

Building an RDSP

Registered Disability Savings Plans (RDSPs) provide a tax-sheltered savings plan for Canadians who are eligible for the disability tax credit. We have outlined the most commonly asked questions about RDSPs for you below. For more information, or to open a RDSP, speak with your local credit union investment advisor.



What are the Advantages of an RDSP?

A registered disability savings plan provides disabled individuals and their families with a tax-sheltered investment option to provide long term income for a disabled beneficiary. All investment and interest income, as well as grants and bonds in an RDSP, are tax sheltered until withdrawn. Funds withdrawn are taxed as income by the beneficiary in the year of a withdrawal.

What Investments Qualify for RDSPs?

Similar to other registered plans like TFSAs and RRSPs, there are a wide range of investments that can be held in an RDSP. These include:

- Term deposits and GICs.
- Variable interest savings accounts.
- Credit union shares.
- Index-linked term deposits.
- Mutual funds.
- Publicly traded securities.
- Bonds.

If you are considering an investment other than those mentioned above, check the rules carefully to ensure your investment vehicle qualifies.

Who Can Open an RDSP?

The plan holder is the qualifying individual who opens an RDSP; they authorize all transactions and make or authorize contributions on behalf of the beneficiary whom qualifies for the disability tax credit.

The beneficiary can open their own RDSP if they meet the following criteria:

- Eligible for the [Disability Tax Credit](#).
- Under the age of 60 (if they are 59, they must apply before the end of the calendar year in which they turned 59).
- A Canadian resident at the time the plan is entered into, and who has a [Social Insurance Number \(SIN\)](#).
- Contractually competent and of the age of majority.

Parents or legal guardians can be the holder of an RDSP, meaning they can open an RDSP for a qualified child beneficiary. When the beneficiary reaches the age of majority and is contractually competent to enter into the plan, he or she becomes the holder of the account, while the parent or legal guardian can remain on the account as joint holders.

How Much Can I Contribute?

The lifetime contribution limit for an RDSP is \$200,000. There is no annual contribution limit and contributions can be made until the end of the year the beneficiary turns 59.



Will the Government Provide Savings Assistance?

Registered Disability Savings Plans qualify for two Government of Canada financial programs:

Canada Disability Savings Grant (CDSG)

The Canadian Government pays grants of either 300%, 200% or 100%, based on a beneficiary's family income and the amount contributed. Family income is determined as follows:

- **Until December 31st the year the child turns 18:** the category of grant for which a family qualifies is based on the income information used to determine the Canada Child Benefit (CCB).
- **As of the year the beneficiary turns 19:** the beneficiary's income is based on his or her personal income as well as that of his or her spouse or common-law partner. To qualify for a grant, the beneficiary and spouse/CLP must file tax returns for the past two years, and all future tax years.

If the beneficiary is in the care of a department, agency or institution for one month or more in a given year, the government will base the grant on the allowance payable to the department, agency or institution under the Children's Special Allowances Act.

The maximum grant within a calendar year is \$3,500, and the lifetime maximum is \$70,000. The government will pay grants until December 31st of the year in which the beneficiary turns 49.

Canada Disability Savings Bond (CDSB)

Qualifying families receive up to \$1,000 per year under the CDSB program, regardless of whether an RDSP contribution is made. There is a lifetime limit of \$20,000, and bonds must be paid into an RDSP by the end of the year in which the beneficiary turns 49.

The amount of the bond depends on your net income. Speak with your credit union investment advisor for more details or visit the CRA web site (<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/rdsp-reei/cdsg-eng.html>).

How Many Years Can I Contribute?

An RDSP can be opened at birth when the child becomes DTC eligible and has a valid Social Insurance Number. Contributions can be made until the end of the year the beneficiary turns 59.

HOW DO YOU WITHDRAW FUNDS?

There are two ways to withdraw funds from a RDSP:

- **Annual Payments**

The beneficiary receives payments which are payable at least annually, or Lifetime Disability Assistance Payments (LDAPs), for the duration of his or her life or until the plan is terminated. These payments must begin by the end of the calendar year in which the beneficiary turns 60. Only the earned income and the grant portion (CDSG, CDSB) of LDAPs are taxed as income. The contributions are not taxed.

- **One-time Payments**

A beneficiary can receive a one-time payment, called a Disability Assistance Payment (DAP), at any time once the RDSP is established. This payment will be taxed as income in the year of the withdrawal. Only the earned income and the grant portion (CDSG, CDSB) of a DAP is taxed as income. The contributions are not taxed.

A plan holder's eligibility for government benefits (GST credit, Canada Child Benefit) will not be affected by withdrawals from an RDSP.

Who Owns the Funds in the RDSP?

Once an RDSP beneficiary reaches the age of majority, that person is the legal holder of the account unless he or she is declared legally incompetent. Note that parents or legal guardians can remain as joint holders on RDSP accounts in situations where they have set up an RDSP prior to the beneficiary reaching the age of majority.

Under What Conditions Do Grants and Bonds Need to Be Repaid?

According to the Canada Revenue Agency, CDSG and CDSB funds received in the previous 10 years will need to be repaid if:

- The RDSP is terminated.
- The plan is not compliant, and therefore ceases to be an RDSP.
- The beneficiary is no longer eligible for the disability tax credit.
- The beneficiary dies.

For more detailed information on the repayment of grants and bonds, speak with your credit union's investment advisor.



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