Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Tax planning for persons with disabilities

Please contact us for more information about the topics discussed in this article.

If you're a person with a disability or you care for and support a person with a disability, it's helpful to be aware of the various tax measures and government-funded programs that may be available to you or your loved one. Canadian income tax rules allow certain persons with a disability, and sometimes their financially supportive relatives, to access special tax credits, deductions and savings vehicles. As well, both the federal and provincial or territorial governments offer programs that provide benefits to individuals with a disability.

There's no collective definition of "disability" in Canada. It's possible to qualify for a disability benefit under one government program, such as the Ontario Disability Support Program but not qualify for another, such as the Disability Tax Credit (DTC) or the Canada Pension Plan (CPP) disability benefit. This article is intended to provide an overview of certain tax-related measures and government programs as well as planning considerations pertinent to persons with disabilities and their caregivers.

Any reference to a spouse in this article also includes a common-law partner.

Tax credits and deductions

Although there are numerous tax credits and deductions available to those with disabilities, the rules around each are complex, so it's important to consult with a qualified tax advisor about which credits and deductions are available given your particular circumstances. The following are some common federal tax credits or deductions that may be available.

Disability tax credit (DTC)

The DTC is a non-refundable tax credit which may reduce the taxes payable by a person with a disability or, in some cases, the taxes payable by their supporting relative. If you're eligible for the DTC, you can claim the disability amount on your tax return. You may also have access to other tax benefits, credits and deductions, such as the Child Disability Benefit and the

Canada Workers Benefit. As well, the DTC allows you to open a registered disability savings plan (RDSP), which is discussed later on.

Eligibility

You may be eligible for the DTC if you have a severe and prolonged impairment in physical or mental functions. Prolonged means the impairment has lasted or is expected to last for a continuous period of at least 12 months.

Generally, a person needs to meet one of the following criteria to be eligible for the disability tax credit:

- Is markedly restricted in at least one of the basic activities of daily living (vision, hearing, walking, speaking, feeding, dressing and eliminating (bowel and bladder functions)). Marked restriction means that even with appropriate therapy, devices and medication, you're unable to do the activity or it takes three times longer than someone of similar age without the impairment, and this is the case all or substantially all of the time (generally at least 90% of the time);
- Is significantly restricted in two or more basic activities of daily living that exist together all or substantially all of the time (generally interpreted as 90% or more). The combined impact of the limitations is equivalent to being unable, or taking an inordinate amount of time, in one single activity of daily living and is present all or substantially all (90% or more) of the time, even with appropriate therapy, devices and medication; or
- Requires life-sustaining therapy (requires therapy to support a vital function and requires therapy at least 2 times per week with an average of 14 hours weekly).

To qualify for the DTC, a qualified medical practitioner must complete the Canada Revenue Agency's (CRA) form, "Disability Tax Credit Certificate," with your medical information, and the CRA needs to approve your application. If approved, they will identify which year(s) you're eligible for the DTC. Some approvals are for life and others are only for a certain number of years, after which your ability to claim the DTC expires. If your condition continues to exist after your DTC expires, you'll need to reapply to the CRA for the DTC. You're also required to notify the CRA if your condition improves to a point that you no longer qualify for the DTC.

If you're not able to use the entire credit, you can transfer the excess to your spouse, or another supporting relative, such as your parent, child, brother, sister, aunt, uncle, niece or nephew. In order for your spouse or supporting relative to claim the tax credit, you must be dependent on them for at least one of the basic necessities of life (food, shelter and clothing).

To qualify for the DTC, a qualified medical practitioner must complete the Canada Revenue Agency's (CRA) form, "Disability Tax Credit Certificate," with your medical information, and the CRA needs to approve your application. If approved, they will identify which year(s) you're eligible for the DTC.

If you were eligible for the DTC in a previous year but did not claim the disability amount when you filed your return, you may be able to request an adjustment to your tax return for up to 10 years and receive the credit for those years. Speak to a qualified tax advisor to determine whether you or a loved one is eligible for the DTC.

Medical expense tax credit

You can claim a tax credit for eligible medical expenses paid for yourself, your spouse and other eligible dependants, such as your or your spouse's child, grandchild, parent, grandparent, brother, sister, uncle, aunt, niece or nephew. If you're reimbursed for an eligible medical expense with a non-taxable payment, only the portion that was not reimbursed can be claimed as an eligible medical expense. Only expenses in excess of the lower of a prescribed threshold ($2,759 for 2024 and indexed annually) or 3% of your net income can be claimed. The federal tax credit is 15% of the amount of expenses that can be claimed. Note that if the credit is being claimed for a dependant (other than your spouse or minor child), the tax credit is based on your dependant's net income, not yours.

In general, eligible medical expenses may be claimed even if they were incurred outside of Canada. For a detailed list of the types of expenditures that qualify for the medical expense tax credit, please refer to the CRA's Common List of Medical Expenses online.

To claim a medical expense tax credit in a particular tax year, the medical expenses must have been paid within any 12-month period ending in that tax year. If you're making a claim for a person who died within that tax year, the medical expense must have been paid within any 24-month period that includes the date of death and was not claimed in previous tax year.

There are special rules about claiming the DTC and attendant care expenses as a medical expense that are beyond the scope of this article. Speak to a qualified tax advisor for more information about those rules.

Disability supports deduction

If you have a physical or mental impairment, the disability supports deduction allows you to deduct specific expenses you paid in the year so that you could:

- work;
- go to school; or
- do research for which you received a grant.

Only if you're the person with the physical or mental disability can you claim expenses for this deduction. This is a deduction against your taxable income, which will reduce your income and may help you qualify for or increase existing income-tested benefits. Examples of eligible expenses include: certain attendant care expenses, note-taking services, braille printers, speech synthesizers and optical scanners. CRA has a more complete list online.

You can't claim amounts you or someone else claimed as medical expenses or amounts for which anyone was reimbursed or entitled to be reimbursed by a non-taxable payment. It's possible you may be able to claim certain expenses as both a disability supports deduction or a medical expense. Speak to a qualified tax advisor about which option makes sense for you or whether the claim should be split between these two options.

Other tax credits and deductions

Some of the other credits and deductions that may be available include:

- Spouse or common-law partner amount
- Amount for eligible dependant
- Canada caregiver credit
- Tuition amount
- Canada Workers Benefit
- Child care expenses
- Home accessibility expenses

Speak to a qualified tax advisor about the tax credits and deductions that may be available to you. The province or territory you reside in may also provide tax credits or deductions that can reduce your provincial or territorial income taxes.

Disability benefits

In addition to tax credits and deductions, the federal, provincial and territorial governments offer a variety of services and financial benefits to assist people with disabilities and their families.

Speak to a qualified tax advisor about the tax credits and deductions that may be available to you. The province or territory you reside in may also provide tax credits or deductions that can reduce your provincial or territorial income taxes.

Child disability benefit (CDB)

The CDB is a tax-free monthly payment for families who care for a child under age 18 with a severe and prolonged impairment in physical or mental functions. To be eligible for this payment, you must be eligible for the Canada child benefit (CCB) and your child must also be eligible for the DTC. If you're already getting the CCB for your child who's eligible for the DTC, the CDB payment will be sent to you automatically. The CDB is reduced when your adjusted family net income from the previous tax year exceeds a certain threshold ($79,087 in 2024).

Canada Disability Benefit

The Canada Disability Benefit is a new benefit introduced by the government to help low-income individuals between the ages of 18 and 64 who qualify for the DTC. Payments to eligible individuals will being in July 2025 and the maximum benefit will be $200 per month. More details about the benefit are expected to be released.

Canadian Dental Care Plan

The Canadian Dental Care Plan provides full or partial dental care coverage to certain uninsured individuals, including adults who are eligible for the DTC, whose adjusted net family income is less than $90,000.

Registered disability savings plan (RDSP)

An RDSP is a savings plan designed to assist individuals who are eligible for the DTC in saving for their long-term financial needs. It offers generous government grants and bonds, the ability to grow investments on a tax-deferred basis, as well as an opportunity for family members to assist with contributions. An RDSP can be opened for the benefit of a person, known as a beneficiary, who:

- Is eligible for the DTC;
- Has a valid Social Insurance Number;
- Is a resident in Canada when the plan is opened; and
- Is under age 60 (a plan can be opened for a person and contributions can be made to it until the end of the year in which the person turns age 59).

RDSPs do not have an annual contribution limit but there is an overall lifetime contribution limit of $200,000 per beneficiary. A beneficiary can only have one RDSP at any given time. Contributions to an RDSP are not tax deductible, however, investment income and capital gains earned within the RDSP are tax deferred until they're withdrawn. When the funds are withdrawn, the income, grants and bonds are taxable to the beneficiary. Contributions made into the plan can be withdrawn by the beneficiary on a tax-free basis. Withdrawals can generally be made at any time but may be subject to restrictions and may trigger the repayment of government grants and bonds in certain instances.

To accelerate the growth of an RDSP, the federal government offers two types of incentives, the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB). These government grants and bonds are paid directly to the plan and can significantly increase the value of the RDSP over time. Contributions to an RDSP may attract CDSG, which is a grant provided by the government of up to $3,500 annually ($70,000 lifetime limit) until the end of the year the beneficiary turns age 49. The amount of CDSG paid to the plan depends on the amount contributed and the beneficiary's family net income. CDSB of up to $1,000 annually ($20,000 lifetime limit) until the end of the year where the beneficiary turns age 49 may also be paid into the plan for the benefit of a low-income beneficiary. No contributions need to be made to the RDSP to be entitled to the CDSB.

In general, RDSP payments don't affect eligibility for federal government income-based benefits such as OAS, the GST/HST credit and the CCB. As well, RDSP payments normally have little or no impact on provincial and territorial government disability support benefits.

Ask your RBC advisor for an article on RDSP's if you want to learn more about them.

CPP disability benefits

If you have a disability and are unable to work regularly, you may be entitled to CPP disability benefits if you meet following criteria:

- You have a severe and prolonged disability (severe means you have a mental or physical disability that regularly stops you from doing any type of substantially gainful work and prolonged means your disability is long-term and of indefinite duration or is likely to result in death);
- You're under age 65; and
- You meet the CPP contribution requirements (you've contributed to CPP in four of the last six years, with a minimum level of earnings in each of those years, or three of the previous six years if contributions have been made for at least 25 years.)

To accelerate the growth of an RDSP, the federal government offers two types of incentives, the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB).

The CPP disability benefit consists of two parts — the basic monthly amount fixed for all recipients and an amount based on the amount you contributed to CPP during your career. If you're receiving a CPP disability benefit, your dependent children who are in your care and custody may also be eligible for a children's benefit. The child must either be under age 18 or between the ages of 18 and 25 and in full-time attendance at a recognized school or university. The monthly children's benefit is a flat rate that's adjusted annually.

CPP disability benefits are taxable to you in the year received, at your marginal tax rate. While receiving CPP disability, should you become employed and start earning income, there's a threshold amount you can earn without impacting your CPP disability benefits. For 2024, this amount is $6,800 (before taxes). Other than employment income, your eligibility for CPP disability benefits is not impacted by any other sources of income or assets.

If you're receiving disability income from other sources, such as a private insurer or provincial or territorial social assistance program, you may want to check whether your payments from those plans will be adjusted should you be approved for CPP disability benefits.

CPP disability benefit payments may cease in any of the following circumstances:

- You no longer have a disability;
- You become capable of working on a regular basis;
- You pass away; or
- You turn age 65 — when you turn 65, your disability benefit will automatically be converted to a retirement pension.

For more information on CPP disability, contact Service Canada.

Residents of Quebec should consult the Retraite Québec website, as the Quebec Pension Plan offers disability benefits similar to CPP.

Provincial and territorial disability benefits

Many provinces and territories have programs to support their residents with disabilities who need financial assistance and/or health support. Eligibility for these programs is often based on the income of the individual with a disability and the value of their assets. Look into the programs offered in your province or territory to determine if you or a loved one may be eligible.

Given the stringent requirements that must be met to receive many of the provincial or territorial benefits, it's important to be aware of how any inheritances, gifts or income may impact an individual with a disability who's receiving benefits and ensure proper planning does not cause additional hardship.

Workers' compensation

Workers' compensation programs are administered by the federal and provincial or territorial governments to provide financial assistance to employees who suffer from work-related injuries and occupational diseases. Compensation may be paid in respect of an injury, disability or death of a worker. These amounts may represent:

- Wage-loss replacement for time lost from employment due to a compensable injury or condition;
- Wage-loss replacement income paid to a worker who suffered a partial, total, temporary or permanent disability as a result of a work-related accident;
- Compensation for loss of future earnings due to an injury causing a temporary disability or permanent impairment; or
- Survivor benefits or wage-loss replacement income paid to the spouse or children.

Generally, these benefits are not taxable. They are, however, included in your total income when filing your tax return and are offset with a corresponding deduction when calculating your taxable income. Because they're included in your total income, they may impact income-tested benefits, such as the GST/HST credit or the CCB.

Other disability benefits

Consider whether or not you're eligible for any employer-sponsored disability benefits or have private disability insurance. These can be other means to support yourself during a period of disability. In general, employer paid short-term or long-term disability premiums are not taxable benefits to you. If your employer pays for your disability coverage, benefits collected in the future may be taxable to you. If you paid for the premiums on a disability insurance policy, the disability benefits are generally not taxable to you.

Consider whether or not you're eligible for any employer-sponsored disability benefits or have private disability insurance. These can be other means to support yourself during a period of disability.

If you receive a benefit or allowance as an employee because of your disability, such as an amount to cover your transportation costs or attendant services, this benefit may not be taxable to you. For example, amounts paid for reasonable transportation costs between your home and work location, including parking near work, are not taxable to you if you're legally blind or have a severe and prolonged mobility impairment, which markedly restricts your ability to perform a basic activity of daily living.

Other government programs

Home buyers' plan (HBP)

The HBP allows individuals who are first-time home buyers to withdraw (borrow) up to $60,000 tax-free from their RRSP to purchase or build a qualifying home for themselves or a related individual with the disability. The government allows for some flexibility when homes are purchased for individuals with a disability, by removing the first-time home buyer requirement. If you're already a homeowner and you have a disability, or if you're a relative of a person who has a disability, you may be able to withdraw funds from your RRSP under the HBP if the withdrawal is to assist you or your relative with a disability to purchase a home provided:

- You or your relative with a disability qualify for the DTC;
- The home better fits your or your relative with a disability's needs than your/their current home; and
- You or your relative with a disability intend to occupy the home as your/their principal place of residence within one year after building or buying the home.

Home buyers' amount

The federal government offers a $10,000 tax credit for first-time home buyers who purchase a qualifying home. If you're eligible for the DTC or you acquire a home for the benefit of a related person who's eligible for the DTC, you don't have to be a first-time home buyer. Instead, the purchase must be made to allow you or the related person with the disability to live in a home that's more accessible or better suited to the needs of the person with the disability. You or the related person with the disability must also intend to occupy the home as a principal residence no later than one year after it's acquired.

Supporting someone with a disability

If you're caring or supporting someone with a disability, you may be wondering if there are different ways to provide financial support. One option is to contribute to an RDSP. Contributions can generally be made to an RDSP even if you're not the holder of the RDSP, but this requires the holder's consent.

You could make direct gifts to an individual with a disability. If you decide to do so, you should determine whether the gifts or financial support you give to an individual with a disability will affect any government assistance the individual may currently be receiving.

One common tool often used to preserve an individual's entitlement to government income support and benefits is a Henson Trust. A Henson Trust is a trust that provides the trustees with the absolute discretion to distribute income and capital from the trust to the beneficiary as they see fit. You can set up or contribute to a Henson Trust during your lifetime or on your death through your Will. The terms of the trust provide the trustees with full control of the assets in the trust and they can decide when, if and how much income or capital is to be paid to the beneficiary. The beneficiary of a Henson Trust has no vested interest in the income or capital of the trust. This means they can't claim or demand payments from the trust and, consequently, they're not considered to own the trust assets. In this way, the trust assets may not be considered for any asset-tested benefit programs for which the beneficiary may be eligible.

Henson Trusts are subject to provincial and territorial regulations and may not be available as an effective strategy in every province or territory. It's imperative that you consult with a qualified legal advisor to determine whether a Henson Trust is recognized in the beneficiary's province or territory of residence before utilizing this tool.

For more information regarding Henson Trusts, please ask your RBC advisor for the article titled, "Henson Trusts."

Conclusion

In Canada, there are numerous tax credits, deductions, savings vehicles, and support programs and benefits available to individuals with disabilities. To the extent you have a disability or know an individual with a disability, consider the information discussed in this article and speak with a qualified tax advisor to ensure you or the individual with a disability are maximizing the resources and programs available.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

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