FINANCIAL POST

The Canada Child Benefit cheques are about to be mailed out — here's what to do with yours

JAMIE GOLOMBEK | July 15, 2016 | Last Updated: Jul 15 9:00 AM ET

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This week, most parents with kids under age 18 will begin seeing their first Canada Child Benefit cheques, or, in many cases, direct-deposits. The CCB is a new, tax-free monthly payment made to eligible families to help them with the cost of raising children under 18 years of age and it replaces the current Canada Child Tax Benefit and the Universal Child Care Benefit. The CCB may also include the child disability benefit for children who qualify for the disability tax credit as well as any related provincial and territorial programs.

If you've been getting the CCTB and/or the UCCB, and you (and your spouse or partner) filed a 2015 tax return, you don't have to do anything to start receiving the payments. The Canada Revenue Agency uses information from your most recent tax return(s) to calculate how much your CCB payments will be. The benefit payments will be recalculated every July based on the prior year's income information.

Keep in mind that unlike the UCCB, the CCB monthly benefits are entirely tax-free, so you don't have to worry about coming up with the cash next April to pay the tax bill on your monthly benefits. Here are three ways to make the best use of your tax-free monthly CCB cheques.

Contribute to an RESP Consider directing a portion of those monthly cheques to a Registered Education Savings Plan, which can produce an immediate return of 20 per cent (to an annual maximum of $500 per child) by way of the Canada Education Savings Grant (CESG). For example, if you were to contribute just over $200 each month, per child, to an RESP in 2016, you could collect the full 2016 CESG. If you aren't already maxed out on prior years' CESGs, you can contribute more and catch up on the CESGs retroactively, up to an annual limit of $1,000 of CESGs per child.

Contribute to an RDSP If you have a child or other family member with special needs who qualifies for the disability tax credit due to a severe and permanent disability, consider using some of the monthly CCB to fund a Registered Disability Savings Plan. The RDSP is a tax-deferred registered savings plan available to Canadians age 59 and under who are eligible for the disability tax credit.

While your contributions are not tax deductible, all earnings and growth accrue on a tax-deferred basis. A main feature of the RDSP is the ability to supplement the plan with matching Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) for those aged 49 and under. For example, if you contribute just $125 each month ($1,500 annually) to an RDSP for your child, you could receive up to $3,500 in CDSGs and another $1,000 in CDSBs, depending on your family income.

Top up your RRSP or TFSA Remember that just because these payments are called the Canada "Child" Benefit, there's no reason you can't use that money yourself to fund your own retirement. If you’ve got unused RRSP or TFSA room, consider investing those monthly cheques in one of these tax-advantaged plans.

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