RBC Wealth Management Services

THE NAVIGATOR

Registered Disability Savings Plan

The Registered Disability Savings Plan (RDSP) is designed to assist persons with disabilities in saving for their long-term financial needs. It offers tax-deferred investment growth, generous matching grants and bonds as well as an opportunity for family members to assist with the contributions. This article will explain how the plan works and looks at some ways of funding it.

Opening an RDSP

In order to open an RDSP, there are several conditions that need to be met.

First, an RDSP needs a beneficiary. The Beneficiary is the person who will receive the savings in the future. Each beneficiary is entitled to only one RDSP and there can only be one beneficiary per RDSP. The beneficiary must be all of the following:

- under 60 years of age (if you are 59, you must apply before the end of the calendar year in which you turned 59);
- a Canadian resident at the time that the plan is opened;
- have a valid Social Insurance Number (SIN);
- eligible for the Disability Tax Credit (DTC).

To qualify for the DTC, a person must have a prolonged and severe impairment in physical or mental function, which is confirmed by a qualified practitioner and accepted by the Canada Revenue Agency (CRA). Form T2201 Disability Tax Credit Certificate needs to be submitted to and approved by CRA; a copy of the form and other information is available at the CRA website www.cra-arc.gc.ca.

Secondly, an RDSP needs to have a holder. The holder of the RDSP is the person or organization that opens and manages the RDSP. The holder will need to provide their Social Insurance Number or business number (for public departments) to open the RDSP. Who the holder can be will depend on whether the beneficiary is a minor or an adult in their province of residence.

- For beneficiaries under the age of majority, the holder can be a legal parent, legal representative or public department.
- For beneficiaries over the age of majority, the holder is generally the beneficiary. In certain circumstances, a guardian, legal representative or public department may be eligible to become the holder. Until the end of 2016, a beneficiary's spouse, common-law partner or parent can be a plan holder to open an RDSP for an adult that is incapable of entering into a contract.

Contributing to an RDSP

There is no annual contribution limit, but there is a lifetime limit for total contributions of $200,000. Contributions are not tax-deductible but the investment earnings grow tax-sheltered.

Annual contributions may be eligible for Canada Disability Savings Grants (CDSGs) and the plan may be eligible for Canada Disability Savings Bonds (CDSBs). Both are discussed in the next section. Making the maximum lifetime contribution in one year will not allow the holder to claim the full lifetime CDSG or CDSB.

Contributions can be made up until the end of the year the beneficiary turns 59 (although to be eligible for CDSG, contributions must be made by the end of the year the beneficiary turns 49. If the beneficiary qualifies, CDSB is paid into the plan until age 49. See the section on government matching for more details on the grant and bond.).

Anyone can contribute to the RDSP as a gift for the benefit of the person with the disability. If the contributor is not the holder of the RDSP, they will need the written consent of the holder of the plan.

Government Matching Grants and Bonds

To accelerate the growth of your RDSP, the Federal Government offers two types of contributions. These government contributions, paid directly into the plan, can significantly increase accumulations over time.

The Canada Disability Savings Grant (CDSG) provides matching contributions of 100%, 200% or 300% annually, up to an annual maximum of $3,500, excluding unused entitlements (see next section) and a lifetime limit of $70,000. The level of net family income determines the amount of grant possible. For grant purposes, net family income is generally the point where the federal 26% tax bracket starts. It is indexed annually.

Where net family income is less than $87,907 (in 2014), the CDSG is 300% on the first $500 of contributions plus 200% on the next $1,000 (see example below).

Net family income less than $87,907		
Amount contributed to RDSP		$1,500
Plus CDSG (High rate)	$500 X 300%	$1,500
Plus: CDSG (Mid Rate)	$1,000 X 200%	$2,000
Total in Plan		**$5,000**

Where net family income is above $87,907, the CDSG is 100% on the first $1,000 contributed (matching dollar for dollar). The income threshold will be revised annually to keep pace with inflation.

Annual contributions may be eligible for Canada Disability Savings Grants (CDSGs) and the plan may be eligible for Canada Disability Savings Bonds (CDSBs).

> The Canada Disability Savings Bond (CDSB) is paid to low-income families, regardless of whether contributions are made to an RDSP.

The Canada Disability Savings Bond (CDSB) is paid to low-income families, regardless of whether contributions are made to an RDSP. Once the plan has been opened, the maximum payment is $1,000 annually, to a lifetime maximum of $20,000.

To qualify for the $1,000 annual maximum CDSB, net family income must be less than the level, under which, you can qualify for the full National Child Benefit supplement ($25,584 for 2014). If family income is above the threshold, the CDSB is reduced on a prorated basis, reaching zero when income exceeds the level where the 22% federal tax bracket starts ($43,953 for 2014). These thresholds will also be adjusted for inflation annually.

Claiming Unused Grant and Bond Entitlements

RDSP beneficiaries are entitled to previously unclaimed CDSGs and CDSBs going back 10 years or to 2008 when RDSPs were first introduced, which ever is less. You are also able to carry forward unused CDSG and CDSB entitlements from 2011 for a period of 10 years.

Your unused grant and bond entitlements will be calculated automatically for you. To qualify for past grant and bond entitlements, you must:

1. be eligible for the Disability Tax credit,
2. be a Canadian Resident,
3. have a valid SIN
4. be age 49 or under
5. have not used up your $200,000 contribution limit.

The amount of Grant and Bond you are eligible for will depend on your family income in those years as well as how much you've contributed to your RDSP. Starting with the oldest year of entitlement, matching rates will be paid on RDSP contributions using up any Grant entitlements at the highest available rate first, followed by any Grant entitlements at lower rates.

Grants and bonds will be paid on unused entitlements, up to:

- $10,500 annual maximum for grants (up to the lifetime limit of $70,000); and
- $11,000 annual maximum for bonds (up to the lifetime limit of $20,000).

Withdrawing From an RDSP

As the beneficiary of the RDSP, you can withdraw funds, up to certain limits, from the plan at any time. However, any grants or bonds received in the last ten years will need to be repaid to the government, in the ratio of three dollars of grants or bonds to be repaid for each dollar withdrawn up to the ten-year total of grants and bonds received. This ten-year total of all grants and bonds is known as an Assistance Holdback Amount (AHA). These proportionate repayment rules took effect on January 1, 2014. Before this date, any withdrawal, no matter how small, triggered a repayment of the total assistance holdback amount.

You must begin receiving payments from the plan by the end of the year you turn 60. This will not trigger any repayments as grants stop being paid into the plan at age 49. Money received from the RDSP can be used for any purpose.

There are two types of payments you can receive:

- **Disability Assistance Payments (DAP's).** These are lump-sum or unscheduled payments that can be requested at any time, by the plan holder. The beneficiary may also request such payments if they have reached age 27 but not age 59 in the previous year, and as long as contributions are less than the amount of grants and bonds in the RDSP. However, they trigger the repayment of any CDSG or CDSB received during the previous 10 years.

Payments do not affect eligibility for Federal Government benefits such as OAS, the GST credit and the Canada Child Tax Benefit.

- **Lifetime Disability Assistance Payments (LDAP's).** These are regularly scheduled periodic payments that can start at any time. Once started, they continue for life, according to a defined payment schedule. They must begin by the end of the year the beneficiary turns 60.

The portion of the payment that represents the grant and the growth within the plan is taxable to you as fully taxable income. The portion that represents the original contributions is not taxable. Payments do not affect eligibility for Federal Government benefits such as OAS, the GST credit and the Canada Child Tax Benefit. However, receipt of RDSP payments may affect eligibility for provincial disability support payments or other disability pensions that are means-tested. (Please consult the benefit provider for further information before creating an RDSP.)

Withdrawal Limits

Withdrawal limits (i.e. DAPs or LDAPs) are calculated depending upon the proportion of private versus government contributions held in the RDSP. An RDSP may contain more Government of Canada assistance than private contributions. If so, it is considered a Primarily Government Assisted Plan (PGAP). When the amount of private contributions is greater than the amount of grant and bond held in the RDSP, it is considered non-PGAP.

PGAPs are currently limited in the amount of money that can be withdrawn in a given year, while non-PGAPs have no limitations whatsoever. The following chart outlines how the calculations are determined for the withdrawal limitations, for withdrawals after December 31, 2013.

		PGAP (grant and bond are greater than private contributions)		Non-PGAP (private contributions are greater than grant and bond)	
		DAP	**LDAP**	**DAP**	**LDAP**
Beneficiary under age 60	Maximum Payment	The greater of the formula* result or 10% of the FMV		No maximum	Formula* Result
	Minimum Payment	No minimum	$1.00	No minimum	$1.00
Beneficiary aged 60 and over	Maximum Payment	Always combined with LDAP	The greater of the formula* result or 10% of the FMV	No maximum	Formula* Result
	Minimum Payment		Formula* Result	Always combined with LDAP	Formula* Result

* The formula is A / (B + 3 – C) + D, where:
A = Plan value less any annuity contracts in the plan
B = greater of age 80 or the beneficiary's age at the beginning of the year
C = the beneficiary's age at the beginning of the year
D = annuity contracts held in the plan or disposed of by the plan in the calendar year.

Where a beneficiary has a shortened life expectancy, a Holder may make an election to designate the plan as a Specified Disability Savings Plan (SDSP). An SDSP withdrawal does not result in the repayment of grants and bonds received in the previous 10 years.

Shortened Life Expectancy

Where a beneficiary has a shortened life expectancy, a Holder may make an election to designate the plan as a Specified Disability Savings Plan (SDSP). An SDSP withdrawal does not result in the repayment of grants and bonds received in the previous 10 years. To take advantage of this access to funds, the Holder must make an election by:

- Completing a mandatory form electing the RDSP status to be changed to an SDSP.
- Providing a letter from a medical doctor certifying that the beneficiary is not likely to survive more than five years.

Once an SDSP:

- Contributions are not permitted, including registered education savings plan (RESP) rollovers.
- Grant or bond will not be paid.
- Carry forward of grant and bond entitlements are not permitted (except for the year in which the election is made).
- An LDAP must begin the following year.
- The taxable portion of a withdrawal cannot exceed $10,000.

In the event of improved health of the beneficiary, an SDSP Holder may choose to reverse the designation status by providing written notice.

Withholding Tax

For every withdrawal, income tax will be withheld on the taxable portion (grant, bond, growth, retirement savings rollover amounts, and RESP accumulated income payment rollover amounts) of the RDSP payments if the amount of the taxable portion of the withdrawal is in excess of the sum of the beneficiary's basic personal amount and the disability tax credit amount. For 2014 these respective amounts are $11,138 and $7,766 for a total of $18,904.

Closing an RDSP

Your RDSP must be closed if you lose your eligibility for the disability tax credit or you pass away.

When an RDSP is closed, any grants or bonds that were received into the plan in the last ten years, are repaid to the government. Any contributions to the plan, income earned and remaining grant or bonds are paid to you or your estate and taxed as mentioned in the withdrawal section above.

Beginning on January 1, 2014, if you, as a RDSP beneficiary, lose your eligibility for a disability tax credit, the holder will be allowed to elect to keep the RDSP open for up to five years provided that the holder provide a written

If you are the beneficiary of an RDSP, and you are financially dependent on your parents or grandparents, they can arrange for some or all of their retirement savings to be transferred (tax-free) to your RDSP when they pass away.

election and a medical certificate from a physician to the plan issuer. The election can only be made in cases where a medical practitioner certifies that the disability is likely to reoccur.

Where an election is made, the following rules will apply commencing with the first year for which the beneficiary is DTC-ineligible:

- no contributions to the RDSP will be permitted, including the rollover of RESP investment income; however, a rollover of proceeds from a deceased individual's registered retirement savings plan, registered retirement income fund, specified pension plan or pooled registered pension plan to the RDSP of a financially dependent infirm child or grandchild will still be permitted;
- no new CDSGs or CDSBs will be paid into the RDSP;
- no new entitlements will be generated for the purpose of the carry forward of CDSGs and CDSBs;
- withdrawals from the RDSP will be permitted and will be subject to the proposed proportional repayment rule and the proposed maximum and minimum withdrawal rules;
- if a beneficiary dies after an election has been made, the existing 10-year repayment rule will apply; and
- the assistance holdback amount will be equal to the amount of the assistance holdback amount immediately preceding the beneficiary becoming DTC-ineligible less any subsequent repayments.

Transferring Between Institutions

You can transfer your RDSP from one institution to another but it needs to be done as a direct transfer for the full amount of funds in the plan. Financial institutions that offer RDSP's will provide you with the proper forms to transfer the plan. The new plan must have the same beneficiary and all holders must agree to the transfer.

Rollover of Retirement Plans to an RDSP

If you are the beneficiary of an RDSP, and you are financially dependent on your parents or grandparents, they can arrange for some or all of their retirement savings to be transferred (tax-free) to your RDSP when they pass away. Your parent or grandparent would have had to pass away after March 3, 2010 and the rollover to the RDSP had to happen after June 30, 2011. For deaths that occurred after 2007 but before March 3, 2011, there were transitional rules that allowed a rollover to be made by the end of 2011.

To be eligible for this measure, their retirement savings must be in one of the following:

- Registered Retirement Savings Plan (RRSP);
- Registered Retirement Income Fund (RRIF); or
- Registered Pension Plan (RPP).

The maximum transfer amount is your lifetime $200,000 RDSP contribution limit less any contributions and rollover transfers that have previously been made to your RDSP. The Government will not pay matching grants on the money transferred. You and the legal representative of your deceased relative will have to include Form RC4625, Rollover to a Registered Disability Savings Plan (RDSP) Under Paragraph 60(m), to your tax returns. Eventually, when the funds are withdrawn, they will be taxed as earned income.

If you are the beneficiary of an RESP, you may be able to roll the Accumulated Income Payments (AIP) into your RDSP.

Rollover of RESP to an RDSP

If you are the beneficiary of an RESP, you may be able to roll the Accumulated Income Payments (AIP) into your RDSP. The AIP represents the income earned in an RESP and excludes government assistance such as the Canada Education Savings Grant. One of the following conditions must be met.

1. your disability prevents you from enrolling in a qualifying educational program, or
2. the RESP must be opened a minimum of ten years, with each beneficiary over 21 years of age and not eligible for Educational Assistance Payments, or
3. the RESP has been opened for 35 years.

The RDSP holder must agree to the rollover in writing and the beneficiary must be:

- eligible for the disability tax credit
- age 59 or younger
- alive at the time of the rollover, and
- resident in Canada at the time of the rollover.

Any AIP rolled over from a RESP to a RDSP counts as a contribution towards the $200,000 lifetime limit but is not eligible for matching grants. When the funds are eventually paid out from the RDSP, they will be taxable as earned income.

Please contact us for more information about the topics discussed in this article.

NAV0129-EN (12/2013)