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TAXSTRATEGY

Baby on the way: Start planning now
Responsibilities and benefits for …

New parents

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MY OLDEST IS NOW 18, BUT I remember as if it was yesterday when my wife told me we were going to have a child. That heightened sense of surprise and anticipation mixed with great happiness was the most delicious feeling ever—happily repeated when my four others came along.

We also knew that with children come great responsibilities. I learned this early in life when my late father suffered a fatal heart attack when he was only 50 and I was 11, the youngest of four boys. There was of course, the shock that came with that, but my father also left no will or savings and that changed all of our lives.

That experience led me into the financial planning profession and appreciation of the importance of our duties and how they change as we get older. Every life stage requires unique advice based on your particular situation and your long-term financial goals and objectives.

Life milestones and key financial decisions

In keeping with that, this is the first in an occasional series of *TaxLetter* articles dealing with life milestones that will help you, or your children and grandchildren with information to make new financial decisions, while helping you save on taxes, thus leaving you with the largest accumulation of savings possible.

This first installment contains financial planning advice on what to do when the children come along.

At least one study has shown that it costs about $250,000 in after-tax dollars to raise a child until he or she reaches 18, and this does not include university. So it's important to learn about as many options as possible: what you need to do to for yourself and your child, and what the government can offer.

Maternity and parental benefits: Employment Insurance

Maternity Employment Insurance provides benefits to biological mothers who are unable to work because they are pregnant or have recently given birth.

Parental Employment Insurance provides benefits to parents (biological, adoptive or legally recognized) who are caring for a newborn or newly adopted child.

You can apply for these benefits if your normal weekly earnings are cut by more than 40 per cent or you have accumulated at least 600 hours of insurable employment during the qualifying period. How much you receive depends on a number of factors, but the most you can currently receive is $514 a week.

Maternity benefits are paid for a maximum of 15 weeks, while parental benefits can be paid for up to 35 weeks and in that case, the two parents share the 35 weeks of benefits.

Not that long ago, only those who worked for others were entitled to maternity and parental benefits. But under the Fairness for the Self-

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Employed Act, all self-employed people can choose to register for those Employment Insurance benefits.

Birth registration: You get more than a birth certificate

Within the first 30 days, you must register the birth of your child. With this, you will also receive a birth certificate and a social insurance number for the baby and enrol the child in the Canada Child Benefits program.

Currently, that benefit is a maximum $100 a month, but the federal government recently announced that it was boosting universal child care to $160 a month for children under six, plus a new monthly benefit of $60 for children aged six through 17, effective in 2015. However, the final amount will vary depending on your family income.

Health coverage: Register your child within 90 days

Within the first 90 days, you also need to register for your child's provincial health coverage.

Whether you work for yourself or a company, having a child is a good time to review your health care coverage. Look over your plan and ensure that your child is enrolled and make note if your costs or deductibles have changed. This is also a good time to see if you want to increase coverage.

Insurance: Review your needs

Review your insurance needs, including life insurance, disability insurance, and critical illness insurance. You are now responsible for the upkeep of a new life. If something happens to you, will your spouse have adequate financial resources to raise your family?

Many people neglect disability insurance and critical illness protection, but it can be crucial coverage if you are the sole breadwinner and are sidelined by an illness for any period of time. The birth of a child is a good opportunity to speak to your financial advisor about the possibility of raising your life insurance coverage.

RESPs: School is expensive; start saving a.s.a.p.

Registered Education Savings Plans (RESPs): It's been estimated that for a baby born this year, it will cost about $82,000 to send that child through four years of university in the year 2031. That's for students living at home. It grows to $120,000 for those living away from home.

So if you have a newborn now, it's probably a good idea to start saving as soon as possible—and you might want to encourage grandparents, aunts and uncles to contribute as well.

The federal government also puts into the RESP in the form of grants or bonds if your child is 17 or under. You can usually put in the money whenever you want, up to a lifetime maximum of $50,000 a child. Contributions are not tax-deductible, but the savings within the plan compound tax-free and you can withdraw the funds tax-free.

Special needs benefits: Make use of programs designed for special needs children

Ottawa provides a Disability Tax Credit, a non-refundable tax credit that a person with a severe and prolonged impairment in physical or mental functions can claim in order to reduce the amount of income tax paid during a year. This includes a supplement for those under 18. The purpose of the Disability Tax Credit is to provide for greater tax equity by allowing some relief for disability costs.

If a person is eligible for the Disability Tax Credit, he or she may also be eligible for other programs such as the registered disability savings plan, the working income tax benefit and the child disability benefit.

There is also the Registered Disability Savings Plan (RDSP), in which up to $200,000 can be contributed and then matched by the federal government. Like a Registered Retirement Savings Plan, the RDSP grows tax-free.

Wills and guardians: Tough decisions best faced head-on

The vast majority of Canadian adults do not have a signed and updated will, often because they don't know how to get started or think they can't afford one. Having a child is another great incentive for getting a will now to avoid costly legal bills and bitter family disputes later on.

In your will, you will be able to name a guardian for your children. This will ideally be a person who shares your values and who you have talked to ahead of time to take on this responsibility.

Family trusts: Another vehicle for succession planning

Family trusts are popular estate and succession planning vehicles because they are versatile and effective tools to help manage family wealth and taxes.

With a trust, a person can control the timing and amount of distributions to beneficiaries, provide flexibility in structuring beneficiary payments, lower tax bills for the family through income splitting or charitable gift planning, reduce probate fees and maintain privacy for your estate. That's because a trust agreement is not subject to probate.

Charitable giving: A commitment worth teaching

As a role model to your child, it's always a good idea to teach your children the benefits of giving to a non-profit organization. As the child gets older, you may want to let the child select his/her own charity to become involved in and to donate a percentage of birthday or holiday gifts. Imbuing this sense of responsibility to others is a healthy choice for any child. As they get older, they will also see the tax benefits of charitable giving.

The parenting journey: Don't hesitate to ask for guides and maps

Having a child is a marvellous trip with unexpected twists and turns along the way. Parents always wonder if they have done everything they can to give their children a healthy life filled with meaning and purpose. Talking to an experienced financial planner will ensure you have looked after the financial side. As for everything else: enjoy the journey. It's worth it.

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