RETIREMENT *ALERT*

***RETIREMENT ALERT** is a commentary on topics of current interest – usually topics relating to planning for individuals and changes to current legislation. Professional advice should be obtained before acting on any of this information.*

SENIORS AND HOME MODIFICATION TAX BENEFITS

I suspect that most people would like to live in their own apartment or home as they grow older in surroundings that are familiar and comfortable to them. Further, the cost to the public purse of personal residence occupancy is significantly less than accommodation in publicly funded facilities. We are all living longer so anything that can be done to promote independent living is a winning proposition in terms of cost to the public purse, enjoyment of life for ageing seniors and even better mental health.

But there is a cost to this. Residences may require modifications to meet declining health problems which many on modest fixed incomes cannot afford. This *Alert* explores tax benefits that are available to help seniors make ends meet and stay where they are – at home. The *Alert* reviews six tax incentives and some of their shortcomings. Both landlords and individuals occupying owned or rental accommodation can receive these tax incentives to varying degrees.

An overview of the important conditions and constraints of each of them is outlined below.

RENTAL PROPERTY INCENTIVES

- Disability-related modifications to buildings
- Disability-specific device or equipment

DWELLING IMPROVEMENT INCENTIVES

- Alterations or renovations to dwellings (medical expense)
- Driveway modifications (medical expense)
- Incremental construction costs of a principal place of residence (medical expense)
- The Home Accessibility tax credit - starting in 2016

The *rental property incentives* give landlords a tax deduction for disability-related modifications to their properties or for the purchase of certain equipment that assists the disability of the tenants. The *dwelling improvement incentives* allow taxpayers with disabilities and, in some cases, other family members, to claim non-refundable tax credits. However, if little or no tax is payable by an individual, these tax credits are of little or no value since they can only reduce taxes already payable - a reality for many seniors living on modest fixed incomes. Also, there is no ability to carry unused tax credits over to other years if the outlay in a single year is substantial, which is often the case for dwelling modifications.

Modifications to Rental Properties

Anyone who rents residential property is deriving income from business or property under the Income Tax Act. As landlords, they are allowed to deduct operating expenses incurred to earn their rental income. However, a tax deduction is usually not allowed for capital improvements except as depreciation expense.

The Income Tax Act makes an exception to the non-deductibility of capital improvements by allowing a deduction to landlords for *disability-related modifications to buildings*. The provision reads in part as follows:

> *An amount paid by the taxpayer in the year for prescribed renovations or alterations to a building used by the taxpayer primarily for the purpose of gaining or producing income… to enable individuals who have a mobility impairment to gain access to the building or to be mobile within it.*

The prescribed renovations and alterations allowed are as follows.

- Interior and exterior ramps
- Hand activated door opener
- Modifications to a bathroom, elevator or doorway to accommodate use by a person in a wheelchair.

Since such outlays are fully deductible, this should encourage landlords to upgrade their buildings to provide better access to individuals with physical disabilities. This is certainly a need in an ever-increasing senior population.

Cost of Equipment – Rental Properties

A second provision allows landlords to deduct certain equipment costs that would otherwise be a capital cost, and again, not deductible. Certain of these costs are deductible against rental income if they are for *disability-related equipment*. Regulations of the Income Tax Act restrict such costs to the following.

- Elevator indicators to assist audio or sight impairments
- Visual fire alarm indicator and listening device
- Disability-specific computer or hardware attachment

The list of allowable equipment costs is short, but at least it's a start. Landlords should press the government to expand such deductible expenses as growing technology becomes a reality in our ever-changing computer driven society.

Alterations to Dwellings

Qualifying alterations to a home (rented or owned) are described in the Income Tax Act as follows.

> *For reasonable expenses relating to renovations or alterations to a dwelling of the patient who lacks normal physical development or has a severe and prolonged mobility*

impairment, to enable the patient to gain access to, or to be mobile or functional within, the dwelling, provided that such expenses

- ***(i)*** *are not of a type that would typically be expected to increase the value of the dwelling, and*

- ***(ii)*** *are of a type that would not normally be incurred by persons who have normal physical development or who do not have a severe and prolonged mobility impairment;*

I have paraphrased the applicable section of the Income Tax Act to be as precise as possible. The wording is complex and the detailed provisions can be restrictive. For more detailed information, readers should look at Income Tax Folio S1-F1-C1, Medical Expense Tax Credit.

Driveway Modifications

This provision allows certain driveway alterations to be claimed as a medical expense. It is allowed *for reasonable expenses relating to alterations to the driveway of the principal place of residence of the patient who has a severe and prolonged mobility impairment, to facilitate the patient's access to a bus.*

Construction of a New Dwelling

The same general rules that apply to alterations to dwellings discussed earlier also apply to the construction of a new dwelling. While the alteration rules apply to both owned or rented dwellings, the new dwelling rules only apply to an owned property to the incremental construction costs related to disability. Further, this credit only applies to the patient's *principal place of residence* and therefore would not apply to a vacation property or other seasonal residence. It would also not seem to apply where the outlay is made to a new home in contemplation of needed alterations for the future.

For both an existing or new premise improvement, the outlay cannot add value to the property so such things as swimming pools and hot tubs would not be allowed the tax credit. This seems to be an unwarranted requirement if all other conditions are met.

CRA gives examples of costs that will be allowed such as the following.

- Outdoor and indoor ramps
- Enlargement of halls and doorways
- Lowering of cabinets
- Payments to an architect

There is no need to qualify for the Disability Tax Credit in order to claim the alterations or new dwelling tax credits.

Home Accessibility Tax Credit

The Home Accessibility Tax Credit first became available in 2016. This tax credit is in addition to the medical expense tax credit if it is also available and therefore the combination of the two credits could effectively double the total credit from about 20% to 40% (or more depending on the province) of qualifying expenses. The Home Accessibility tax credit is only available to individuals who are under 65 and qualify for the Disability Tax Credit, but DTC eligibility is not required at age 65 and older. The tax credit can be claimed by a qualifying individual who incurred the cost or by an eligible individual. An eligible individual includes certain family members.

- Spouse or common-law partner of a qualifying individual
- Other family members if the qualifying individual is age 65 or older
- Others who could claim the disability tax credit under certain conditions

Taxpayers should consult the T1 Tax Guide at line 398 for a detailed explanation of the definition of eligible individuals. It is far too complex to explain in this article.

If you live in a condominium or co-operative housing, you can claim your share of expenses for common area costs. Detailed supporting documentation may be requested by Canada Revenue Agency so be prepared for that. The Home Accessibility credit is limited to $10,000 a year. However, this limitation does not apply to any of the medical expense tax credits.

Tax Planning

As indicated earlier, alterations to dwellings, driveway modifications, home construction costs and construction of a new dwelling are all deemed to be medical expenses under the Income Tax Act. Since medical expenses do not qualify for a tax credit until paid, taxpayers with low incomes may want to stage their medical tax credits by payment for their dwelling improvements over a few years. Alternatively, they might want to make a lump sum withdrawal from their RRSP/RRIF to increase income in the year they make the dwelling improvements in order to maximize use of the tax credit.

Constraints of Dwelling Improvement Tax Benefits

As was said at the beginning of this article, most seniors want to stay in their homes, so tax credits are important to them to offset their reduced disposable income. Given all of the advantages, non-refundable tax credits seem to fall short for the following reasons.

- Non-refundable tax credits are of little benefit to many seniors with modest incomes. It would be better public policy if these credits were refundable instead of non-refundable - perhaps with a cap on income that qualifies for the credit. In that way, they would take into consideration an individual's ability to pay for much needed added cost of living at home for a senior.
- Unused medical expenses, unlike donations for example, cannot be carried forward over to other years. This seems particularly unfair for dwelling modifications which are often incurred in large amounts in a single year. Donations as discretionary expenses get a much better tax treatment than medical expenses which are non-discretionary.
- Wouldn't it be a good idea to allow individuals to withdraw some portion of their RRSP/RRIF funds without tax to make home renovations?
- Donations get a non-refundable tax credit of about 45% whereas medical expenses only get a tax credit of about 20%. It would seem that the situation should be exactly the opposite because medical expenses are necessities of life, whereas donations are discretionary and get a higher credit amount.
- In general, home modification tax incentives are not very generous for those with modest incomes who have paid taxes all of their lives and in their senior years have little income to spare beyond their day to day needs.

Summing Up

The home modification tax benefits outlined above are both modest and complex. These very limited tax benefits do not encourage seniors to plan ahead so they can stay in their own dwelling when health declines. It behooves the government to be less restrictive in allowing these tax benefits even at the risk of some loss of tax revenue. And lightening up on complexity by CRA is not a bad idea either.

I was assisted in writing this article by Sue Lantz, Managing Director of Collaborative Aging. Thanks, Sue.

Table - Home Modification Tax Benefits

	Modification to Rental Properties	Equipment – Rental Properties	Alterations to Dwellings	Driveway Alterations	Home Construction Costs	Home Accessibility Tax Credit
Income Tax Act Section	20(1)(qq)	20(1)(rr)	118.2(1.2)	118.2(1.6)	118.2(1.21)	New 2016
Tax Return Line	126	126	330	330	330	398
Maximum Annual Amount	N/A	N/A	N/A	N/A	N/A	$10,000
Classified as Medical Expense	No	No	Yes	Yes	Yes	No
Tax Credit	No	No	Yes	Yes	Yes	Yes
Tax Deduction	Yes	Yes	No	No	No	No
Requires Disability Tax Credit	No	No	No	No	No	Note (1)

Note 1

The Home Accessibility Tax Credit is only available to an individual eligible for the Disability Tax Credit (DTC) if the person is under age 65. Individuals age 65 and over do not require DTC eligibility.