



# THE NAVIGATOR

## AN IN-DEPTH LOOK AT RDSPs

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 look at some ways to fund it.

*This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.*

### 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 funds in the RDSP in the future. Each beneficiary is entitled to only one RDSP and there can be only one beneficiary per RDSP. The beneficiary must:

- Be under 60 years of age (if you are 59, you must open the RDSP before the end of the calendar year in which you turned 59)
- Be a Canadian resident at the time the plan is opened
- Have a valid Social Insurance Number (SIN) **and**
- Be eligible for the Disability Tax Credit (DTC)

To qualify for the DTC, a person must have a severe and prolonged impairment in physical or mental functions that is confirmed by a qualified practitioner on form T2201 – “Disability Tax Credit Certificate” and accepted by the Canada Revenue Agency (CRA). A copy of the form and other information is available on the CRA website: [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca).

Second, an RDSP must have a holder, who manages the RDSP. The holder of the RDSP is generally the beneficiary but depends on their age as follows:

- For beneficiaries who are under the age of majority in their province or territory, the holder can be a legal parent, guardian, tutor, or a public department. The beneficiary becomes the holder once the beneficiary reaches the age of

majority provided the beneficiary is competent. The previous holder is removed as there can only be one holder at a time.

- For beneficiaries who have attained the age of majority in their province or territory, the holder is the beneficiary unless they cannot act for themselves. If the beneficiary is not legally competent to enter into a contract, a guardian, tutor or a public department may be eligible to become the holder. Until the end of 2018, a beneficiary’s spouse, common-law partner or parent can be a plan holder to open an RDSP for an adult whose contractual competency is in doubt.

A holder, who is not the beneficiary of the plan, does not need to be a resident of Canada but will need to provide a valid SIN or business number (for



RBC Wealth Management



Annual contributions made to the RDSP may be eligible for Canada Disability Savings Grant (CDSG) payments and the plan may be eligible to receive the Canada Disability Savings Bond (CDSB).

public departments) to open the RDSP.

### CONTRIBUTING TO AN RDSP

RDSPs do not have an annual contribution limit, but there is a lifetime contribution limit of \$200,000. Contributions to the plan are not tax-deductible, but the investment earnings grow tax-sheltered within the RDSP.

Annual contributions made to the RDSP may be eligible for Canada Disability Savings Grant (CDSG) payments and the plan may be eligible to receive the Canada Disability Savings Bond (CDSB). Both types of payments are discussed in the next section. If the maximum lifetime contribution is made to the plan in one year, this does not entitle the holder to claim the full lifetime CDSG or CDSB.

Contributions can be made to the RDSP until the end of the year in which the beneficiary turns age 59. To be eligible for the CDSG, contributions must be made by the end of the calendar year in which the beneficiary turns age 49. If the beneficiary qualifies, the CDSB is paid to the plan until the end of the calendar year in which the beneficiary turns age 49. See the section on government matching for more details on the grant and bond.

Anyone can contribute to an RDSP, for example, as a gift for the benefit of the person who has the disability. If the contributor is not the holder of the RDSP, they will need the written consent of the holder of the plan to make a contribution.

### GOVERNMENT MATCHING GRANTS AND BONDS

To accelerate the growth of an RDSP, the federal government offers two types of contributions. These government contributions, paid directly to 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, the net family income limit is generally the point where the federal 26% tax bracket starts. It is indexed annually.

Where net family income is less than or equal to \$89,401 (in 2015), 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 or equal to \$89,401

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
<b>Total in Plan</b>		<b>\$5,000</b>

RDSP beneficiaries are entitled to claim previously unused CDSGs and CDSBs going back 10 years or to 2008, when RDSPs were first introduced, whichever is less.

Where net family income is above \$89,401, the CDSG is 100% of the first \$1,000 contributed (matching dollar for dollar). The income threshold will be revised annually to keep pace with inflation.

Family Income depends on if the beneficiary is age 18 and under or over age 18. When the beneficiary is age 18 or under, family income is the income information used to determine the Canada Child Tax Benefit (CCTB) for that beneficiary. Generally, this is the parents' income. In the year the beneficiary turns 19 until the RDSP is closed, the beneficiary's family income is his or her income plus his or her spouse's income.

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 or equal to the maximum net family income to qualify for the full National Child Benefit Supplement (\$26,021 for 2015). If the family income is above that threshold, the CDSB is reduced on a prorated basis, reaching zero when the income exceeds the level where the 22% federal tax bracket starts (\$44,701 for 2015).

These thresholds will also be adjusted for inflation annually.

#### **CLAIMING UNUSED GRANT AND BOND ENTITLEMENTS**

RDSP beneficiaries are entitled to claim previously unused CDSGs and CDSBs going back 10 years or to 2008, when RDSPs were first introduced, whichever is less.

Your unused grant and bond entitlements will be calculated automatically for you and are based on your family income for those past years. To qualify for past grant and bond entitlements, you must:

- Be eligible for the DTC in each year of entitlement
- Be a Canadian resident when the eligible contribution is made and for each year of entitlement
- Have a valid SIN
- Be age 49 or under at the end of the calendar year when the contribution is made
- Have not used up your \$200,000 lifetime contribution limit

The amount of the grant and bond you are eligible to receive will depend on your family income in those years as well as on 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:

- The \$10,500 annual maximum for grants (up to the lifetime limit of \$70,000)
- The \$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 10 years will need to be repaid to the government in the ratio of three dollars of grant or bond money to each dollar withdrawn up to the 10-year total of grants and bonds received. This 10-year total of all grants and bonds, less any part of that amount that has been repaid, 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 AHA.

The beneficiary must begin receiving payments from the plan by the end of the calendar year in which they turn age 60. This will not trigger any repayments as grant and bond stop being paid into the plan by the end



Withdrawal limits (i.e. DAP or LDAP limits) are calculated depending on the proportion of private versus government contributions held in the RDSP.

of the calendar year in which the beneficiary turns age 49. Money received from the RDSP can be used for any purpose.

There are two types of payments a beneficiary can receive:

- **Disability Assistance Payments (DAPs).** 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, as long as contributions are less than the amount of grants and bonds in the RDSP. Receiving a DAP before age 59 will trigger the repayment of AHA as described above.
- **Lifetime Disability Assistance Payments (LDAPs).** 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 in which the beneficiary turns age 60. Receiving an LDAP before age 59 will trigger the repayment of AHA as described above.

The portion of the payment that represents the grant, bonds and the growth within the plan is taxable to the

beneficiary 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. DAP or LDAP limits) are calculated depending on 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 grants and bonds held in the RDSP, it is considered a non-PGAP. PGAPs are currently limited in the amount of money that can be withdrawn in a given year, while non-PGAPs have fewer limitations. The following chart outlines how the calculations are determined for the withdrawal limitations, for withdrawals after December 31, 2013.

		PGAP (grants and bonds are greater than private contributions)		Non-PGAP (private contributions are greater than grants and bonds)	
		DAP	LDAP	DAP	LDAP
<b>Beneficiary under age 60</b>	Maximum Payment	The greater of the formula* result or 10% of the FMV		No maximum	Formula* Result
	Minimum Payment	No minimum	\$1	No minimum	\$1
<b>Beneficiary aged 60 and over</b>	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

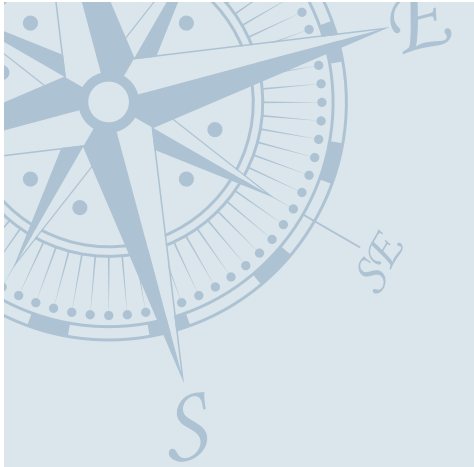
\* The formula is  $A \div (B + 3 - C) + D$ , where:

A = Plan value less any annuity contracts in the plan

B = The 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 = The 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.

### 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 to change the status of the RDSP 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 RDSP is changed to an SDSP:

- Contributions are not permitted, including Registered Education Savings Plan (RESP) rollovers
- No grant or bond will be paid
- Carrying forward grant and bond entitlements is 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 that the beneficiary's health improves, 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 [AIP] rollover amounts) of the RDSP payments if the amount of the taxable portion of the withdrawal exceeds the sum of the beneficiary's basic personal

amount and the DTC amount. For 2015 the respective federal amounts are \$11,327 and \$7,899 for a total of \$19,226. Additionally, each province has their own basic personal and disability amounts that can differ from the federal limits above.

### REPLACING A HOLDER

Every RDSP must have a holder at all times. If the current holder ceases to be an eligible holder, they must be replaced by an individual or organization that is eligible to be a holder. Examples of when the holder can cease to be an eligible holder would be in the case of death or if they lose mental capacity. If the beneficiary does not have mental capacity at the time of death of the plan holder then the person or organization appointed as the beneficiary's legal guardian will need to replace the deceased holder as the holder of the RDSP. If the new plan holder subsequently requests that grant or bond be paid into the plan, they must complete a new grant/bond application form.

### CLOSING AN RDSP

The RDSP must be closed if the beneficiary loses their eligibility for the DTC or they pass away.

When an RDSP is closed, any grants or bonds that were received in the plan in the last 10 years are repaid to the government. Any contributions to the plan, income earned and remaining grants or bonds are paid to the beneficiary or the beneficiary's estate and taxed as mentioned in the withdrawal section.

Beginning on January 1, 2014, if the RDSP beneficiary loses their eligibility for the DTC, the holder can elect to keep the RDSP open for up to five years provided that the holder provides a written election and a medical certificate

Upon their death, a parent or grandparent can transfer up to \$200,000 of their retirement savings to the RDSP of a financially dependent child or grandchild.

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 recur.

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 to the RDSP.
- No new entitlements will be generated for the purpose of carrying forward 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.
- The assistance holdback amount will be equal to the assistance holdback amount immediately

preceding the beneficiary becoming DTC-ineligible less any subsequent repayments.

### **TRANSFERRING BETWEEN INSTITUTIONS**

A beneficiary can transfer their 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 RDSPs will provide 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**

Upon their death, a parent or grandparent can transfer up to \$200,000 of their retirement savings to the RDSP of a financially dependent child or grandchild. The RDSP beneficiary must be alive at the time of the transfer, a resident of Canada and 59 years of age or less at the end of the calendar year in which the transfer takes place.

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)
- Registered Pension Plan (RPP)

- Pooled Retirement pension Plan (PRPP)
- Specified Pension Plan (SPP)

The maximum transfer amount is the lifetime \$200,000 RDSP contribution limit less any contributions and rollover transfers that have previously been made to the RDSP. The government will not pay matching grants on the money transferred. The holder must give written permission to make the transfer. The holder or beneficiary or the legal representative of the beneficiary will have to sign and include Form RC4625 – “Rollover to a Registered Disability Savings Plan (RDSP), under Paragraph 60(m)”, with the beneficiary's tax return. Eventually, when the funds are withdrawn, the amount withdrawn will be fully taxable.

### **ROLLOVER OF AN RESP TO AN RDSP**

If the beneficiary of an RDSP is also the beneficiary of an RESP, they may be able to roll the AIPs over to their RDSP. The AIPs represent the income earned in the RESP and **exclude** government assistance such as the Canada Education Savings Grant. One of the following conditions must be met:

- The beneficiary's disability prevents them from enrolling in a qualifying educational program.
- The RESP has been open for a minimum of 10 years, and each of

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

its beneficiaries is at least 21 years of age and not eligible for Educational Assistance Payments.

- The RESP has been open for more than 35 years.

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

- Eligible for the DTC
- Age 59 or younger at the end of the

calendar year in which the rollover is made

- Alive at the time of the rollover **and**
- A resident of Canada at the time of the rollover

Any AIP rolled over from an RESP to an RDSP counts as a contribution toward the \$200,000 lifetime limit but is not eligible for matching grants. When the funds are eventually paid out from the

RDSP, the amount withdrawn is fully taxable.

## CONCLUSION

Although the RDSP is designed to assist persons with disabilities in saving for their long-term financial needs, care must be exercised to maximize the matching government grants and tax deferral opportunities.

Registered Disability Savings Plans are offered through Royal Bank of Canada. This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)\*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) \*, RBC Wealth Management Financial Services Inc. (RBC WM FS) and Royal Mutual Funds Inc. (RMFI). Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. \*Members-Canadian Investor Protection Fund. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WM FS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate & Trust Services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WM FS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. © Registered trademarks of Royal Bank of Canada. Used under license. © 2015 Royal Bank of Canada. All rights reserved. NAV0129-EN (08/2015)