

Canadian Tax Planners Newsletter

January February 2008

In this edition of the Canadian Tax Planners Newsletter, we shall review the following topics:

- the care of adult children with some type of physical or mental disability. Parents who care for a family member with a disability will be able to utilize a new tax vehicle known as a Registered Disability Savings Plan (RDSP) that will be introduced in 2008. These plans were announced in this year's federal budget and the Department of Finance has recently released the rules related to a RDSP
- two Supreme Court cases that deal with issues when a parent and a child jointly own an asset
- a review of tax issues related to currency fluctuations. Due to the rapid increase in the value of the Canadian dollar, many investors have incurred significant losses on their investments held in US dollars. We shall review tax planning opportunities that arise due to the increase in the value of the loonie.

Caring for Disabled Children

Many parents who care for an adult child with a disability have concerns as to the most appropriate method of providing financial support once they are deceased. Our review shall include:

- Registered Disability Savings Plans
- Canada Disability Savings Grant
- Canada Disability Savings Bond
- Henson trust

Registered Disability Savings Plan – These plans, which became effective in 2008, are modeled after registered educational savings plans. It allows parents to save for the long term financial security of a child with a disability. In addition to the tax savings

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on any investment income generated within the plan, the government will also contribute by means of a Canada Disability Savings Grant and/or a Canada Disability Savings Bond.

The key features of these new plans are:

- a lifetime contribution limit of \$200,000
- there is no annual limit, other than the \$200,000 threshold can not be exceeded
- contributions to the plan are not deductible for income tax purposes
- any income generated within the Registered Disability Savings Plan will be tax free until the funds are withdrawn. The investment income component of the funds withdrawn from the plan will be taxable to the beneficiary, i.e., the disabled individual. The original contributions of up to \$200,000 can be withdrawn on a tax free basis
- contributions can be made until the end of the year in which the disabled individual turns 59
- an individual is eligible to be the beneficiary of a Registered Disability Savings Plan if they are a Canadian resident and are eligible for the disability tax credit
- although most contributions will be made by a parent or grandparent, there are no restrictions on who can contribute to a RDSP
- the government will also contribute to the plan through Canada Disability Savings Grants and Canada Disability Savings Bonds. The amount of the government's contribution will depend upon family income

Canada Disability Savings Grant – This program introduces a grant system that results in government contributions to the Registered Disability Savings Plans. For families with an income of less than \$74,357, the government will contribute:

- \$3 for every dollar on the first \$500 of contributions
- \$2 for every dollar on the next \$1,000 contributions

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