Practical Guide to the Disability Tax Credit (DTC): Why Families of Children with Autism and Other Special Needs Should Learn About It Early

NorthStar Funding & Benefits Guide

When parents first hear about the Disability Tax Credit (DTC), they may wonder: “If my child has no income and does not pay taxes, does the DTC have anything to do with our family?”

This is a very common misunderstanding.

The DTC is first and foremost a federal non-refundable tax credit intended to help offset some of the additional costs associated with a severe and prolonged impairment in physical or mental functions. For families of children with special needs, however, its importance goes beyond reducing taxes. Eligibility for the DTC may also connect a family to other programs, including the Child Disability Benefit, the Registered Disability Savings Plan (RDSP), and the Canada Disability Benefit.

1. The DTC Looks at Functional Impact, Not Just the Diagnostic Label

One point that is especially important for families of children with autism is that an autism diagnosis does not automatically qualify a person for the DTC.

The Canada Revenue Agency (CRA) makes clear that DTC eligibility is based on how an impairment affects everyday functioning, not on the diagnosis alone. For mental functions necessary for everyday life, the CRA may consider adaptive functioning, attention, concentration, goal-setting, judgment, memory, awareness of reality, problem-solving, behavioural and emotional regulation, and the understanding of verbal and non-verbal information.

In general, a marked restriction must meet a strict standard. For example, even with appropriate therapy, medication, and assistive devices, the person may still be unable to perform the relevant activity, or may take approximately three times as long as a person of the same age without the impairment. The restriction generally must be present all or substantially all of the time and must have lasted, or be expected to last, for at least 12 months.

2. Who Completes the Application

The DTC is generally applied for using Form T2201, Disability Tax Credit Certificate.

The application includes a section completed by the applicant or family and a section in which a qualified medical practitioner provides information about the functional limitations. For mental functions, professionals listed by the CRA as able to certify the information include a medical doctor, nurse practitioner, and psychologist.

When preparing materials, the most important thing for parents is not to describe the diagnosis as “more severe,” but to describe accurately and specifically how the child functions in real-life situations and what support the child requires.

For example, families may organize information about:

- Whether the child needs continual prompting to complete everyday tasks
- Whether the child requires substantially more supervision than peers of the same age
- Whether the child needs significant support with judgment, safety, emotional regulation, or behavioural control
- Whether the child has difficulty understanding complex or non-verbal information
- How often these difficulties occur, how long they last, and their practical consequences
- Which significant limitations remain even after therapy, medication, and school-based supports are in place

3. Does the DTC Matter if a Child Has No Taxable Income

It may. The DTC is a non-refundable tax credit. When the rules are met, an unused portion may be transferred to an eligible family member who supports the person. More importantly, DTC eligibility may open the door to other programs.

For example:

- The Child Disability Benefit is linked to a child's DTC eligibility
- An RDSP beneficiary will generally need to be approved for the DTC
- Approval for the DTC is one of the core eligibility requirements for the Canada Disability Benefit

For many families, the DTC can therefore be understood as an important eligibility gateway within the broader disability benefits system.

4. A Preparation Checklist for Parents

It is helpful to organize the following before applying:

1. The most recent diagnostic and psychological or functional assessments
2. Medical, psychological, occupational therapy, speech-language pathology, behavioural therapy, and other relevant records
3. The child's Individual Education Plans (IEPs) and school support records
4. Specific examples of the additional supervision and assistance required in everyday life
5. Information about whether the functional limitations have been present continuously over the past several years
6. The child's current DTC status, including the year through which approval is valid

5. After Approval, Keep Going

After receiving DTC approval, families should also check:

- Whether the family qualifies for the Child Disability Benefit
- Whether an RDSP should be opened
- Whether the person may qualify for the Canada Disability Benefit after turning 18
- Whether the CRA allows adjustments for earlier years in which the person met the eligibility requirements

NorthStar reminder: The DTC is not a judgment about a person's value or abilities. It is an eligibility system based on tax law and functional criteria. When applying, the most important thing is to present an accurate picture of the person's real functional impact.

Important Notice: This guide is provided for general information only and does not constitute tax or legal advice. The CRA makes the final eligibility decision, and specific criteria and forms may change.