



RESPONSE TO PETITION

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PETITION No.: **421-02127**

BY: **MR. CANNINGS (SOUTH OKANAGAN-WEST KOOTENAY)**

DATE: **MARCH 2, 2018**

PRINT NAME OF SIGNATORY: **MR. JOËL LIGHTBOUND**

Response by the Minister of Finance

SIGNATURE

Minister or Parliamentary Secretary

SUBJECT

Income tax system

ORIGINAL TEXT

REPLY

The government understands the toll that sickness can have on families and recognizes the reduced ability to earn income, and greater need for supports, that can sometimes result.

The purpose of the Medical Expense Tax Credit (METC) is to recognize that taxpayers with above-average medical or disability-related expenses have a reduced ability to pay income tax as a result of incurring those expenses. The METC is available for qualifying expenses in excess of a minimum expense threshold, which for 2018 is the lesser of \$2,302 and 3 per cent of net income. By providing a credit equal to the lowest personal income tax rate – which is 15 per cent – the METC generally ensures that no federal tax is payable on income used to pay for above-average medical expenses. Requiring expenses to be claimed against income used to pay for them ensures that an individual's ability to pay tax in a given year is appropriately recognized.

Deviating from this rule would raise additional concerns with respect to the minimum expense threshold. The minimum expense threshold was set at a level intended to represent medical expenses that could be considered above-average expenses for a calendar year. Allowing medical expenses to be carried forward to future taxation years could undermine this intent. In particular, it would have the effect of permitting, in some cases, medical expenses to be accumulated over

time, resulting in tax recognition for expenses where the individual does not have above-average out-of-pocket expenses for a particular year.

Although unused medical expense claims cannot be carried forward to another year, the tax rules already provide some flexibility as to the taxation year in which they can be claimed. Specifically, it is possible for medical expenses to be claimed for any 12-month period ending in the calendar year for which a tax return is being filed, as long as the expenses were not claimed in a previous year. Thus, expenses that are incurred in November 2018 could be claimed against 2018 or 2019 income. This approach ensures that taxpayers have equal access to tax recognition of medical expenses regardless of the timing of the onset of illness and/or payment for medical costs associated with treatment within a calendar year.

The tax rules also allow individuals to pool their medical expenses with those of their spouse or common-law partner and minor children in order to exceed the minimum expense threshold. This means that within couples, there is also flexibility to choose who will claim medical expenses, taking into account each individual's tax liability and minimum expense threshold in order to maximize tax relief. Expenses that are not claimed by one individual can be claimed by the other, which could be advantageous where one spouse/partner's income is reduced in a year due to illness.

While the METC – as a tax fairness measure – would generally not be of benefit to individuals without tax liability, the government understands that families are in need of more support when sickness affects their ability to work and generate income.

Support for those who cannot work temporarily due to sickness is provided through the Employment Insurance (EI) program. Individuals eligible for this program can receive up to a maximum of 15 weeks of EI sickness benefits, with low-income families eligible for a supplement that can increase the benefit rate to as high as 80 per cent of average insurable earnings. To enable greater flexibility so Canadians can keep more of their EI benefits when they need them most, Budget 2018 proposes to extend the EI Working While on Claim program to EI sickness claimants, which will support individuals who are receiving sickness benefits to gradually return and stay connected to work.

EI compassionate care and family caregiver benefits are also available to people who have to be away from work temporarily to provide care or support to a family member who is gravely ill and who has a significant risk of death. The maximum duration for compassionate care benefits, family caregiver benefits for children and the new family caregiver benefit for adults is 26 weeks, 35 weeks and 15 weeks, respectively.