

# Your guide to understanding Registered Disability Savings Plan (RDSP)



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# What is an RDSP

Introduced by the federal government in 2007, and available to the public since 2008, a Registered Disability Savings Plan (RDSP) is a savings plan designed specifically for people with disabilities in Canada. This tax-deferred savings vehicle is intended to assist parents and others in planning for the long-term financial security of their relatives and others with disabilities that are eligible for the Disability Tax Credit (DTC).

Contributions to an RDSP are not tax deductible and can be made until the end of the year in which the Beneficiary turns 59. Contributions that are withdrawn are not to be included as income for the Beneficiary when paid out of an RDSP. However, the Canada Disability Savings Grant (CDSG), Canada Disability Savings Bond (CDSB) and investment income earned in the plan will be included in the Beneficiary's income for tax purposes when paid out of the RDSP.

The primary benefits of the RDSP include:

## **TAX-SHELTERED SAVINGS FOR FUTURE DISABILITY INCOME**

An RDSP will allow Holders to invest up to \$200,000 in a tax-deferred plan on behalf of their relatives with disabilities. The federal government will pay matching CDSG of 100% up to 300% depending on the Beneficiary's family income, as well as the CDSB of up to \$1,000 per year to low-income individuals with disabilities.

## **PROVINCIAL DISABILITY BENEFITS UNAFFECTED**

RDSPs in British Columbia, Manitoba and Ontario are exempt as an asset and income when determining a person's eligibility for provincial disability benefits. Also, having an RDSP will have no impact on federal benefits such as the Canada Child Benefit (CCB), the Goods and Services Tax Credit, Old Age Security or Employment Insurance.

## Who Can Become a Beneficiary of an RDSP

A person may be designated as a Beneficiary if they meet the following requirements:

- Eligible for the Disability Tax Credit (DTC), a non-refundable tax credit;
- Valid Social Insurance Number (SIN);
- Resident of Canada at the time the RDSP is established;
- Under the age of 60. This age limit is not applicable when a Beneficiary's RDSP is opened as a result of a transfer from the Beneficiary's prior RDSP.

Note: A Beneficiary can have only one RDSP at any time even though the plan may have several Holders.

## Who Can Set up an RDSP

The Holder is the person who establishes the RDSP and makes contributions into the RDSP on behalf of the Beneficiary.

For Beneficiaries over the age of majority and contractually competent, the Holder must be the Beneficiary.

For Beneficiaries under the age of majority, the Holder can be a legal parent, legal representative or public department.

When an RDSP is opened by a Beneficiary's legal parents, the legal parents may continue as the Holders of the plan after the Beneficiary reaches the age of majority. The Beneficiary may be added to the RDSP as a joint Holder of the plan once they have reached the age of majority and are contractually competent. If an RDSP is opened by someone other than the Beneficiary or the Beneficiary's legal parents, that person or body must be removed as a Holder of the RDSP when the Beneficiary reaches the age of majority.

Similarly, an individual who is eligible to be a Beneficiary of an RDSP may have reached the age of majority but not be competent to enter

into a contract. If so, another individual may open an RDSP for the Beneficiary and become a Holder. These qualified persons are:

- A guardian, tutor, or curator of the Beneficiary, or 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

**The Federal Budget 2019 extended the temporary measure below as follows:**

**Effective to December 31, 2023**, qualified family members (spouses, common-law partners or parents) of a Beneficiary who has reached the age of majority and is not contractually competent, can open and become the Holder of an RDSP on behalf of the adult Beneficiary. The spouse or common-law partner must be living with the disabled person.

This measure provides provinces and territories time to develop long-term solutions to address RDSP legal representation issues. An individual who becomes a Holder of an RDSP under these rules will be able to remain Holder of the RDSP after 2023. From 2024, a qualifying family member will only be able to open an RDSP when transferring an existing RDSP where they are the Holder.

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

If the guardian, tutor, or public department is no longer qualified to be a Holder, (for example they are no longer their legal guardian or have died) they must be removed from the RDSP as a Holder. In such a case, the following may be added to the plan as successor or assignees of a Holder:

- The Beneficiary;
- The Beneficiary's estate;
- Any other person or body who is already a Holder (for example, two legal parents enter into an RDSP contract together and one

parent passes away, the other parent would receive the deceased parent's rights and become the sole Holder of the RDSP);

- Any other person or body who is qualified to be a Holder; or
- A legal parent of the Beneficiary who had previously been a Holder of the RDSP.

## Contributions

### Who Can Contribute to an RDSP

Anyone can contribute to an RDSP with the written permission of the Holder. The Beneficiary must be a resident of Canada when each contribution is made to the RDSP. Contributors are not entitled to a refund of their contributions.

### Qualified Investments for RDSPs

The types of investments are restricted under the *Income Tax Act* (Canada) and include:

- Variable Interest Savings Accounts
- Term Deposits and GICs
- Credit Union Shares
- Index-linked Term Deposits
- Mutual Funds
- Publicly Traded Securities
- Bonds

There are restrictions on the types of non-arm's length investments that may be held in a self-directed RDSP.

### Contributions and Limits

There is no annual contribution limit but the lifetime contribution limit is \$200,000 and the contributions are not tax deductible.

Contributions are permitted until the end of the calendar year in which the Beneficiary turns 59.

Note: Amounts transferred directly from one RDSP to another RDSP for the same Beneficiary are not considered new contributions.

# Government Grants

The federal government will provide assistance in the form of a matching grant and/or a bond which can be paid until the year the Beneficiary turns 49.

The amount of grant and/or bond paid is calculated based on the Beneficiary's family income. This income is dependent on the Beneficiary's age.

From the Beneficiary's year of birth to December 31 of the year they turn 18, the Beneficiary's family income is based on the income information that is used to determine the CCB for that Beneficiary.

Beginning the year the Beneficiary turns 19 until the RDSP is closed, the Beneficiary's family income is based on the Beneficiary's income plus their spouse's income.

To encourage long-term savings, CDSG and CDSB are subject to the Proportional Repayment Rule where for every \$1 withdrawn from an RDSP, \$3 of any CDSG or CDSB paid into the plan in the preceding 10 years will be repaid to the federal government, up to a maximum amount.

## CANADA DISABILITY SAVINGS GRANT (CDSG)

The federal government will pay a matching CDSG of 300, 200 or 100 percent, depending on the Beneficiary's family income.

Beneficiary's Family Income	Grant	Maximum
<b>95,259 or less</b>		
<b>On the first \$500</b>	\$3 for every \$1 contributed	\$1,500
<b>On the next \$1,000</b>	\$2 for every \$1 contributed	\$2,000
<b>More than \$95,259*</b>		
<b>On the first \$1,000</b>	\$1 for every \$1 contributed	\$1,000

\*Or if no income information is available from CRA

Income amounts are shown for 2019. The Beneficiary family income limits are indexed each year based on the rate of inflation.

The following Beneficiary requirements must be met to apply for the CDSG:

- 49 years of age or under;
- Resident of Canada;
- Valid Social Insurance Number (SIN);
- Eligible for the DTC;
- Make contributions to your RDSP; and
- For Beneficiaries over 18 years of age:
  - File personal income tax returns for the past two years and all future taxation years
- For Beneficiaries under 18 years of age:
  - Parents or guardians must file their income tax returns for the past two years and all future taxation years and apply for the CCB

An RDSP can receive a maximum of \$3,500 in matching CDSG in one year, up to a lifetime maximum of \$70,000 up until the end of the calendar year in which the person turns 49.

### **CANADA DISABILITY SAVINGS BOND (CDSB)**

The CDSB is paid to low-income families where the net family income is \$47,630 or less. The CDSB maximum of \$1,000 per year, based on family income, is paid into an RDSP without any contributions being made.

<b>Beneficiary's Family Income</b>	<b>Bond</b>
\$31,120 or less (or if the Holder is an institution)	\$1,000
Between \$31,120 - \$47,630	Part of the \$1,000 (based on formula in <i>Canada Disability Savings Act</i> )
More than \$47,630*	No bond is paid

\*Or if no income information is available from CRA

Income amounts are shown for 2019. The Beneficiary family income limits are indexed each year based on the rate of inflation.

The CDSB can be paid up to a lifetime maximum of \$20,000, up until the end of the calendar year in which the person turns 49.

The following Beneficiary requirements must be met to apply for the CDSB:

- 49 years of age or under;
- Resident of Canada;
- Valid Social Insurance Number (SIN);
- Eligible for the DTC;
- A family income of less than \$47,630 (like previous page for CDSG);
- For Beneficiaries over 18 years of age:
  - File personal income tax returns for the past two years and all future taxation years
- For Beneficiaries under 18 years of age:
  - Parents or guardians must file their income tax returns for the past two years and all future taxation years and apply for the CCB

## **CARRY FORWARD OF GRANT AND BOND ENTITLEMENTS**

Introduced in 2011, the carry forward measure allows Holders to claim unused grant and bond entitlements from the past 10 years, starting in 2008 when RDSPs became available. This applies to existing and new RDSPs.

To claim unused grant and bond entitlements, the Beneficiary must be age 49 or under at the time of the claim. The amount of CDSG and CDSB payable depends on the Beneficiary's family income in those years. The CDSG amount received also depends on how much is contributed to the RDSP. The matching rate will be the same as the rate that would have been applied if the contribution had been made in the year in which the grant entitlement was earned. CDSG and CDSB will be paid on unused

entitlements up to an annual maximum of \$10,500 and \$11,000 respectively.

**Note:**

Once a year, the Holder will receive a Statement of Entitlement from CRA showing the amount of grant entitlements available as well as the amount of contribution required to maximize grants that could be paid for the year.

**Example:**

Josh has a disability and minimal income but has not yet opened an RDSP. He has been eligible for the DTC his whole life. For each of the years 2008 – 2019, Josh accumulated \$1,500 in CDSG entitlements for each year at a 300% matching rate (total \$1,500 x 11 years = \$16,500) and \$2,000 in CDSG entitlements for each year at a 200% matching rate (total \$2,000 x 11 years = \$22,000). He also earned CDSB entitlements of \$1,000 for each of those years (\$1,000 x 11 = \$11,000).

If Josh opens an RDSP in 2019 with a \$3,500 contribution, he can collect \$21,500 in government funds. He will receive \$11,000 in CDSBs and \$10,500 in CDSGs based on his \$3,500 contribution. This is the maximum carry-forward grant and bond he can receive for the year.

As the following table shows, this is the equivalent of turning \$3,500 into \$25,000.

Contribution	\$3,500
Canada Disability Savings Bond	\$11,000
Canada Disability Savings Grant at 300%	\$10,500
Total in RDSP	\$25,000

Josh still has \$6,000 in CDSG entitlements at 300% and \$22,000 at 200% to be carried forward to collect in future years, if and when he is able to make sufficient contributions.

# Withdrawals/Payments

Unlike the Registered Education Savings Plan where you can specify where you want the payments to come from, all payments received from an RDSP are automatically considered to be taken from contributions, grant and bond, interest and rollover amounts.

## Repayment of Grant and Bond

All CDSG and CDSB paid into the RDSP during the preceding 10 years must be repaid to the federal government when:

- The RDSP is terminated;
- The RDSP is deregistered; or
- The Beneficiary dies.

## Proportional Repayment Rule

Since 2014, for withdrawals made from an RDSP, the Proportional Repayment Rule requires that, for each \$1 withdrawn from an RDSP, \$3 of any CDSG or CDSB paid into the RDSP in the 10 years preceding the withdrawal be repaid to the federal government, up to a maximum of the Assistance Holdback Amount (AHA). Repayment amounts are based on the order in which they were paid into the RDSP, beginning with the oldest amounts.

The AHA is the total amount of grant and bond paid into an RDSP within the last 10-year period, less any part of that amount that has been repaid to the federal government.

### **Example:**

Peter is the Beneficiary of an RDSP that has been in existence for 16 years. The AHA for his RDSP is \$35,000, which represents the total of all grant and bond paid into the plan in the last 10 years. He withdraws an amount of \$3,000. Based on the Proportional Repayment Rule, Peter is required to repay \$9,000 (3x\$3,000). If the AHA in this example was \$7,000, he would be required to repay \$7,000 (the maximum AHA).

# Disability Assistance Payments

Withdrawals can be taken at any age; however, they must begin by the age of 60. Usually the Holder requests the withdrawals. There are two types of withdrawals/payments from RDSPs:

- **Disability Assistance Payments (DAPs)** - A DAP is a discretionary payment that can be made at any time to a Beneficiary.
- **Lifetime Disability Assistance Payments (LDAPs)** - LDAPs are DAPs that, once started, are paid at least annually until the Beneficiary's death or until the RDSP is terminated. LDAPs must begin by the end of the year in which the Beneficiary turns 60 and will be subject to the LDAP formula (based on the Beneficiary's life expectancy and the Fair Market Value (FMV) of the RDSP).

For all DAPs and LDAPs, a payment cannot be made from an RDSP if the FMV, after the payment, will be less than the AHA. The Proportional Repayment Rule applies to all payments from an RDSP.

An RDSP is a **Primarily Government-Assisted Plan (PGAP)** when grant and bond paid into an RDSP are greater than the contributions at the beginning of a calendar year. In this situation, where the Beneficiary is aged 59 or less, the maximum annual limit for withdrawals is the greater of the amount determined by the LDAP formula and 10% of the FMV of the RDSP assets at the beginning of the year. In any year where the Beneficiary is over the age of 59, the LDAP must be equal to the LDAP formula.

In a PGAP year, the Beneficiary from 27 to 58 years of age (inclusive) can request DAPs and LDAPs without the Holder's consent. Any other time, Holder consent is required.

An RDSP is a **Non-Primary Government Assisted Plan (Non-PGAP)** when private contributions exceed government contributions at the beginning of the year.

## Shortened Life Expectancy

A specified year is the year in which a licensed medical doctor certifies in writing that the Beneficiary will not live longer than five years. A specified year also includes each of the five calendar years following the year of certification. A year will not qualify as a specified year unless the medical certificate has been provided to the issuer in or before the year in question.

The Holder can choose to keep the plan as an RDSP, where the Beneficiary can receive all the funds in the RDSP as a lump sum or have the funds paid out over the five years. In this situation, the LDAP formula does not apply, but the AHA still does.

The Holder can also choose to designate the RDSP as a **Specified Disability Savings Plan (SDSP)**. This designation permits the Holder to request annual withdrawals (up to \$10,000 of taxable amount or LDAP formula) without requiring the repayment of AHA or being subject to the Proportional Repayment Rule. An RDSP is designated as a SDSP when the Holder makes an election in a prescribed form and submits this election, with the medical certification to the RDSP issuer, who in turn will notify the federal government. Once the SDSP election has been made, no more contributions can be made and the plan will not be entitled to any more grant or bond. Furthermore, unused grant and bond entitlements are not carried forward for the years the plan is a SDSP. The Holder can reverse the election at any time by providing written notice to the issuer, who will then inform the federal government.

## RDSP Reporting

RDSP grant and bond, along with investment income in the plan are taxable to the Beneficiary. The taxable portion of the RDSP is reported in Box 131, located in the “other information” area of a T4A slip. The Beneficiary should report this amount as income on their tax return for the year in which they received the income.

# Transfers

RDSP transfers can occur from one participating financial institution to another and must be completed without delay. Since a Beneficiary cannot have more than one RDSP, a transfer request must be completed to move a plan from one financial institution to another and it must be for the full amount of the plan, partial transfers are not acceptable. The Holder must initiate the transfer and the required form must be completed by both the receiving and relinquishing financial institutions.

# Rollovers

## **RRSP/RRIF/RPP/PRPP/SPP**

The rollover of a deceased individual's Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Registered Pension Plan (RPP), Pooled Registered Pension Plan (PRPP) and Specified Pension Plan (SPP) proceeds to the RDSP of the deceased individual's financially dependent disabled child or grandchild (from parents or grandparents) is permitted up to \$200,000. This amount will be reduced by contributions and any previous rollover transfers to the RDSP and will form part of the RDSP \$200,000 lifetime contribution limit. The rollover amount will not attract any CDSG.

## **RESP Investment Income**

This rollover allows a direct tax-deferred transfer of RESP investment income into an RDSP, if both plans are for the same Beneficiary. The Beneficiary must be less than 60 years of age in the year of the rollover, be a resident of Canada and be DTC eligible at the time of the rollover. Also, one of the following conditions must be met:

- The Beneficiary has a severe and prolonged mental impairment that can reasonably be expected to prevent the Beneficiary from pursuing post-secondary education; or

- The RESP has been in existence for at least 10 years and the Beneficiary is at least 21 years of age and is not pursuing post-secondary education; or
- The RESP has been in existence for more than 35 years.

The RESP rollover amount counts as a contribution when determining the Beneficiary's remaining RDSP lifetime contribution room and when determining if the RDSP is a PGAP. However, when making a withdrawal, the RESP rollover portion of the payment is treated as earnings and is counted as a taxable amount. RESP rollovers are not permitted during an election period to keep an RDSP open and in a SDSP. The rollover amount will not attract any CDSG.

## Tax Payable

### **Non-qualified or Prohibited Investments**

If a RDSP holds a non-qualified investment, carries on a business, or invests in a prohibited investment, the RDSP will be subject to the following tax consequences:

The RDSP will be taxed on any income earned and capital gains derived from the non-qualified investment or business and is subject to trust reporting requirements to the CRA.

Prohibited investments are subject to a 50% tax on the value of the property at the time it was purchased or became a prohibited investment and subject to a 100% advantage tax on any income or gains derived from the property while it remains in the RDSP. The CRA implemented these tax measures to discourage abusive tax-planning arrangement within a RDSP.

## Account Advantages and Benefits

If the Holder of a RDSP was provided with an advantage or certain benefit or debt that is conditional on the existence of the account, the RDSP may be subject to tax:

- In the case of a benefit, the FMV of the benefit; and
- In the case of a debt or loan, the amount of the debt or loan.

The *Income Tax Act* stipulates that a RDSP Issuer cannot provide the Holder with any benefits or advantages that are conditional in any way on the existence of the RDSP such as merchandise, trips or interest free loans. These types of incentives are taxable to the Holder. The CRA has granted exceptions to certain benefits, which will not be taxed to the Holder so long as the benefit is credited directly to the RDSP and not to the Holder.

## Termination of the RDSP

When an RDSP is closed, the Beneficiary receives the contributions and earnings in the RDSP. However, all CDSG and CDSB that have been paid into the RDSP in the last ten years must be repaid to the federal government.

## Loss of Eligibility for the DTC

When an RDSP Beneficiary loses eligibility for the DTC, the RDSP is allowed to remain open for up to five years provided that an election (which includes a medical certificate) is made.

The election must be made on or before December 31st of the year following the first full calendar year for which the Beneficiary is DTC-ineligible. If an election is not made during this timeframe, the RDSP must be closed. Where an election is made, the following rules apply commencing with the first full calendar year for which the Beneficiary is DTC-ineligible:

- No contributions to the RDSP are permitted, including the rollover of RESP investment income. However, a rollover of proceeds from a deceased individual's RRSP, RRIF, RPP, PRPP or SPP to the RDSP of a financially dependent infirm child or grandchild is permitted;
- No new grant or bond will be paid into the RDSP;
- No new entitlements will be generated for the purpose of the carry-forward of CDSG and CDSB for years for which the Beneficiary is DTC-ineligible;
- Withdrawals from the RDSP will be permitted and will be subject to the AHA or Proportional Repayment Rule and maximum and minimum withdrawal limits.

If at any time during the five year election period, the Beneficiary regains their DTC eligibility, the election will be automatically cancelled when CRA updates the Beneficiary's DTC. The issuer would then be notified the election has been cancelled.

## **If a Beneficiary Dies**

If the Beneficiary of an RDSP dies, the RDSP must be closed no later than December 31st following the first full calendar year of the Beneficiary's death. Any funds remaining in the RDSP, after repayment of any grant and/or bond, will be paid to the estate. The taxable portion of the payment must be included in the income of the Beneficiary's estate in the year the payment is made.

## **Administration**

RDSP issuers are to act "without delay" in notifying ESDC when an RDSP is established or transferred to another RDSP.

# Where Do You Go From Here

Canadians have an investment and savings vehicle that will greatly assist families in providing long-term savings for relatives with disabilities. The tax-sheltered savings growth as well as the generous federal government grant and bond will help to enhance the quality of life for Canadians with disabilities. The RDSP also provides the Beneficiary with the flexibility to decide what they would like to use their RDSP for.

Credit union staff are ready to discuss any aspects of the RDSP which may not have been fully discussed in this brochure or which may need further clarification. Before investing in any RDSP, ask about deposit insurance protection.

# Notes

This booklet is provided to you courtesy of your credit union. It is written to be easily understood as a result of requests by credit union members for clear, up-to-date information on the RDSP.

This issue of Understanding an RDSP is based on the legislation in effect as of April 2019.

This is intended as an information guide only. If any clarification is required you should refer to the actual legislation provided by Canada Revenue Agency (CRA). Their contact number is 1-800-959-8281 and their website is <http://www.cra-arc.gc.ca/>.

Any clarification you require regarding the Canada Disability Savings Grant or Canada Disability Savings Bond should be directed to Employment and Social Development Canada (ESDC). Their contact number is 1-800-622-6232 and their website is <http://www.esdc.gc.ca/eng/disability/savings/index.shtml>

