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The Disability Supports Deduction: A Big Small Step

The 2004 Budget introduced a modest, but significant, change in tax provisions for disability expenses. The measure is modest in that it will not benefit all Canadians who incur disability-related costs. Yet it is significant because it will provide important new assistance to thousands of persons with disabilities. It is a big small step.

The new measure will be of value only to individuals who are working or attending school. It also may create an incentive for those who have considered looking for a job but have been discouraged by the high costs of education- or employment-related disability supports.

The new measure, a disability supports deduction, builds upon and significantly modifies the former attendant care deduction. That deduction allowed taxpayers who are eligible for the disability tax credit and who required attendant care in order to go to school or work to deduct the costs of this care from their taxable income, thereby reducing their income tax.

The problem: The attendant care deduction, not surprisingly, recognized only attendant care as a valid educational or employment expense and did not cover other disability-related costs. Claimants of this deduction also had to pass the screen of the disability tax credit (DTC) – a tight lens, which requires the presence of impairment over an extended period that severely impedes basic activities of daily living. No DTC eligibility meant no attendant care deduction.

So what could taxpayers do about disability-related costs other than attendant care? They turned (if they knew about it) to the only other available tax benefit: the medical expense tax credit. For 2004, this credit is calculated as 16 percent of qualifying medical expenses that exceed $1,813 or 3 percent of net income – whichever is less. The 3 percent threshold does not provide full tax recognition of costs incurred for employment or education purposes.

The disability supports deduction is an important new building block in the social policy architecture. It expands and modifies the attendant care deduction by including the range of education and employment items that currently may be claimed as medical expenses. These include, for example, sign language interpretation services, optical scanners and electronic speech synthesizers. Other costs that may be claimed, if certified by a medical practitioner, include attendant care, voice recognition software and note-taking services used by persons with mental and physical disabilities.

So here's the big in this small step. Persons with disabilities who are attending school or working will benefit through greater awareness, lower income taxes and higher disposable incomes. They may even become eligible for some benefits for which they had not previously qualified.

With respect to *awareness*, the measure will be more transparent than the current system. Prior to the new deduction, disability-related costs incurred in respect of education or employment could be claimed, as noted, only as medical expenses.

What's in a name? Apparently, a lot. The medical expense tax credit is more narrow in name than in fact. Many persons with disabilities simply were not aware that they could claim educational and employment costs under this provision.

The disability supports deduction, by contrast, says what it is. More taxpayers will benefit just by virtue of this clarity. In fact, the disability community has long called for some form of tax provision intended explicitly for disability costs.

The second piece of good news is that the new measure will allow the full deduction of disability costs incurred in respect of education and employment, up to the level of earned income. Moreover, the disability tax credit screen for attendant care expenses has been removed. The result will be *lower income taxes* for many taxpayers with disabilities.

Individuals who were already claiming these costs as medical expenses would come out ahead under the new measure. Single persons in Ontario earning $20,000, for example, would see their disposable (after-tax) income increase by up to $407 if they claimed $2,000 in disability expenses under the new deduction. Their disposable income would increase by up to $523 and $879 if they claimed supports expenses worth $5,000 and $10,000, respectively. Single persons in Ontario earning $35,000 would see a rise in disposable incomes of up to $440, $776 and $1,196 with expense claims worth $2,000, $5,000 and $10,000, respectively. At earnings of $50,000 (clearly a minority of persons with disabilities), disposable incomes would increase by up to $543, $997 and $1,755 with expense claims worth $2,000, $5,000 and $10,000, respectively.

Those who were not already claiming these costs because they did not know that they were entitled to do so would gain even more. Using the same case example, single persons in Ontario earning $20,000 would see their disposable (after-tax) income increase by $481 if they claimed $2,000 in disability expenses under the new deduction. Their disposable income would increase by $1,215 and $2,398 if they claimed supports expenses worth $5,000 and $10,000, respectively.

Single persons in Ontario earning $35,000 would see a rise in disposable incomes of $623, $1,510 and $2,894 with expense claims worth $2,000, $5,000 and $10,000, respectively. At earnings of $50,000, disposable incomes would increase by $623, $1,558 and $3,115 with expense claims worth $2,000, $5,000 and $10,000, respectively.

It should be noted that the existing medical expense tax credit will remain intact so that taxpayers who cannot claim the deduction can still use this provision as they did in the past. This option will be important, for example, for parents who pay disability-related costs in respect of their children. Unlike tax credits, which can be transferred to supporting taxpayers, deductions benefit only persons with taxable income. The Budget also announced greater recognition – up to a maximum of $5,000 – of the costs that caregivers incur in respect of medical and disability-related expenses for dependent relatives.

Another improvement embodied in the new disability supports deduction is that individuals will be able to deduct amounts that the federal or a provincial/territorial government has paid to them as a cash benefit intended explicitly for the purchase of disability supports for education or employment. If recipients are required by a government program to count these payments as income, they will be able to fully claim these amounts under the new measures.

Finally, a deduction acts differently from a credit in another significant way. It comes into play at an earlier point on the income tax form. The result is that a deduction subtracts directly from gross income, leaving taxpayers with a lower net income. By reducing net income, the new measure actually may *put more money in the pockets of some Canadians* with disabilities. Here's how.

There are two major payments delivered through the income tax system: the Canada Child Tax Benefit and the GST credit. Eligibility for both payments is determined by level of net income. The lower taxpayers' net income, generally the higher the benefit they receive (up to a designated maximum). By reducing net income, the new provision potentially will help many people qualify for these other programs in the first place or receive a somewhat higher amount if they are already eligible.

In short, the disability supports deduction *definitely* will reduce taxes for many persons with disabilities. It also *may* increase the incomes of some taxfilers through improved access to and payments from the Canada Child Tax Benefit and the GST credit.

These big small steps – greater awareness, lower taxes and possible higher incomes all move in the right direction. Subsequent Budgets should continue the course.

One important enhancement in the future would be to broaden the scope of items and services that qualify as educational or employment costs. These might include, for example, certified job coaches hired on an individual basis by families to assist persons with intellectual disabilities or special transportation expenses.

But even measures that allow the full deduction of costs are worth little if there are limited educational and work opportunities for persons with disabilities. Improvements must be made as well to the other side of the equation through sensitive and appropriate accommodation in schools, postsecondary institutions and workplaces.

The Budget took some steps in this direction by announcing a new up-front grant of up to $2,000 a year for students with disabilities. It also committed an additional $30 million per year, for total support of $223 million annually, to the federal-provincial-territorial Multilateral Framework for Labour Market Agreements for Persons with Disabilities.

The accommodation issue is a major national challenge. Its resolution not only must involve the federal and provincial/territorial governments but also should include municipalities, private employers, the voluntary sector and consumers.

Most persons with disabilities would welcome the new tax measure – if only they had the 'good fortune' to pay tax. The next step is to focus upon persons who require disability supports but have low income and thereby fall below the tax-paying threshold.

One way to de-link disability supports from income programs so that there is no need to remain on these programs in order to receive essential supports. A related option is to invest in the supply of supports so that these are more readily available to all persons with disabilities. The investment-in-supply approach is particularly relevant to Aboriginal Canadians with disabilities, many of whom do not benefit from current tax provisions.

In short, the big small step announced in the 2004 Budget is significant not only for what it does. It is also invaluable for what it is: the foundation for a big big step.

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