

RDSP – What you need to know



Executive Summary

A Registered Disability Savings Plan (RDSP) was designed to allow Canadians with disabilities and their families to save. Unfortunately, many disabled individuals have diminished earning capabilities, and an increased cost of living. They and their families shoulder much of this burden, and RDSPs provide assistance. RDSP holders may also be eligible for Grants to increase their savings over the long term.

For those investors who receive the Disability Tax Credit, are under age 60, possess Canadian residency and a Social Insurance Number, and are seeking long-term savings, an RDSP should be a strong consideration.

The RDSP operates similarly to a Registered Retirement Savings Plan (RRSP) and a Registered Education Savings Plan (RESP). Growth within the plan is not taxed until it is withdrawn, and withdrawals are a combination of untaxed return-of-capital and taxable gains. Often a holder does not face any tax payable if they do not have additional income other than relatively modest RDSP withdrawals when it is combined with disability tax credits.

You may contribute any amount into an RDSP each year, up to the lifetime contribution limit of \$200,000 per beneficiary. With written permission from the RDSP holder, anyone may contribute to the RDSP. Additionally, Grants and Bonds can augment the contributions to increase the invested capital. The lifetime limit of Grants and Bonds are \$70,000 and \$20,000, respectively. The RDSP is meant to encourage long-term savings; in general the Grants and Bonds must be repaid if the Grant or Bond has been held for less than ten years.

If contributions are made over twenty years, the Grant can be maximized, and by contributing the \$200,000 lifetime amount with at least \$1,500 in contributions each of the twenty years, a beneficiary would have \$270,000 in contributions compounding tax free until withdrawal. Barring any serious market corrections, and a modest return of growth, more than \$500,000 should be the anticipated value of a matured RDSP when the beneficiary reaches 60 years of age.

Meat and Potatoes

As with all “registered” accounts, significant rules are in place to control the contributions, matching benefits provided by the government and withdrawals from these plans. Firstly, only one RDSP can be created and held by the beneficiary at one time. This is to provide an ease of administration for the financial institution, the government, the holder, and their family.

The maximum contribution for an RDSP (and consequently an individual holder) is \$200,000. Care should be taken when planning contributions to maximize Grants and Bonds (explained below) and saved amounts. A sensitivity analysis should be made to compare lump sum contributions versus steady, regular contributions.

For more information contact:
MW&Co. Wealth Management
2-35 Perry Street, Woodstock, ON
519-539-6109
mwcowealth@mwcowealth.com

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Since the Grants are limited to \$3,500 each year and can be reached after \$1,500 in contributions (if family income is less than the allowable amount of approximately \$90,000), it is important to not preclude a Grant by depositing a large amount that earns only one Grant.

The summary:

- One RDSP per beneficiary
- Family members (typically parents) can open and sign for their disabled child
- No annual contribution limits
- \$200,000 lifetime limit
- Contributions cease by December 31st of the year the beneficiary turns 59
- Grants and Bonds cease by December 31st of the year the beneficiary turns 49
- Tax free growth inside the RDSP
- Not all organizations offer RDSPs, only participating institutions
- Withdrawals are a combination of taxable and non-taxable funds
 - Can only be for the beneficiary's use
 - Must begin by December 31st of the year the beneficiary turns 60
- When an RDSP is closed, Grants and Bonds (or their fair market value, whichever is less) must be repaid if:
 - that have been deposited for less than 10 years,
 - the beneficiary loses eligibility for the Disability Tax Credit,
 - the beneficiary passes away.

Canada Disability Savings Grant

The Canada Disability Savings Grant is a matching Grant the Government will deposit into your RDSP to help you save. For each dollar that you contribute to the RDSP, the government provides a matching Grant of \$3, up to a maximum of \$3,500 each year, and a maximum of \$70,000 in a holder's lifetime. Grants will be paid until the end of the calendar year that the holder turns 49.

After opening an RDSP, if you meet the following requirements, you may apply for a Grant:

- be 49 years of age or under (if you are 49, you must apply before the end of the calendar year in which you turned 49),
- be a Canadian resident,
- have a Social Insurance Number,
- be eligible for the Disability Tax Credit,
- make contributions to your RDSP, and have filed tax returns
 - for beneficiaries **over 18 years of age**:
 - File your personal income tax returns for the past two years and all future taxation years to qualify for the 200% and 300% matching Grant.
 - 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 [Canada Child Tax Benefit](#) to qualify for the 200% and 300% matching Grant.

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Grant Amount

The income amounts shown are for 2013 (the most current on the CRA website at time of writing). The income amounts are updated each year based on the rate of inflation.

If the beneficiary's family income is **less than or equal to \$87,123**:

- For the first \$500 contributed each year to the RDSP, the Government will deposit \$3 for every \$1 contributed, up to \$1,500 a year.
- For the next \$1,000 contributed each year to the RDSP, the Government will deposit \$2 for every \$1 contributed, up to an additional \$2,000 a year.

If the beneficiary's family income is **greater than \$87,123**:

- For the first \$1,000 contributed each year to the RDSP, the Government will deposit \$1 for every \$1 contributed, up to \$1,000 a year.

Differing levels of Grants can be achieved by stretching out the contributions over multiple periods. If a family had an income of \$80,000, and made a \$3,000 contribution it would be better to contribute \$1,500 for two years, than to contribute in one lump sum.

Option 1 – Lump sum of \$3,000 earns the following Grant

- \$1,500 on the first \$500 contribution (\$3 for every \$1 contributed)
- \$2,000 on the next \$1,000 contribution (\$2 on the next \$1,000)
 - Total on deposit \$6,500 (\$3,000 contribution + \$3,500 Grant)

Option 2 – Two \$1,500 contributions over 2 years

- Year 1
 - \$1,500 on the first \$500 contribution (\$3 for every \$1 contributed)
 - \$2,000 on the next \$1,000 contribution (\$2 on the next \$1,000)
- Year 2
 - \$1,500 on the first \$500 contribution (\$3 for every \$1 contributed)
 - \$2,000 on the next \$1,000 contribution (\$2 on the next \$1,000)
 - Total on deposit \$10,000 (\$3,000 contribution + year 1 Grant + year 2 Grant)

Canada Disability Savings Bond

The Canada Disability Savings Bond is money the Government will deposit into the [Registered Disability Savings Plans \(RDSPs\)](#) of low-income and modest-income Canadians. If you qualify for the Bond, you will receive up to \$1,000 a year depending on your family income. There is a limit of \$20,000 over a holder's lifetime. Bonds are paid into the RDSP until the end of the calendar year in which the holder turns 49 years of age. You do not need to make any contributions to your RDSP to receive the Bond.

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After opening an RDSP, if you meet the following requirements, you may apply for a Bond:

- be 49 years of age or under (if you are 49, you must apply before the end of the calendar year in which you turned 49),
- be a Canadian resident,
- have a Social Insurance Number,
- be eligible for the Disability Tax Credit,
- have a family income of less than \$43,561 (this amount is updated each year based on the rate of inflation),
- for beneficiaries **over 18 years of age**:
 - File your personal income taxes for the past two years and all future taxation years.
- for beneficiaries **under 18 years of age**:
 - Parents or guardians must file their taxes and apply for the [Canada Child Tax Benefit](#) for the past two years and all future taxation years.

The income amounts shown are for 2013 (again, the most recent tax year stated on the CRA website).

The income amounts are updated each year based on the rate of inflation.

If the beneficiary's family income is less than or equal to \$25,356, the Government deposits \$1,000 each year to the RDSP.

If the beneficiary's family income is between \$25,356 and \$43,561, the Government deposits a portion of the \$1,000 to an RDSP each year. As your income increases, the Bond amount paid into your RDSP decreases.

Unused Grant and Bond entitlements: "The carry-forward measure"

Unused Grant and Bond entitlements from the past 10 years (starting in 2008) can be claimed for existing RDSPs, or RDSPs opened in January 2011 or later. To apply for unused Grant and Bond entitlements, the beneficiary must currently be eligible to receive the Grant and the Bond. Applications can be made until the end of the calendar year in which the beneficiary turns 49.

The amount of Grant and Bond eligibility depends on the beneficiary's family income in those years. The Grant amount received also depends on how much is contributed to one's RDSP. The matching rate will be the same as the one that would have applied if the contribution had been made in the year in which the Grant entitlement was earned. 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 an annual maximum of \$10,500 for Grants; and \$11,000 for Bonds.

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The maximum amount of Grant paid over the beneficiary's lifetime is \$70,000. The maximum amount of Bond paid over the beneficiary's lifetime is \$20,000.

Withdrawals and payments from an RDSP?

There are three types of payments that can be made from an RDSP:

- disability assistance payments (DAPs) (these include lifetime disability assistance payments (LDAPs);
- direct transfers to another RDSP for the same beneficiary; and
- repayments under the Canada Disability Savings Act

Only the beneficiary or the beneficiary's estate will be permitted to receive payments from the RDSP.

Disability assistance payments (DAPs)

A DAP is any payment from an RDSP to the beneficiary or to his or her estate after his or her death. A DAP is a singular payment that can be requested at any time and may consist of contributions, Grant, Bond, and income earned in the count.

The RDSP issuer may allow the RDSP holder to request DAPs to be made to a beneficiary that are separate from LDAPs. Contact a participating issuer to determine if it offers plans that allow an RDSP holder to request these types of payments from a plan.

Lifetime disability assistance payments (LDAP)

LDAPs are disability assistance payments (DAPs) that, once started, must be paid at least annually until either the plan is terminated or the beneficiary has died. These payments must begin by the end of the year in which the beneficiary turns 60 and, unless the year is a [specified year](#), are subject to an annual maximum withdrawal limit determined by the [formula](#) described below.

How to calculate the maximum LDAP

The maximum LDAP is calculated as follows:

$$A \div (B + 3 - C) + D$$

where:

A = the FMV of the property held in the plan at the beginning of the year, (excluding the value of locked-in annuity contracts held by the plan trust);

B = the greater of 80 and the age of the beneficiary at the beginning of the calendar year;

C = the actual age of the beneficiary at the beginning of the calendar year; and

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D = the total of all periodic payments paid, or deemed to have been paid, under certain locked-in annuity contracts, to the plan trust in the calendar year, if applicable.

How to calculate the non-taxable part of a DAP

The **non-taxable part** of a disability assistance payment (DAP) made to a beneficiary from an RDSP is the lesser of:

- the DAP; and
- the amount determined by the formula:

$$A \times B \div C$$

Where:

A = the amount of the DAP;

B = the contributions made to any RDSP of the beneficiary that have not already been used to determine the non-taxable part of previous DAPs; and C = the amount by which the FMV of the property held by the RDSP trust before the DAP is greater than the assistance hold back amount for the plan. If you are fortunate, your firm's systems will calculate these amounts for you. It is important to understand the principles behind them, even if the amounts are provided to you.

Bottom Line

One of the most important considerations is maximizing the Grant at \$3,500 for twenty years, up to the lifetime maximum of \$70,000. As well as careful tax planning, and potentially establishing a trust on behalf of the beneficiary. If this is an area of personal and professional interest, an active relationship with a lawyer and an accountant with specific expertise in this area will be required. Assisting those who require the most help is often the most rewarding contributions of an Advisor's career. This is an opportunity to guide those, and their families who are deeply concerned about their relative's financial and long-term care.

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