A Helping Hand

How advisors can aid parents of disabled children

BY LYNN BISCOTT

Parents of a severely disabled child have a tough financial road ahead of them. Not only is there the extra expense of needed medical or personal support, there's also the concern about what will happen to the child down the road when the parents are no longer there to care for them. As a financial advisor, you can help on both fronts.

IMMEDIATE TAX RELIEF

First, it's important to ensure that parents are taking advantage of whatever tax relief may be available for current expenses. The means-tested Child Disability Benefit (CDB) is a case in point. While the CDB isn't new, the benefit was extended to higher income families as of July 2006.

Previously, a family with one qualified disabled child would have seen their CDB reduced to zero at a net family income of $55,230. Now, the same family could have net income of $151,378 before the CDB disappeared.

In order to qualify for this benefit, children must have a severe and prolonged disability, as outlined in CRA Form T2201, Disability Tax Credit Certificate. Those who qualify are entitled to a tax-free benefit of up to $2,300 per year up to age 18.

If you have clients whose children might qualify for the CDB, encourage them to file Form T2201 with CRA as soon as possible — the application process may take some time, so they shouldn't wait until they file their next tax return.

SAVING FOR THE FUTURE

The second concern is more long term. How can parents set aside money for their child's future needs without jeopardizing the benefits the children may receive from provincial and territorial support programs? Enter the registered disability savings plan (RDSP).

Introduced as part of the 2007 federal budget, the structure of the RDSP is modelled after the registered education savings plan (RESP). Parents and other family members will be able to contribute up to $200,000 for a disabled beneficiary, up to the end of the year the beneficiary reaches age 59. There is no annual limit on contributions.

Contributions are not tax deductible and they are not included in the beneficiary's income when paid out of the plan.

Two other elements have been added: the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB). The CDSG provides matching contributions from the government, depending on net family income, and the amount contributed by the family. The accompanying chart outlines the details. A beneficiary is eligible to receive up to $70,000 in CDSG payments prior to the end of the year he or she reaches age 49.

Family Net Income	CDSG assistance
Up to $74,357	300% on first $500 200% on next $1,000
Over $74,357	100% on first $1,000

SOURCE: WWW.BUDGET.GC.CA.

CDSBs of up to $1,000 per year will be paid to RDSPs of lower-income beneficiaries. These payments are calculated with reference to family net income and are not contingent on family contributions to the RDSP. A beneficiary is eligible to receive up to $20,000 in CDSB payments prior to the end of the year he or she reaches age 49.

While RDSP contributions are not included in the beneficiary's income when paid out of the plan, investment income, CDSGs and CDSBs will be taxable.

The government is consulting with financial institutions on some of the technical and administrative details of the RDSP system, with an eye to introducing the program as early as possible in 2008.

ESTATE PLANNING

Also of concern to parents is how to pass money along to their disabled children on the parents' death without jeopardizing the children's eligibility for provincial income support benefits. While legislation differs among jurisdictions, there are generally limitations on the amount of capital that can be held as well as the level of annual income that can be drawn before benefits are suspended.

In Ontario for example, up to $100,000 of funds derived from an inheritance or proceeds of a life insurance policy are considered to be an exempt asset for the purposes of the Ontario Disability Support Program (ODSP) when placed in a trust for the disabled beneficiary. Payments out of the trust are considered to be exempt income if they are used for disability-related items, services, education or training expenses. A $5,000 annual maximum applies to payments received for any other purpose.

If parents want to set aside more than $100,000, they need to use a structure commonly known as a Henson trust. A Henson trust is one that gives the trustee absolute and sole discretion regarding payments from the trust to the beneficiary. Because of the element of absolute discretion, a Henson trust is not considered an asset that belongs to the beneficiary; therefore, the capital value can be higher than $100,000. However, payments from the trust are subject to the same limitations as described above. F

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