INSIGHTS

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IN THIS ISSUE...

Cigarette Warning Labels

Have you looked at them lately?

It's perhaps not surprising that bigger, more graphic warning labels on cigarette packages are effective in raising awareness of the health risks of smoking.

That's one conclusion about the warnings on packages in Canada, the U.K., Australia and the U.S. through a survey of 15,000 adult smokers over four years between 2002 and 2005.

Sponsored by the Canadian Institute of Health Research, the study involved about two dozen researchers around the world, leading to the publication in February of a report on the study in the American Journal of Preventive Medicine.

The study indicates that Canada leads the pack among the four countries. That's chiefly because its mandatory warning labels are the largest, occupying half the package, both front and back, and because it's the only one of the four that includes graphic, sometimes grisly photos of things like blackened gums and motley teeth resulting from oral cancer.

In the first survey in 2002, warnings were noticed most often by Canadian smokers, at 60 per cent, followed by Australians, 52 per cent, U.K. smokers, 44 per cent, and Americans 30 per cent.

In 2003, the U.K. significantly increased the size of its text warnings and its figure shot up to 82 per cent. But researchers believe that was a bit of a statistical blip and 'novelty effect'.

While the figures remained strong, it fell to 65 per cent in 2005, compared to 58 per cent of Canadian smokers who said they noticed the warnings 'often' or 'very often'. But Hammond believes the more significant figures relate to another question that asked if the warnings caused smokers to think about the health risks of smoking. Canadian led the way in all four years.

In 2003, for instance, the percentages on that question were Canada, 47 per cent, U.K., 44 per cent, Australia, 26 per cent, and the U.S. at 24 per cent. The Americans, by the way, have relegated their warnings only to the side of the pack in small text.

Some may argue the Canadian warnings are ugly, disturbing and overly intrusive. But they seem to be effective and that is the more important thing, considering the tragic impact on the health of so many smokers and those exposed to second-hand smoke.

And while it may seem heartless to victims and families to raise the matter, the fact remains it also affects the public health purse.

Oddly, the research shows the majority of Canadian smokers actually support the graphic pictures.

The lead author of the report, David Hammond, said, "The health risks of smoking are inherently harsh, frightening and disturbing and warnings that fail to communicate that and fail to arouse emotion also fail to communicate those risks in a truthful way".

Those warning captions and pictures may be both graphic and ugly, but they work, and isn't that really the point?

Until next time…

Health Spending Accounts

You might remember in the mid 90's there were concerns over rising benefit plan costs. Some employers felt their plan design deficiencies needed to be addressed in a practical, fiscally responsible way. Doesn't that sound familiar?

I saw them then, and I see them now, as a way to provide plan sponsors with more budgetary control. Maybe I was a little ahead of the wave, but it looks as though their time, and my forecast, have finally arrived.

Health Spending Accounts are one way of delivering a private health services plan to pay health, medical, and dental expenses as defined under the Income Tax Act. An employer deposits a pre-determined amount of money into a Spending Account for an employee who then uses this money to pay for eligible health claims. Claims might be as a result of expenses that are not covered under the employer's plan (either the employee's or spouse's), or because the Spending Account is the only basis for handling health claims on a pre-tax basis. (except in Quebec where health and dental benefits are subject to provincial income tax)

Health Spending Accounts allow employers to cap their costs by limiting the number of benefit dollars available. No

Medical Expense Tax Credit

Medical health expenses can create a valuable tax credit that might be lost unless care is taken to observe and carefully track the medical expenditures.

The claim for medical expenses takes the form of a tax credit. The credit is equal to the lowest tax bracket rate (15.25 per cent in 2006 and 15.5 per cent in 2007), multiplied by the sum of all of the medical expenses paid during any 12-month period ending in the tax year, but only to the extent that such amount exceeds the lesser of $1,813 and three per cent of the individual's net income. It should be noted that the federal government and most of the provincial governments calculate the tax credit separately and deduct it from taxes owing. *(See Exhibit A)*

The medical expenses must be in relation to the taxpayer, the taxpayer's spouse or common-law partner of a child of the taxpayer (or a child of the taxpayer's spouse or common-law partner) who is under the age of 18 at the end of the taxation year and dependent upon the taxpayer for support. This allows one spouse to claim the medical expenses of the entire family and therefore maximize the value of the medical expense tax credit.

As noted in the first example, the claim for medical expenses is for any 12-month period ending in the taxation year. This allows taxpayers an opportunity to maximize their claims by grouping any medical expenses incurred within that period. *(See Exhibit B)*

In the previous example, the taxpayer should claim medical expenses paid in the 12-month period ended May 2006, which would allow the $1,500 medical expense paid in June 2005 to be claimed on the 2006 tax return. The remaining $1,000 amount from the November 2006 remains available for use the following year depending upon the 12-month period selected at that time (which would be chosen with the objective of maximizing the total amount claimed).

The medical expenses eligible for the tax credit claim can be increased by the medical expenses of an older dependent child, grandchild, parent or grandparent. Dependency is based on the individual's need for support from the taxpayer. The inclusion is the lesser of $10,000 and the dependant's medical expenses in excess of three per cent of that dependant's net income (to a maximum of $1,813).

In a recent letter, the Canada Revenue Agency confirmed that when four adult siblings each paid $15,000 towards the nursing care of their mother, each of the siblings could claim $10,000 in his or her claim for a tax credit.

The Income Tax Act contains a long, and sometimes obscure list of eligible medical expenses and includes amounts paid to a medical practitioner, dentist or nurse or a public or licensed private hospital. In addition, amounts paid for one full-time attendant or other amounts paid for care at a group home or nursing facility may be eligible expenses.

Every fact of tax planning requires attention to the details and the claim for medical expenses is no exception. The credit saves tax dollars and this allows an individual to recover some of the expenses incurred for medical treatment.

Exhibit A

Net Income: $60,000

Medical Expenses: $2,200

Lesser of $1, 813 and 3% of net income:$1,800

Excess of medical expenses: $400

Federal and provincial tax credits at lowest tax bracket rate (assumed 20%): $80

Exhibit B

Medical expenses paid in June 2005: $1,500

Medical expenses paid in Dec.2005: $100

Medical expenses paid in May 2006: $200

Medical expenses paid in Nov.2006: $1,000

Health Spending Accounts..., cont'd

wonder they are gaining popularity. But they are useful for more than just cost containment. They positively impact employee morale since employees are allowed more choices.

Health Spending Accounts gain their favourable tax status provided they meet the definition of a 'Private Health Services Plan" as defined in the Income Tax Act. Policyholders may deduct their payments under a medical re-imbursement plan as a business expense and the benefit payments are not taxable to the employee. To qualify as a PHSP, the plan must cover only those expenses that qualify as hospital or medical expenses under ITA s118.2(2) in determining the medical expense tax credit. The regulation of Spending Accounts depends on the Income Tax Act as well as CRA Interpretation Bulletins. Please refer to IT-519R2. The following information is based on the most common understanding of how they work.

- Employees can be re-imbursed from their Account for deductibles, co-insurance or amounts in excess of plan maximums that would otherwise be paid out-of-pocket
- Funds in the account can be used to pay for items not covered under an employee's or their spouse's health or dental plan
- Eligible dependents are governed by the Income Tax Act and can be different from those under the insured plan

There is a belief that 'everything' medical is eligible. That is just not the case. As Spending Accounts have become more popular there have been more requests to cover items not mentioned as eligible expenses under ITA s118(2). It is important to know that if a medical expense plan covers expenses that do not qualify, CRA could potentially disqualify the entire plan from being a PHSP. If that happens, the policyholder loses the deduction and any payments made through the medical expense plan will be taxable income to the employees. For this reason, requests by employers to expand the coverage provided by our standard medical plan offerings are declined. If an employer or employee has any questions regarding the eligibility of an expense, they should be encouraged to complete a pre-care assessment before incurring the claims.

Common requests for coverage that do not qualify as hospital or medical expenses include:

- Any type of medication, whether or not it has a Drug Identification Number or is prescribed by a physician, if the item has not been dispensed and 'recorded' by a pharmacist. Recorded means that the sale is put through the pharmacy software and a prescription number is shown. Medications purchased off the shelf do NOT meet these requirements.
- Baby sitting or day care costs
- Personal trainers, fitness instruction, exercise equipment, or gym memberships
- Homeopathic practitioners
- Fees for weight loss clinics or classes
- Private adoption costs

In a competitive environment where recruiting and retaining employees is a major challenge, a Health Spending Account is attractive both as an addition to an existing benefits plan or as a stand-alone solution. It's a matter of choice, and choice is exactly what you get when a Spending Account is part of the benefits landscape.

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