's medical expenses will qualify for the credit. An exception to this rule is where the lower income spouse's income is so low that not all of the METC can be used. In that case, it may still make sense for the higher income spouse to claim the credit, even though that spouse's threshold amount will be higher. Remember that the provincial thresholds will be different.

QUALIFYING FOR THE CREDIT – PRELIMINARY ISSUES

There are some preliminary issues to consider for expenses to qualify for the tax credit

- the taxpayer or the taxpayer's legal representative must have paid the expense,
- the payment of an expense must be supported by a receipt,
- the expense cannot have been used in calculating a previous year's METC, or a tax credit for a different taxpayer, and
- the expense must not have been reimbursed or be reimbursable.

TIMING OF CLAIMS

A taxpayer may claim a tax credit for any eligible medical expenses they have incurred during any 12-month period ending in the current tax year. For example, a taxpayer could claim expenses on their 2021 tax return that they incurred for the period covering January 2, 2020 to January 1, 2021, or from December 31, 2020 to December 30, 2021. And, of course, a taxpayer could claim expenses for the period covering the current year, January 1, 2021 to December 31, 2021. If an executor or administrator is claiming medical expenses for a person who died during the tax year, the time period is extended to any 24-month period ending in the current tax year.

ELIGIBLE EXPENSES

Expenses eligible for the METC are listed in subsection 118.2(2) of the Income Tax Act[4] (ITA) and in Regulation 5700. The Canada Revenue Agency (CRA) also publishes guides to help taxpayers determine which expenses qualify for the credit, and how to calculate the credit.[5] A qualifying expense may be incurred outside Canada. The following is a general list of categories of eligible medical expenses included under subsection 118.2(2):

- Medical and dental services
- Attendant or nursing home care services at home, in an institution, school or group home
- Ambulance services, travel expenses, and vehicle alterations
- Devices, like glasses, dentures and hearing aids
- Devices, therapy or services to accommodate those with loss of or impairment to speech, vision, hearing or other conditions
- Prescription drugs

[4] Income Tax Act, R.S.C., 1985, c. 1 (5th Supp.), referred to herein as the ITA.

[5] See S1-F1-C1: Medical Expense Tax Credit, and RC4064E, "Disability-Related Information", updated annually. Also see RC4065, "Medical Expenses" https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4065.html. The CRA's guidance contained in its interpretation bulletins, responses to taxpayer inquiries and advance tax rulings is the CRA's interpretation of the law on a given subject and can help taxpayers plan their affairs in order to comply with the law. However, the CRA is not bound by what it says in its interpretation bulletins or by its responses to taxpayer inquiries. The CRA is bound by the Income Tax Act and Regulations, and by judicial decisions, all of which have the force of law. It is also bound by the Advance Tax Rulings (ATR) it issues, but only to the individual taxpayer who requested the ruling, and only as long as the circumstances outlined in the request for the ATR remain unchanged. The CRA is free to take a different position on a same or similar question or ruling request from a different taxpayer.

Regulation 5700 includes a list of prescribed devices, the costs of which also count as medical expenses under ITA paragraph 118.2(2)(m). Some of those devices are:

- Wigs
- Needles
- Orthopedic shoes
- Electronic speech synthesizer
- Infusion pump
- Braille note-taker

You can't claim an expense that you have also used to support a claim for a disability supports deduction under ITA section 64, or a claim for the disability tax credit under ITA section 118.3. The disability supports deduction allows you to deduct the cost of items that, because of a disability, you need to work or attend school.

The disability tax credit is a non-refundable tax credit you may claim if you have a severe or prolonged mental or physical impairment that has lasted at least 12 months and significantly restricts you from performing at least one basic activity of daily living.[6] You also qualify for the credit if you are blind or if you receive life-sustaining therapy because of your medical condition.

However, subject to income thresholds and limits, an individual who is at least age 18 and who is a Canadian resident throughout the year may claim the refundable medical expense supplement (RMES). For 2021 the supplement is the lesser of $1,285 or 25% of eligible medical expenses and disability supports expenses in excess of the taxpayer's and spouse's combined income of $28,446. To claim the RMES, the individual must also have reported medical expenses supporting a claim for the METC or the disability supports deduction.

[6] The basic activities of daily living are feeding, speaking, hearing, elimination, walking, and performing mental functions necessary for everyday life, like memory, problem solving, goal setting, judgment and adaptive functioning. Working, housekeeping or a social or recreational activity are not considered basic activities of daily living.

For 2021, the supplement is reduced by 5% of income exceeding $28,446, until it is eliminated with combined income over $54,146. To qualify, the claiming spouse must have a minimum income of $3,751 (not including wage-loss replacement income).

The supplement functions as a tax refund. If an individual's RMES exceeds their tax liability, the excess results in a tax refund. Further details can be found in the CRA's document, S1-F1-C1: Medical Expense Tax Credit.

WHOSE EXPENSES MAY YOU CLAIM?

A taxpayer may claim their own medical expenses, their spouse's, and any expenses that they or their spouse paid for their own or their spouse's children (provided the child will not reach age 18 before the end of the current tax year). Whether a person is a spouse or child is determined when the expense was incurred, not when the credit is claimed.[7]

The term "spouse" includes a common-law spouse and a same-sex partner.[8]

The term "child" has an extended meaning in the ITA.[9] It includes all of the following individuals:

- Someone of whom the taxpayer is the legal parent.
- Someone who is wholly dependent on the taxpayer for support and who the taxpayer has or had custody and control, in law or in fact, before the child attained age 19.
- Someone who is a child of the taxpayer or of the taxpayer's spouse or common-law partner.
- Someone who is a spouse or common-law spouse of a child of the taxpayer.

A taxpayer may also claim medical expenses they pay for "eligible" dependents. An eligible dependent is someone who is:

[7] S1-F1-C1: Medical Expense Tax Credit, para. 1.10.

[8] ITA subsection 248(1), c.f. "common-law partner". The spouse must be someone with whom the taxpayer cohabits in a conjugal relationship, but does not have to be a person of the opposite sex.

[9] ITA subsection 252(1).

- the taxpayer's (or taxpayer's spouse's) child or grandchild (age 18 and over), parent, grandparent, brother, sister, uncle, aunt, niece or nephew,
- dependent on the taxpayer for support at some time during the year, and
- resident in Canada at some time during the year (except a child or grandchild of the taxpayer or taxpayer's spouse).[10]

There is no specific test in the ITA setting out the level of support required to determine whether someone is dependent on another when calculating the METC. The CRA has provided the following guidance to determine whether someone is dependent on another:

- To qualify as a dependent, someone must depend on the taxpayer on a regular and consistent basis[11] for the basic necessities of life, such as food, shelter and clothing.[12]
- It does not matter whether support is provided voluntarily or pursuant to a legal requirement.[13]
- A dependent can be dependent on more than one taxpayer.[14]
- Whether someone depends on another for support is a question of fact in each case.[15]

Some amounts paid for an eligible dependent are only allowed as medical expenses if the eligible dependent also qualifies for the disability tax credit. Attendant or nursing home care expenses fall into this category, and may only be claimed as medical expenses if the person receiving such services also qualifies for the disability tax credit.

Just as a person's status as a child, grandchild or spouse is determined when the expense is incurred, so too is a person's status as an eligible dependent. If someone was an eligible dependent of the taxpayer when the expense was incurred, but was no longer dependent on the taxpayer when the credit could be claimed, the taxpayer may still count the expense towards a claim for the METC.

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[10] ITA subsection 118(6).
[11] CRA Document 2004-0063331E5, May 3, 2004.
[12] CRA Document 2009-0326721I7, November 9, 2009.
[13] CRA Document 9725807, May 15, 1998.
[14] Ibid.
[15] CRA Document 2009-0326721I7, November 9, 2009.

SIZE OF THE CREDIT

There is no limit on the size of the tax credit a taxpayer may claim for themselves, their spouse, and their or their spouse's children under age 18, except that the credit cannot be used to reduce the taxpayer's tax liability below zero. Claims for "eligible dependents" must obey the same rules. Before changes were made to the ITA, the maximum credit that could be claimed for eligible dependents was $10,000.[16]

The ITA was amended in 2011 to remove the $10,000 limit on claims for the METC for eligible dependents.[17]

All provinces and territories except Ontario and the Northwest Territories have amended their tax laws to also eliminate the limit on the size of the medical expenses you may claim for other eligible dependents. For 2021 the maximum amount you may claim on your provincial or territorial return for an eligible dependent in Ontario is $13,274, and $5,000 in the Northwest Territories.

CALCULATING THE CREDIT

In all provinces except Quebec, the credit is calculated as follows

- Percentage amount for the year (for 2021, 15% federal, plus the applicable provincial or territorial rate), times
- total expenses for the taxpayer, spouse, and child of the taxpayer or spouse who does not turn age 18 during 2021 in excess of the threshold amount (lesser of 3% of the taxpayer's income or $2,421 in 2021 for federal tax purposes; provincial thresholds vary), plus
- total expenses that the taxpayer paid for eligible dependents that exceed the threshold (lesser of 3% of the dependent's income or $2,421 in 2021 for federal tax purposes; provincial thresholds vary).

[16] ITA subsection 118.2(1).

[17] Bill C-13 received Royal Assent on December 15, 2011 as S.C. 2011, c.24.

DIFFERENCES IN QUEBEC

The provincial METC is calculated differently for Quebec residents. The Quebec METC is based on the amount by which eligible medical expenses exceed 3% of both spouses' net incomes.[18] There is no "lesser of" cap, as in the federal METC, and the 3% threshold applies to both spouses' incomes, not one spouse's. Because of these differences, many people who would qualify for the federal METC do not qualify for the Quebec METC.

HEALTH INSURANCE PREMIUMS AND THE METC

Health insurance premiums count towards a claim for the METC if the policy qualifies as a private health services plan (PHSP).[19] We discuss PHSPs in our article, "Private Health Services Plans".

The balance of this article discusses different types of health insurance, and whether the premiums paid for those policies count towards a claim for the METC.

LONG-TERM CARE INSURANCE

Two types of long-term care insurance (LTCI) policies are sold in Canada: reimbursement and income-style plans. Under both types of policy premiums are not deductible, and insurance benefits are paid tax-free. See our article, "Individually Owned Health Insurance Policies" for more details. Both policies pay benefits if the insured person satisfies the conditions in the policy necessary for claiming benefits. Reimbursement LTCI policies pay for LTC expenses covered under the policy that the insured person actually incurs or is responsible for. Income-style LTCI policies pay benefits unrelated

[18] For further information, see: http://www4.gouv.qc.ca/EN/portail/citoyens/evenements/aines/pages/credit-impot-frais-medicaux.aspx.
[19] ITA paragraph 118.2(2)(q).

to any LTC expenses the insured person may have incurred.[20] In the unlikely event that the insured person satisfies the policy conditions for claiming benefits but incurs no LTC expenses, benefits from an income-style LTCI policy are still paid. Benefits may exceed the insured person's actual LTC expenses, or may fall short.

REIMBURSEMENT LONG-TERM CARE INSURANCE

Under ITA paragraph 118.2(2)(q), premiums paid for a PHSP count towards a claim for the METC. According to the CRA, a reimbursement LTCI policy can qualify as a PHSP if it reimburses the policy owner for "hospital care or expenses or medical care or expenses which normally would otherwise have qualified as a medical expense under the Act."[21] Whether a particular policy qualifies is a question of fact, and depends on the CRA's evaluation of the policy.[22]

In earlier guidance, the CRA required that all the policy benefits offered under a reimbursement LTCI policy be medical expenses under ITA subsection 118.2(2). If not, the policy would not qualify as a PHSP.[23] Put another way, if only one benefit offered under the policy failed to qualify as a medical expense for METC tax treatment, the entire policy failed to qualify as a PHSP. If the policy failed to qualify as a PHSP, the premiums paid for it could not count as medical expenses towards a claim for the METC.

More recently, the CRA has said that a plan qualifies as a PHSP if all or substantially all of the premiums paid under the plan relate to hospital or medical expenses that can be counted towards a claim for the METC. The CRA said that "all or substantially all" means 90%. See our article, "Private Health Services Plans" for more details.

A reimbursement policy pays only for LTC expenses that the insured person incurs, pays or is

[20] CRA Document 2003-0007605, April 8, 2003.
[21] CRA Document 2003-0048461E5, March 4, 2004.
[22] CRA Document 2008-0303211E5, February 25, 2009.
[23] CRA Document 1999-0015885, February 24, 2000.

responsible for. Reimbursed expenses cannot count towards a claim for the METC. Unreimbursed expenses, like expenses that are not covered under the policy, co-payments, deductibles, or expenses that exceed policy limits, may count towards a claim for the METC if they otherwise qualify. This limitation applies regardless of whether the LTCI premiums qualify as medical expenses.

INCOME-STYLE LONG-TERM CARE INSURANCE

Premiums paid for income-style LTCI policies do not qualify for the METC because such policies do not reimburse the policy owner for hospital or medical expenses. The CRA has noted that, "a plan that provides for the payment of death benefits **or an income amount** as opposed to a reimbursement of medical expenses would not be a PHSP."[24] (**Emphasis added**)

Even though premiums paid for an income-style LTCI policy do not qualify for the METC, the benefits paid from such policies are still tax-free. Since the policy does not reimburse the insured person for any LTC expenses, the policy benefit may be used for any purpose the insured person wishes. In most cases, though, the insured person will use the policy benefits to pay for their LTC. That will not turn the LTCI benefit into a reimbursement, though, and will not prevent the policy owner from counting the expense towards a claim for the METC (assuming the expense otherwise qualifies).

The two types of LTCI policy provide a trade-off of sorts regarding the tax treatment of premiums and benefits, as the chart below suggests:

[24] CRA Document 2003-0048461E5, March 5, 2004.

Comparison of premium and expenses tax treatment	Income-style	Reimbursement policy (qualifies as a PHSP)	Reimbursement policy (does not qualify as a PHSP)
Are LTCI premiums eligible for the METC?	No	Yes	No
Are LTC expenses reimbursed under the policy eligible for the METC?*	Yes**	No	No
Are LTC expenses not reimbursed under the policy eligible for the METC?*	Yes**	Yes	Yes

* Assumes expenses that would qualify for METC tax treatment if paid personally by the taxpayer.

** LTC expenses are not reimbursed under an income-style LTCI policy. Such policies pay benefits unrelated to the insured person's actual cost of care. However, the insured person typically uses the LTCI benefit to pay for their cost of care, and those expenses may still count towards a claim for the METC.

As the table shows, the worst tax treatment among the three types of policy is that afforded to reimbursement LTCI policies that do not qualify as PHSPs. Premiums for those policies do not count towards the METC, but neither do the LTC expenses that the policy covers.

CRITICAL ILLNESS INSURANCE

Critical illness insurance (CII) is meant to insure against the costs of having a critical illness. CII premiums do not count towards the METC because CII policies pay a benefit even if the insured person incurs no hospital or medical expenses arising from the critical illness.[25] The insured person need only have a critical illness covered by the policy, and may spend the insurance benefit however they choose.

[25] CRA Document 9711505, June 2, 1997.

But an insured person who has a critical illness will likely incur expenses that qualify as medical expenses under ITA subsection 118.2(2) and Regulation 5700. Similar to the case with benefits from income-style LTCI policies, the CII benefit will be paid tax-free to the policy owner, who can use it to pay expenses associated with their recovery from a critical illness. If those expenses qualify, the policy owner can then count them towards a claim for the METC.

HEALTH INSURANCE PURCHASED BY INDIVIDUALS OR PAID FOR OR BY EMPLOYEES UNDER A GROUP PLAN

Private health insurance (PHI) pays for medical expenses not covered by provincial health insurance plans. Expenses include dental and vision care, hearing aids, prescription drugs, upgrades to private and semi-private hospital rooms, and the like.

Individuals may own health insurance policies. Employers may also buy group insurance policies covering their employees under a single master policy. With group insurance, the employer owns the policy and each employee gets a certificate describing their coverage. If a policy qualifies as a PHSP, whether it's an individually owned policy or a group insurance plan, any premiums the individual or employee pays can count towards a claim for the METC.

Under individual or group coverage, when a policy owner or employee is reimbursed for a covered expense, the reimbursed expense does not qualify for METC treatment. But any unreimbursed expenses, such as deductibles, co-payments, and amounts that are not covered or which exceed policy limits, are eligible for METC treatment.

Premiums paid to public health insurance plans may also qualify as medical expenses if the plan qualifies as a PHSP and has not been established under the laws of a province to provide insured health and medical services under the Canada Health Act.[26]

[26] CRA Document 2014-0524321I7, July 30, 2014. The CRA was considering premiums paid to the New Brunswick Drug Plan (NBDP).

CONCLUSION

The METC may be one of the most underused tax breaks available to Canadians. It provides tax relief for taxpayers with significant medical expenses. Getting the most from it requires some planning. Keeping receipts is essential. One spouse may use the entire family's medical expenses in claiming the credit. Individuals who support an individual (like adult children supporting an aged parent) may share the financial burden of paying for their parent's medical expenses in order to maximize their individual claims for the credit. It can even make sense to arrange the timing of medical procedures to maximize a claim for the credit.

Premiums paid for health insurance policies and plans that qualify as PHSPs also qualify as medical expenses. Benefits are paid tax-free, but to the extent that a policy reimburses medical expenses, those reimbursed expenses do not count towards a claim for the METC. If the policy or plan does not qualify as a PHSP, premiums paid for those policies or plans do not qualify as medical expenses. But benefits paid from those policies are still paid tax-free, and do not affect a claim for the METC.

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Lowest combined federal/provincial marginal tax rate by province/territory*

Province	Rate	Combined	Threshold	Province	Rate	Combin	Threshold
FEDERAL	**15.00%**		**$2,421**	**New Brunswick**	9.68%	24.68%	$2,390
British Columbia	5.06%	20.06%	$2,302	**Nova Scotia**	8.79%	23.79%	$1,637
Alberta	10.00%	25.00%	$2,503	**P.E.I.**	9.80%	24.80%	$1,678
Sask.	10.50%	25.50%	$2,290	**Newfoundland**	8.70%	23.70%	$2,077
Manitoba	10.80%	25.80%	$1,728	**Nunavut**	4.00%	19.00%	$2,421
Ontario	5.05%	20.05%	$2,462	**Yukon**	6.40%	21.40%	$2,421
Quebec	15.00%	30.00%	3% of family income**	**NWT**	5.90%	20.90%	$2,421

* Source: Canada Revenue Agency (2021 rates).

** Federal tax credit reduced by 16.50% because of federal abatement.

The combined rates shown above show the percentage of eligible medical expenses an individual would save in tax, depending on their province or territory of residence.

Quebec residents calculate the provincial METC differently from the federal METC, as explained in the article above.