How to write off learning disability expenses

MERRICK WEALTH

By Peter Merrick

As a breadwinner, having a learning disability can be a tough, stressful slog. As the parent of a child with a learning disability, it can be even rougher.

If your client owns an incorporated business and has been diagnosed with a learning disability, or if the client has a child with one, there are business tax deductions for expenses related to the disability through a health and welfare trust.

By creating a health and welfare trust a business owner can turn learning disability expenses into corporate deductions. The results can be five-figure savings, as illustrated later in this article.

How do health and welfare trusts work?

An incorporated business establishes a trust to pay for the trust member's health care costs. Health and welfare trusts follow the framework laid down in S. 248(1) of the *Income Tax Act* and CRA's Interpretation Bulletins IT-85R2, IT-339R2, and IT-519.

In order for CRA to allow medical and dental expenses to be tax deductible for an employer, and the benefits to be non-taxable in the hands of employees, the administration of trust claims must be through third-party trustees who specialize in these plans.

The most popular special expenses unique to learning disabilities that can be claimed through a health and welfare trust are:

Psychological assessment

The cost of psychological assessments to determine if there is a learning disability, conducted by either a registered psychologist or a medical doctor.

Tutoring

The cost of tutoring to help with the four basic academic skills; reading, spelling, writing and math, provided these services are recommended in writing by either a doctor or registered psychologist as a remedy for the learning disability. For these tutoring services to qualify they must not be provided by a family member.

Talking textbooks

The cost of talking textbooks that have been prescribed in writing by a medical practitioner or psychologist for use by someone with a learning disability. These talking textbooks must be needed in connection with the individual's enrolment in a Canadian educational institution.

Transportation and traveling

The cost for transportation and traveling to and from assessments, therapy, special educational facilities, special camps and tutoring sessions for the individual with the learning disability.

If the person with the learning disability needs to be accompanied when traveling, the expenses for the traveling companion can be claimed through the health and welfare trust provided a qualified person (medical doctor or registered psychologist) has certified that the person with a learning disability needs this assistance.

Specialized private schools, camps and other educational institutions

The cost of specialized private schools, camps and other educational institutions can be put through a health and welfare trust in accordance with the rules set down in S. 118.2(2) of the *Income Tax Act* provided that the following three criteria have been met:

- **Criteria one:** A qualified person has certified that the individual has a learning disability;
- **Criteria two:** A qualified person certifies that the individual with the learning disability requires the equipment, facilities and personnel specialties provided by a named private school, camp or other educational institution;
- **Criteria three:** The specialized private school, camp or other educational institution has the required equipment, facilities and personnel to assist the individual with his or her learning disability needs.

Imagine you have a client with an incorporated business in Ontario who earns a T4 income of $200,000 and has a marginal tax rate of 46.4 per cent. This client has a son who has been diagnosed with a learning disability by a certified child psychologist (*Criteria one met*).

This psychologist recommends in writing that the best educational facility in Canada to meet this boy's learning and developmental needs is Robert Land Academy, a boarding school in Wellandport, Ont.

The academy has been widely recognized by experts during the past 28 years in meeting the needs of boys with learning disabilities (*Criteria two met*).

The academy has the facilities and personnel to meet the educational needs of boys who have been diagnosed with learning disabilities (*Criteria three met*).

The fee for attending the academy for the 2006-07 academic year is $35,500.

Now let's compare this client's two options and find out what the financial outcomes for each are: In option one, the client plans to pay the entire school fee with his after-tax dollars.

In option two, the client has set up a health and welfare trust with his company, and plans to pay the entire school fee through the trust.

In option one, the client will have to earn approximately $66,231 before taxes to pay with after-tax dollars the school fees of $35,500. The school fees will have to be paid before the client can apply for a personal medical expense tax credit.

In option two, the client's company, through the health and welfare trust solution, will pay $39,000 ($35,500 school fees plus a $3,500 administration fee of 10 per cent) into the trust.

The total savings this client and his company receive for choosing option one and setting up the health and welfare trust, then claiming the school fees through it is $27,231 over option two. This savings equals approximately 75 per cent of the school fees.

Health and welfare trusts require specialties in employment compensation, adjudication of eligible claims and benefit plan construction.

Therefore if you are evaluating the suitability of a health and welfare trust for a client or for you, it is worth hiring the right professionals to assist in the design, implementation, maintenance and adjudication of claims within the trust.

Peter Merrick, BA, FMA, CFP, FCSI is the President of Merrick Wealth Management Inc., a boutique fee-for-service executive benefit and financial consulting firm in Toronto. He can be contacted at *peter@merrickwealth.com* or *www.merrickwealth.com* or (416) 854-1776.

It pays to insure your most valuable machine

REYNOLDS

By CHRIS REYNOLDS

Imagine you have a machine in your basement. It is a fantastic machine, because five days a week it pumps out cash. Every year it produces $50,000 to $100,000, sometimes more if you really tune it up.

Based on this steady flow of cash, you buy a bigger house, a car, take vacations, and raise your children. But what would happen if the machine broke down and could not produce more money?

Wouldn't you insure that machine? And for how much — 50 per cent or 100 per cent of the cash it generates? Would you insure the machine ahead of your car? Before insuring your house?

Of course it would be great to have a mechanical cash-making machine, but one has yet to be invented. However, most families have a cash producer, in fact, many have more than one. Your family's most valuable asset is probably the breadwinner's ability to get up in the morning and earn a living.

Your most valuable asset

The most important goal in most people's financial strategy is retirement planning, to the extent that the term 'financial planning' has become a euphemism for retirement planning. We should recognize, however, that while retirement planning is a critical issue, it is not the only one.

Maintenance of income during disability is not given nearly the weight of retirement planning, but is at least as critical. Who pays all the bills when you're sick or hurt? Your financial plan should take this into consideration well before focusing on income during retirement. Since it deals with your most important asset, you should review your situation on a regular basis.

Income is crucial

The importance of income continuation during disability is twofold: First, if like most people, you depend almost exclusively on your earned income to provide an acceptable lifestyle, no income will signify big trouble.

Ensuring an income during disability should be a priority. Sure, it's great to plan for retirement, but providing for your current income should be your main concern. The funding of your retirement is substantively (or maybe even entirely) dependent upon saving part of your regular earnings between now and retirement.

No matter how comprehensive your retirement planning appears to be, it is imprudent to be left without money to put aside because disability has come between you and your work.

The second reason to plan for an income during disability is that disability can happen to you. Many people ignore the danger of not insuring their income by simply believing that an incapacitating accident would never happen to them.

How likely are you to suffer a disability due to illness or injury? If you are 35 years old today, the odds of your being disabled for at least 90 days between now and age 65 are about one in five.

However, that statistic doesn't tell the whole story. The average length of disability for those who remain disabled after 90 days is about three years. Although each financial situation is different, most people are not in a position to live without any income for three years. It is simply not an option.

One solution is disability insurance. The most important acquisition in your life can be a disability policy from a respected insurance company.

We insure our cars, our houses, and even the contents of our homes, but very few people spend the extra money to insure their ability to earn money, in other words, to insure the money-making machine.

Chris Reynolds is founder and president of the Investment Planning Counsel of Canada. He can be contacted by e-mail at: *creynolds@ipcc.ca*; or visit the IPC web site at: *www.ipcc.ca*.

Canadians have sharper take on fraud

TORONTO – Canadian company executives worry that fraud may take place both in their domestic and international operations, while their counterparts in other developed countries worry more about what may happen offshore than in their own back yards.

According to a recent survey by Ernst & Young, global executives would do well to think more like their Canadian counterparts.

While 75 per cent of executives in developed countries said they have been stung by significant fraud at home or in their developed markets, only 32 per cent reported similar experiences in emerging markets. Still, the belief that emerging markets are more susceptible to fraud is strong enough to lead one in five firms globally to forgo investing in developing markets. The gap between perception and reality should set off alarm bells, warns Mike Savage, a fraud investigator with Ernst & Young in Toronto. "While there is a sense that emerging markets are inherently more risky when it comes to fraud, companies need to have the proper controls in place to detect and react to fraud anywhere."

Almost all Canadian companies surveyed were confident in their ability to detect and investigate fraud, yet a third of Canadian firms and an "astounding 40 per cent of global organizations surveyed still have no documented anti-fraud policy," he said.