'Tis the Season: The Government Comes Bearing Gifts

By Charlene Birdsall, CPA, CMA, CIM, CFP, National Bank Financial – Wealth Management

Yes, Billy – there really is a Santa Claus. According to Google, Santa Claus delivers gifts to more than 500 million households. But did you know that the Canadian Government has also put into place special gifts that you and your family may qualify for… while they last?

Did you know that the Canadian Government has also put into place special gifts that you and your family may qualify for (while they last)?

Registered Education Savings Plan (RESP)

This plan encourages you to save for your children's education. The encouragement is the Government of Canada 'gifting' you 20 per cent on each dollar you invest into the RESP, up to $500 per year and up to a lifetime amount of $7,200 per child! Therefore, for every $2,500 invested into the RESP, you will receive an additional $500 into the RESP. How often have you been able to make a guaranteed 20 per cent on your money! Now that is a gift!

On top of the general 'gift,' eligible low-income families may receive the Canada Learning Bond (CLB), which consists of an initial one-time payment of $500, followed by annual payments of $100 to a maximum of $2,000! Quebec and British Columbia also offers 'gifts' as additional incentives. These additional amounts are paid directly into the recipient's RESP.

Inside the RESP, all money grows tax free. When using the RESP for post-secondary education, the 'gift' and growth on the investments are taxed in the hands of the child (bonus as the children have low to no income – therefore no tax is paid). There is no taxation on the contributions made into the RESP, as this money is considered after tax dollars (i.e., it had already been taxed). For more information about the rules on the 'gifts,' please contact your wealth manager.

Registered Disability Savings Plan (RDSP)

This plan encourages savings for the financial security of a disabled person. This encouragement is the Government of Canada 'gifting' you a 300, 200 or 100 per cent match up to $3,500 per year, based on the family income. The family income is based on the adjusted income of the family until the disabled person turns 18, at which point the family income threshold becomes the disabled person's income.

If the family income is less than $98,040, you would receive a $3.00 'gift' for every dollar contributed on the first $500 contributed. On the next $1,000 contributed, you would receive a 'gift' of $2.00 for every dollar contributed. Therefore, every year you contribute $1,500, you receive a 'gift' from your federal government of $3,500! If the family income is more than $98,040, then you are 'gifted' $1.00 for every dollar contributed. There is also a Canada Disability Savings bond up to $1,000 paid into the RDSP for lower family income ($49,020), up to a lifetime 'gift' of

$20,000! These gifts are only available up to the disabled person's age of 49 years.

Another qualifier is that these 'gifts' must stay in the plan for 10 years before any withdrawal can take place. If the disabled person dies prior to the 10-year hold period of this 'gift,' it must be paid back to the government. For more information about the rules on the 'gifts,' please contact your wealth manager.

NEW GIFTS FOR 2023

Canada Student Loans and Canada Apprentice Loans

In the last Federal Economic Statement, the government is proposing to permanently eliminate interest on student loans and on existing loan balances!

The Tax-Free First Home Savings Account (FHSA)

This new savings vehicle helps you save up to $40,000, with an annual contribution limit of $8,000 to purchase a home. To open a FHSA, you must be age 18 or older and have not owned a home during either the current year or the preceding four calendar years. The lifetime of this savings plan is only 15 years or before you turn age 71, so you must decide on your home purchase by that time. The bonus in the FHSA is that the contributions are tax-deductible, and the withdrawals are tax-free! This is in comparison to the existing Home Buyer's Plan, where you are borrowing from your RRSP, but you must pay it back within 15 years.

In addition, the FHSA is flexible whereby the unused contribution room of $8,000 can be carried forward to future years, and deductions can be claimed in the year they were made OR in future years. This means you could open a FHSA even if you don't have the money, and then contribute up to $16,000 in 2024 (using the unused contribution room of 2023). The investment recommendation for this type of plan would be a conservative portfolio, and the funds would likely be used in the near term.

If you have not decided on a home or have changed your mind in purchasing a home within the 15-year time limit, you can transfer all the funds directly into your Registered Retirement Savings Plan (they would not be considered a deduction at that time as you have already taken the taxable deduction through the FHSA). For the FHSA withdrawal to be non-taxable, there must be an agreement to buy or build a home in Canada by October 1, of the following year.

So, yes Billy, if you are good and qualify, you too can take advantage of the gifts from our government.

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