



Registered Disability Savings Plan

What is a registered disability savings plan?

A registered disability savings plan (RDSP) is a savings plan that is intended to help parents and others save for the long-term financial security of a person who is eligible for the Disability Tax Credit (disability amount).

Contributions to an RDSP are not tax deductible and can be made until the end of the year in which the beneficiary turns 59 years of age. Contributions that are withdrawn are not included as income for the beneficiary when paid out of an RDSP.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 are included in the beneficiary's income for tax purposes when paid out of the RDSP. Go to www.cra.gc.ca/rpd for more details on RDSPs.

What is a Canada disability savings grant?

A CDSG is an amount that the government of Canada contributes to an RDSP. The government will pay matching grants of 300, 200, or 100 percent, depending on the beneficiary's family income and the amount contributed. An RDSP can receive a maximum of \$3,500 in matching grants in one year, and up to \$70,000 over the beneficiary's lifetime. A grant can be paid into an RDSP on contributions made to the beneficiary's RDSP until December 31 of the year the beneficiary turns 49 years old.

The amount of the CDSG is based on the beneficiary's family income as follows:

Beneficiary's family income	Grant	Maximum
\$77,664* or less		
on the first \$500	\$3 for every \$1 contributed	\$1,500
on the next \$1,000	\$2 for every \$1 contributed	\$2,000
More than \$77,664*		
on the first \$1,000	\$1 for every \$1 contributed	\$1,000

*The beneficiary family income thresholds are indexed each year to inflation. The income thresholds shown are for 2009.

What is a Canada disability savings bond?

A CDSB is an amount paid by the government of Canada directly into an RDSP. The government will pay income-tested bonds of up to \$1,000 a year to low-income Canadians with disabilities, regardless of the amount contributed. The lifetime bond limit is \$20,000. A bond can be paid into an RDSP until the year in which the beneficiary turns 49 years old.

The amount the CDSB is based on the beneficiary's family income as follows:

Beneficiary's family income	Bond
\$21,816* or less (or if the holder is a public institution)	\$1,000
Between \$21,816* and \$38,832*	Part of the \$1,000 based on the formula in the <i>Canada Disability Savings Act</i>
More than \$38,832*	No bond is paid
Beneficiary's family income	Bond
\$21,816* or less (or if the holder is a public institution)	\$1,000

*The beneficiary family income thresholds are indexed each year to inflation. The income thresholds shown are for 2009.

Who can become a beneficiary of a registered disability savings plan?

You will be able to designate an individual as beneficiary if the individual:

- is eligible for the disability amount;
- has a valid social insurance number (SIN);
- is a resident of Canada at the time the plan is entered into; and
- is under the age of 60. The 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 person is eligible for the disability amount only if a qualified practitioner certifies on Form T2201, *Disability Tax Credit Certificate*, that the individual has a severe and prolonged impairment. The form must also be approved by CRA and certified as being eligible for the disability amount. To get Form T2201, go to www.cra.gc.ca/disability or call 1-800-959-2221.

Who can set up a registered disability savings plan?

If the beneficiary has reached the age of majority and is contractually competent, only the beneficiary can open an RDSP and become a holder of the plan. If the beneficiary is a minor, another person can open an RDSP for the minor and become a **holder** if that person is:

- a legal parent of the beneficiary;
- 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.

When a plan is opened by a beneficiary's legal parent(s), the legal parent(s) may continue as holder(s) of the plan after the beneficiary reaches the age of majority. When the beneficiary becomes an adult and is legally eligible to enter into a contract, the beneficiary may be added to the RDSP as a joint holder if he or she so wishes. In all other cases, the beneficiary is the only one who can be a holder of the plan once he or she has reached the age of majority and is contractually competent. If a plan is opened by somebody other than the beneficiary or the beneficiary's legal parent(s), that person or body must be removed as a holder of the plan when the beneficiary reaches the age of majority.

Similarly, an individual who is eligible to be a beneficiary of an RDSP (but for whom a plan has not yet been established) may have reached the age of majority but may not be competent to enter into a contract. If so, another qualified person may open an RDSP for the individual 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.

A legal parent may open a plan for a beneficiary who has reached the age of majority and is not contractually competent only when the plan is opened as a result of a transfer from another RDSP under which the parent is named as a holder. Also, a legal parent of a beneficiary, who has reached the age of majority and is not contractually competent, can open a plan for the beneficiary provided the legal parent is legally authorized to act on behalf of the beneficiary.

A holder who is not the beneficiary of the plan 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 the plan.

If the guardian, tutor, public department, or any other qualified individual or body 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 plan as 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 plan);
- 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 plan.

Who can contribute to the registered disability savings plan?

Anyone can contribute to an RDSP with the written permission of the plan holder. See "Who can set up a registered disability savings plan" on this page.

Note

The holder does not have to be a resident of Canada. However, the beneficiary must be a resident of Canada when the plan is opened and when each contribution is made to the plan. RDSP payments can only be made to the beneficiary (or to the beneficiary's estate after the beneficiary's death). Contributors will not be entitled to a refund of their contributions.

How do you establish a registered disability savings plan?

To establish an RDSP, a person who is qualified to be a holder of the plan must contact a participating financial institution that offers the RDSP.

Note

A beneficiary can have only one RDSP at any given time, although this RDSP may have several plan holders throughout its existence, and it can have more than one plan holder at any given time. The plan holder(s) is the person who establishes the RDSP and makes or authorizes contributions on behalf of the beneficiary.

What is the contribution limit on registered disability savings plans?

There is no annual limit on amounts that can be contributed to an RDSP of a particular beneficiary in a given year. However, the overall lifetime limit for a particular beneficiary is \$200,000. Contributions are permitted until the end of the year in which the beneficiary turns 59 years of age.

Note

Amounts directly transferred from a beneficiary's RDSP to another RDSP for the same beneficiary are not included in calculating the \$200,000 overall contribution limit.

What is a specified year?

A specified year is the year in which a qualified medical practitioner certifies in writing that the beneficiary will not live longer than five years. A specified year will also include 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. There will then be no maximum limits on the amount of disability assistance payments that can be made to the beneficiary in a specified year.

When are payments made?

Only certain payments can be made from an RDSP:

- payments to the beneficiary referred to as disability assistance payments;
- payments to the beneficiary's estate following the death of the beneficiary;
- repayments of grants and bonds to the government; and
- the transfer of all property from the beneficiary's current RDSP to a new RDSP of the beneficiary.

The RDSP issuer may allow the RDSP holder to request disability assistance payments (DAP) to be made to a beneficiary that are separate from lifetime disability assistance payments (LDAP). Contact a participating financial institution to determine if they offer plans that allow an RDSP holder to request these types of payments from a plan.

Disability assistance payments (DAP) are payments that the beneficiary of a plan can request even if they are not a holder of the plan. If the beneficiary reaches any age from 28 to 58, inclusive, during the year, they will have the right to direct that DAPs be paid to them in that year, provided that the total amount of all government contributions in the plan at the beginning of the calendar year exceeds the total amount of all private contributions in the plan at the beginning of the calendar year.

The total amount of these and all other payments that can be paid to the beneficiary in the calendar year is capped by a **maximum lifetime disability assistance payment formula**.

The formula is calculated as follows:

$A \div (B + 3 - C) + D$ = the amount of the lifetime disability assistance payment.

Where:

A = the FMV of the property held in the plan at the beginning of the year,

B = the greater of 80 or the age of the beneficiary at the beginning of the year,

C = the actual age of the beneficiary at the beginning of the year, and

D = the total of all periodic payments paid, or deemed to have been paid, to the plan trust in the calendar year.

Lifetime disability assistance payments (LDAP) are disability assistance payments that, once they are 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 years of age and will be subject to an annual maximum withdrawal limit based on the beneficiary's life expectancy and the fair market value (FMV) of the plan. Only the beneficiary or the beneficiary's legal representative (on his behalf) will be permitted to receive payments from the RDSP.

Rules where the amount of Government grant and bonds exceeds the private contributions in a RDSP

In general, the total amount of DAPs that may be paid to the beneficiary in a year that is not a specified year cannot exceed the maximum LDAP for that year. Certain DAPs made following, and as a consequence of, a transfer of property from another RDSP of the beneficiary are not considered for purposes of this limit on DAPs. In any year after the year the beneficiary turns 59 years of age, the total amount of DAPs made in the year cannot be less than the maximum LDAP for that year (subject to the fair market value of the property in the plan).

Where the beneficiary is between 27 and 59 years of age during the year, the beneficiary has the right to direct that DAPs be paid to them in the year, provided that after the DAPs are paid, the FMV of the property in the RDSP is not less than any amount that the plan may be required to repay under the *Canada Disability Savings Act*.

Note

No payment may be made to the beneficiary if the payment would allow the FMV of the funds in the plan trust to fall below any assistance holdback amount that remains in the plan. The assistance holdback amount is the amount of government grant and bond that has been paid into the plan within the last ten-year period.

Example

David earned more than \$77,664 in 2009 and is the sole provider for his son Paul. David started contributing to his son Paul's RDSP in 2009. David contributes \$10,000 annually to his son's RDSP over the next 20 years. The contributions made are eligible for the CDSGs at a rate of 100% of the total contributions made in the particular year, up to a maximum of \$1,000 annually (see the chart on page 1). He is **not** eligible for the Canada disability savings bond. The total FMV of the RDSP for the first year is equal to the amount of the contribution plus the grant and any associated interest. For the purpose of this example, the value of the fund at the end of the first year would be \$11,500 (\$10,000 + \$1,000 + \$500 [5% interest]).

After 20 years, the FMV of the fund is approximately \$219,600. Since the beneficiary will be 60 in 2029, grants may be paid from 2009 to 2018 on the contributions. Contributions can still be made to the plan up until the end of the year in which the beneficiary turns 59.

Therefore, the total amount of LDAP Paul is entitled to in the calendar year is equal to the FMV of the fund at the beginning of the calendar year (excluding payments made by certain annuity contracts paid to the plan trust or payments not made to the plan trust because the plan disposed of the right to the payment in the calendar year) calculated as follows:

2009 to 2018 = \$10,000 contribution + \$1,000 Grant = \$11,000 × 10 = \$110,000 + total (estimated) interest of \$3,700 for the period = \$113,700; plus

2019 to 2028 = \$10,000 contribution × 10 = \$100,000 + total (estimated) interest of \$5,500 for the period = \$105,500.

So \$113,700 + \$105,500 = \$219,200 would be the total FMV of the funds in the RDSP at the beginning of the year.

The total FMV is then divided by the greater of (80 or the age of the beneficiary plus 3 minus the actual age of the beneficiary at the beginning of the year) plus the total amount of periodic payments under certain annuity contracts held in the plan trust, or:

\$219,200 divided by (80 + 3 - 60) + \$0 = \$9,530.43.

The total amount of LDAP that Paul would be entitled to receive from his RDSP in the calendar year is \$9,530.43.

How are payments from a registered disability savings plan reported?

The CDSG, CDSB and investment income earned in the plan are included in the beneficiary's income for tax purposes when paid out of the RDSP. RDSP issuers report the taxable portion of the payments from the plan in box 28 of a T4A slip, identify the payments with footnote code 31 in box 38, and send a copy of the slip to the beneficiary or the beneficiary's legal representative. The beneficiary has to include this amount as income on line 125 of his or her tax return for the year in which he or she receives it.

Transfers

A transfer from one RDSP to another may only be conducted under the following conditions:

- the transfer must be made from a beneficiary's RDSP to another RDSP for the same beneficiary;
- a transfer may only be completed if all holders of the current RDSP agree to the transfer; and
- all funds must be transferred from the current RDSP to the new RDSP.

If the transfer to the new RDSP is not completed within 120 days from the date the new RDSP contract is signed, the new RDSP will be considered invalid and the prior RDSP will continue as the ongoing plan.

What happens if the beneficiary no longer has a severe and prolonged impairment in mental or physical functions?

The RDSP must close and all amounts must be paid out of the plan by December 31 **following** the first full calendar year that the beneficiary is no longer considered mentally or physically impaired or no longer has the severe and prolonged impairment that qualified them for the disability amount. Any funds remaining in the RDSP after any required repayments of government grants and bonds will be paid to the beneficiary. The taxable portion of the DAP will be included in the income of the beneficiary in the year the payment is made to the beneficiary.

What happens if the beneficiary dies?

The RDSP must close and all amounts must be paid out of the plan by December 31 **following** the first full calendar year that the beneficiary dies. Any funds remaining in the RDSP, after any required repayment of government grants and bonds, will be paid to the estate. If a DAP had been made and the beneficiary is deceased, the taxable portion of the DAP must be included in the income of the beneficiary's estate in the year the payment is made.

When are repayments of Canada disability savings grants and Canada disability savings bonds required?

If any of the following trigger events occur, all government grants and bonds paid into the plan during the preceding **ten years** before the event must be repaid to the Government of Canada. These trigger events are:

- the RDSP is terminated (voluntary closure);
- the plan is deregistered;
- a payment is made from the plan;
- the beneficiary ceases to be eligible for the disability amount; or
- the beneficiary dies.

Tax payable on an advantage

An advantage in relation to an RDSP is any benefit or loan that depends on the existence of the RDSP. In general, an advantage does not include:

- disability assistance payments;
- contributions made by or with the consent of a holder;
- RDSP to RDSP transfers;
- CDSGs and CDSBs;
- administrative and investment services associated with an RDSP; or
- loans used to make contributions to an RDSP.

Amount of tax payable

The amount of tax payable in respect to an advantage is:

- in the case of a benefit, the FMV of the benefit; and
- in the case of a loan, the amount of the loan.

Tax payable on non-qualified investment

A tax is payable for a calendar year in which the trust of an RDSP acquires property that is not a qualified investment or the property within the RDSP becomes a non-qualified investment.

Amount of tax payable

The amount of tax payable in respect of a non-qualified investment is:

- 50% of the FMV of the property at the time immediately before it was acquired; and
- 50% of the FMV of the property at the time it ceased to be a qualified investment for the trust.

Liability for the taxes

Each person who is a holder of an RDSP at the time that a tax is imposed in connection with the plan is jointly liable to pay the tax.

In the case of the tax on an advantage, if the advantage is extended by the issuer of the plan, or a person not dealing at arm's length with the issuer, then the issuer is liable for the tax and not the holder.

Payment of tax

If there is a tax liability as a result of an advantage, non-qualified investment(s) and/or inadequate consideration, you must pay this tax no later than 90 days following the end of the calendar year for which the tax is applicable and file return accordingly.

For more information on the grant and bond, go to the Human Resources and Skills Development Canada Web page at www.hrsdc.gc.ca/disability.

Your opinion counts

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