Registered Disability Savings Plan (RDSP) - An Overview

As part of the 2007 Budget, the federal government introduced the Registered Disability Savings Plan (RDSP) to encourage parents and families who care for people with prolonged disabilities to save for their long-term financial security. This article provides an overview of the benefits of RDSPs as well as how they work.

What is an RDSP?

An RDSP is a tax-assisted savings plan designed to help parents and others to save for the long-term financial security of individuals with severe and prolonged disabilities. The RDSP is eligible to receive government assistance in the form of grants and bonds. The income earned in an RDSP from both private and government contributions grows on a tax-deferred basis.

Eligibility

An RDSP can be established for a beneficiary who: i) is an individual resident in Canada, ii) is under 59 years of age (excluding transfers between RDSPs), iii) is eligible for the Disability Tax Credit (DTC), and iv) has a valid Social Insurance Number (SIN).

The federal government recently passed new legislation which allows individuals to appeal decisions concerning their eligibility for the Disability Tax Credit. These changes followed a Tax Court of Canada case which held that existing income tax law would not allow an individual to appeal a determination concerning the eligibility for the Disability Tax Credit unless that determination affected the individual's tax payable.

Who can open an RDSP account?

A beneficiary, who has reached the age of majority and is legally competent to enter into a contract, can open an RDSP and become the sole holder of the RDSP.

If the beneficiary is a minor or is an adult who is not contractually competent, then a qualified person can open the RDSP as a plan holder. This plan holder must be legally authorized to act on behalf of the beneficiary.

A qualified person may be any of the following:

- A legal parent of the beneficiary;
- A guardian, tutor, or curator of the beneficiary;
- An individual who is legally authorized to act for the beneficiary; or
- A public department, agency, or institution that is legally authorized to act for the beneficiary.

A plan holder who is not a beneficiary of the RDSP does not have to be a resident of Canada but must have a valid SIN or Business Number (for institutions, departments, or agencies) in order to establish an RDSP.

If an RDSP holder is no longer qualified, he/she must be removed from the RDSP, and another qualified person must be added as a successor or assignee of the RDSP holder.

Contributions to an RDSP

- There is no annual contribution limit, however there is a lifetime maximum contribution limit of $200,000
- Contributions are made with after-tax dollars (i.e. are not tax deductible)

- Anyone can contribute to an RDSP with the written permission of the plan holder, and
- Contributions are permitted until the end of the year in which the beneficiary reaches age 59.

Rollover of deceased's RSP, RIF or RPP to an RDSP

The following discussion also applies to a tax-deferred rollover from a RIF, a specified pension plan or an RPP to an RDSP as a consequence of the death of the annuitant or plan member.

As announced in the federal 2010 budget, where an annuitant of an RSP dies after March 3, 2010, the RSP funds can be transferred on a tax-free basis to an RDSP for the annuitant's financially dependent infirm or disabled child or grandchild, subject to the lifetime maximum contribution limit of $200,000. However, the RSP funds cannot be transferred to the RDSP before July 1, 2011. Transitional rules have been implemented to accommodate deaths that occurred after 2007 and before 2011, provided that the contribution of the "rollover" amount is made between July 1, 2011 and December 31, 2011, an offsetting deduction will be provided either on the deceased annuitant's terminal tax return or on that of the eligible individual making the contribution.

Federal assistance to RDSPs

There are two types of federal government financial assistance available through RDSPs.

1. **Canada Disability Savings Grants (CDSGs)**
   - Annual CDSGs are paid to an RDSP at a **matching rate** of 100%, 200% or 300% depending on family net income and the amount contributed up to a maximum lifetime grant limit of $70,000.
   - The RDSP is eligible to receive the CDSGs until the end of the year in which the beneficiary reaches age 49.
   - CDSGs match RDSP contributions as follows:

Family Net Income* ($)	
Up to $85,414	**Over $85,414**
300% on first $500 (maximum of $1,500)	100% on first $1,000 (maximum of $1,000)
200% on next $1,000 (maximum of $2,000)	
Example: A $1,500 contribution generates $3,500 CDSG	*Example: A $1,000 contribution generates $1,000 CDSG.*

2. **Canada Disability Savings Bonds (CDSBs)**
   - Eligibility is not contingent on contributions, but is based on the beneficiary's family net income.
   - The maximum lifetime CDSB limit is $20,000.
   - The beneficiary is eligible to receive the CDSB until the end of the year in which he/she reaches age 49.
   - Where family net income is:

Family Net Income* ($)		
Up to $24, 863	**Between $24,863 - $42,707**	**Over $42,707**
$1,000 per year	Portion of $1,000 based on a formula	$0

The chart below illustrates the annual maximum federal assistance a beneficiary can receive based on family net income.

	Family Net Income* ($)			
	Up to $24,863	**$24,863–42,707**	**$42,707–$85,414**	**Over $85,414**
CDSG Matching Rates				
300% on the first $500	$1,500	$1,500	$1,500	–
200% on the next $1,000	$2,000	$2,000	$2,000	–
100% on the first $1,000	–	–	–	$1,000
CDSB	$1,000	$500[1]	–	–
Total assistance	$4,500	$4,000	$3,500	$1,000

[1] Average amount of CDSB, assuming even distribution of families over income range.

If the beneficiary is under the age of 19, the family net income is based on the combined net income of the beneficiary's parents or legal guardians. If the beneficiary has attained the age of 19, the family net income is based on the income level of the beneficiary (and any spouse or common-law partner).

Carryforward of unused CDSGs and CDSBs

Starting in 2011, any unused CDSGs and CDSBs are available to be carried forward and used in the following 10 years. CDSG carry forward amounts paid on unused entitlements are capped at an annual maximum of $10,500. CDSB carry forward amounts are capped at an annual maximum of $11,000.

Payments from an RDSP

There are two types of payments that can be made to the beneficiary of an RDSP:

1. **Lifetime disability assistance payments (LDAPs)**

- Once LDAPs begin, payments must be made annually until the RDSP is terminated or the beneficiary dies.
- LDAPs must commence by the end of the year in which the beneficiary reaches age 60.
- LDAPs are subject to an annual maximum withdrawal based on the beneficiary's age and the fair market value of the RDSP, however there is an ability to encroach on capital in the RDSP.

2. **Disability assistance payments (DAPs)**

- DAPs are payments made to an RDSP beneficiary from the RDSP during the beneficiary's lifetime or to the beneficiary's estate after the death of the beneficiary.
- The plan can stipulate whether DAPs are permitted.
- Generally speaking, the beneficiary can receive a DAP anytime after the RDSP is established.
- A DAP cannot be paid if it causes the value of the RDSP to fall below the assistance holdback amount[2].

Generally speaking, there are no restrictions on when the funds can be withdrawn or for what purpose. However, any Grant or Bond received within 10 years prior to a DAP must be repaid to the government.

Generally, an RDSP is designed for long term saving. To avoid negative consequences whereby any grant and bond must be repaid to the government, the beneficiary must generally wait 10 years after the last grant or bond is received by the RDSP before a payment can be made from the RDSP.

Recently passed federal legislation (originally part of the 2011 federal budget), provides that where a beneficiary has a shortened life expectancy, repayment of grants and bonds will not be required if a DAP up to a specified limit is made to the beneficiary. An election in prescribed form must be made by the plan holder and would normally be accompanied with a letter from a medical doctor certifying that the beneficiary is not likely to survive more than 5 years. Once approved, the RDSP will be considered a Specified Disability Savings Plan (SDSP).

Each dollar paid from an RDSP is comprised of contributions, CDSGs or CDSBs and income. The CDSG, CDSB and income components are fully taxable to the beneficiary, while contributions are not taxable. Contributors to an RDSP cannot receive a return of their contributions.

Amounts paid out of an RDSP are not be taken into account for the purpose of calculating income-tested benefits and credits delivered through the federal income tax system such as the Canada Child Tax Benefit (CTB) and the Goods and Services Tax (GST) Credit or Harmonized Sales Tax (HST) Credit (applicable in those provinces/territories that have harmonized their sales taxes with the GST). In addition, RDSP payments do not reduce Old Age Security (OAS) or Employment Insurance (EI) benefits. Refer to the section below on Provincial treatment of RSDPs for provincial/territorial rules and requirements associated with RDSPs.

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[2] An assistance holdback amount is the total amount of government grants and bonds that have been paid into the plan within the last ten-year period (less any repayments of such assistance made during that period).

Provincial treatment of RDSPs in determining eligibility for provincial disability benefits

The following table summarizes the provincial treatment of RDSP assets and income for individuals currently receiving provincial/territorial disability benefits across Canada. This information is provided for reference purposes only. Readers should refer to the specific provincial/territorial legislation and/or regulations as these rules may have changed since this article was published. Please refer to the respective provincial/territorial website for up-to-date information on their laws and regulations.

Province	RDSP Asset	RDSP Income
Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Ontario, Saskatchewan, Yukon Territories, Nunavut	Exempt	Exempt
New Brunswick	Exempt	Up to $800 a month from an RDSP, in addition to their social assistance.
Prince Edward Island	Exempt	Exempt for individuals whose total income does not exceed the low-income level defined by the National Council of Welfare
Quebec	Exempt	Exempt income up to the low-income threshold set by the Institut de la statistique du Quebéc

To learn more about RDSPs and how they can help provide peace of mind and financial security for yourself or family members with disabilities, please speak to your TD Waterhouse advisor.

* *All family income thresholds referred to in this article are 2012 amounts. These 2012 threshold amounts are applicable to measuring family income for the supplemental government grants and bonds to RDSPs in 2012. Under the Canada Disability Savings Act, the upper limit of the 2 lowest federal income tax brackets for 2012 are used to determine the family income thresholds for the payment of government grants and bonds to RDSPs in 2012. However, these 2012 income thresholds are measured against the actual family income in the second preceding year (i.e., 2010).*

Sources: Canada Revenue Agency, Human Resources and Skills Development Canada, and the Canadian Tax Journal.

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