

A Tale of Two New Benefits: The WITB and the RDSP

Comments on the draft legislative proposals

Submitted to:

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Summary of Recommendations

It is recommended that:

- **the Advantage Canada designation be extended to the RDSP;**
- **the federal government commission a study to assess the feasibility of creating a comprehensive disability income for all non-aged Canadian adults with disabilities;**
- **the WITB receive funding from Advantage Canada sufficient to change the WITB design to ensure that all Canadians (who are non-students) working full time at the minimum wage, benefit from the WITB;**
- **the definition of disability for the purposes of the WITB be expanded to include persons with disabilities who can work. In addition, the government should inform Canadians with disabilities of the combined benefits available through the WITB (D) and the Disability Tax Credit (DTC) to increase uptake of both programs among low income persons with disabilities.**
- **the Government of Canada study ways and means by which low-income parents of children with disabilities could take full advantage of the RDSP program; and**
- **the federal government study the feasibility, based on the success of the RDSP, to extend a registered instrument to allow all low income Canadians to save or retain income for future requirements within their working years (i.e. before retirement).**

The RDSP and WITB in context:

Outside of Canada's two large constitutionally protected programs (CPP and EI) seniors benefits and child benefits have four elements in common as they relate to income security of programs funded by tax dollars:

1. Meaningful broadly tested base benefits
 - Old Age Security
 - Child Tax Benefits for Children

2. Registered tax instruments that provides incentives for children and youth and aged persons to save while they are in these age cohorts
 - RRSP's for seniors
 - Registered Pension Plans (RPP's for salaried employees)
 - RESP's for children and youth

3. Income tested benefits
 - The Guaranteed Income Supplement (GIS) for seniors plus a variety of provincial supplements and add-ons
 - The National Child Benefit Supplement (NCBS) for low income families with children

4. Matching or Separate Contributions from Governments to reward individual contributions for seniors and children
 - The tax exemption on RRSP's upon contribution for the benefit of seniors
 - The Canada Learning Bond, Canada Education Savings Grants, Millennium Scholarships, and Canada Student Loans (CSL).

The introduction of the WITB and RDSP will mean that some low income working age adults will have access, for the first time, to a registered savings plan, matching contributions and income supplements. Accordingly, there is much to like in the two new plans in that they each represent important new tax measures designed to help specific populations of working age adults.

General Comments

Advantage Canada

In Budget 2007, the Finance Minister noted that the WITB would be a beneficiary of a new program called Advantage Canada. Under this new program, 50% of future Budget surpluses are used to pay down Canada's debt and 50% goes to programs designated as benefiting from Advantage Canada.

The Budget Surplus was announced recently by the Minister of Finance at \$13.8 Billion. This means that almost \$7.0 billion dollars will be allocated to programs and tax reductions other than debt reduction. At this juncture, **no information is available as to the formula or amount of funds that will be allocated to the WITB** although the legislative package notes for the first time that the WITB will be indexed to the cost of living. The unavailability of the details of Advantage Canada is a serious deficiency in the Budget Implementation Act.

Given the large amount of surplus funds going to Advantage Canada, it is important to know how the formula will work and how much the WITB will secure from these funds.

In contrast, the RDSP does not appear to benefit from Advantage Canada funding. It is not clear why two new important income security measures are being implemented with one designated to benefit from Advantage Canada and the other not designated.

Open ended rule-based programs cannot be budgeted in the same way as programs that can be otherwise rationed. Both the RDSP and WITB are rule based open ended programs.

It is recommended that the Advantage Canada designation be extended to the RDSP.

Coordination

Both the WITB and the RDSP provide important new vehicles to improve the income security of adults with disabilities. However, it is not clear how these programs coordinate with the provisions of the Canada Pension Plan (CPP) disability pensions, sickness benefits paid through Employment Insurance (EI), provincial social assistance and workers' compensation boards.

These latter programs spend over \$16 billion a year to meet the needs of persons with disabilities. With the WITB for persons with disabilities and the RDSP, two important new programs are being added to the mix. It may be time to take stock and look at the entire range of programs, old and new, to assess whether a disability income program for all Canadians with disabilities is in order, based on the working models that have been so successful for children (the CCTB) and seniors (OAS/GIS).

It is recommended that the federal government commission a study to assess the feasibility of creating a comprehensive disability income for all non-aged Canadian adults with disabilities.

The WITB

Although it provides a maximum tax credit of \$500 for single individuals and \$1,000 for families, the credit will be reduced by 15 per cent of net income in excess of \$9,500 for single individuals and \$14,500 for families. It phases out completely at \$12,833 for single workers and \$21,167 for single parents and couples. The new Budget Implementation Act also stipulates that the WITB will be indexed to the CPI.

But perhaps the most startling fact of all regarding the new program is that it does not provide any benefit to those who work full time at the minimum wage in most of Canada.

Couples in Ontario, where both adults work 35 hours a week for minimum wages, take home greater net pay than the phase-out for couples under the WITB at \$21,167 a year. As a result, they do not qualify for the WITB.

Similarly, a single person in Ontario working 40 hours a week at \$8 an hour nets about \$14,700 a year. At 35 hours a week, this same single person still nets more than the \$12,833 yearly end point of the WITB. These full-time minimum wage workers will not see a single penny from the new WITB.

These workers are by no means in the minority. According to Statistics Canada, more than 89 per cent of minimum-wage workers are single people while almost 11 per cent are in families with either a spouse or children. So the vast majority of full-time minimum wage workers will not get a cent.

The fact that the WITB will benefit from an unexpected surplus should mean that the WITB could be transformed into a true income supplementation for the vast majority of the working poor who will not benefit from the WITB under the current plan. We do not need to know where the money will come from. It is already there in the form of the surplus funds that have already been secured.

It is therefore recommended that the WITB receive funding from Advantage Canada sufficient to change the WITB design to ensure that all Canadians (who are non-students) working full time at the minimum wage, benefit from the WITB.

There is also a special provision in the WITB for persons with disabilities who work at low income jobs. But the definition of disability used is the Disability Tax Credit definition (to provide assistance to those individuals who suffer from a severe and prolonged mental or physical impairment, the effects of which markedly restrict their ability to perform a basic activity of daily living.)

This definition precludes work in most cases meaning that the effect of the WITB for persons with disabilities may be very low especially as low income labour is often physical labour that precludes persons who are restricted in their abilities relating to daily living.

It is recommended that the definition of disability for the purposes of the WITB be expanded to include persons with disabilities who can work. In addition, the government should inform Canadians with disabilities of the combined benefits available through the WITB (D) and the Disability Tax Credit (DTC) to increase uptake of both programs among low income persons with disabilities.

The RDSP

The RDSP is a significant but very complicated tax measure that recognizes that many persons with disabilities are outliving their parents and creates a tax sheltered registered fund that allows parents to significantly contribute to the future well-being of their children throughout their adult years. It holds enormous promise

It is a far-reaching measure that requires close study. Accordingly the following comments are contextual only.

The first is that the RDSP vehicle, although intended as a way for parents and relatives to contribute to the lifelong income security of their children who have disabilities, it may be the case that governments and philanthropies may wish to assist low income parents who do not have the funds to take advantage of the RDSP vehicle. It is not immediately clear that how this alternative funding may be accommodated or encouraged.

There are a number of provisions relating to RESP's that encourage low-income parents to take out these registered instruments.

It is therefore recommended that the government of Canada study ways and means by which low-income parents of children with disabilities could take full advantage of the RDSP program

Secondly, given that the RDSP is the only registered instrument specifically designed to help assist people in the years before they become senior citizens (RRSP and RESP's are very limited in this regard), the success of the RDSP would provide hope to those who would like to see a broader based registered instrument (and matching contributions) for low income families. Such programs now exist in the US (Roth IRA's) and the UK.

It is recommended that the federal government study the feasibility, based on the success of the RDSP, to extend a registered instrument to allow low income Canadians to save or retain income for future requirements within their working years (i.e. before retirement).