



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 Contributions that are withdrawn are not included as income for the beneficiary when paid out of an RDSP.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, Canada disability savings bond (see last page) and investment income earned in the plan are included in the beneficiary's income for tax purposes when paid out of the RDSP.

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 if a qualified practitioner certifies on Form T2201, *Disability Tax Credit Certificate*, that the individual has a prolonged impairment. To get Form T2201, go to our Web site at www.cra.gc.ca/disability or call 1-800-959-2221.

Who can set up a registered disability savings plan?

A 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, the beneficiary may be added to the RDSP as a joint holder if they so wish. In all other cases, the beneficiary is the only one who can be a holder of the plan once they have reached the age of majority and are 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 they are 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, or public department 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."

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. As 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 is the person who establishes the RDSP and makes 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. 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 (DAP);
- payments to the beneficiary's estate following the death of the beneficiary; and
- repayments of grants and bonds to the government.

There are three types of payments that can be made to the beneficiary of an RDSP.

Lifetime disability assistance payments (LDAP) are 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 of the plan. Only the beneficiary or the beneficiary's legal representative (on his behalf) will be permitted to receive payments from the RDSP.

The **second type** of payment is a **disability assistance payment (DAP)** that the beneficiary of a plan can request even if they are not a holder of the plan. If 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, then the beneficiary of a plan will be entitled to request and receive disability assistance payments from the plan.

The RDSP issuer may offer plans that allow a **third type** of payment. 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.

In general, the total amount of disability assistance payments (DAPs) that may be paid to the beneficiary in a year, that is not a specified year, cannot exceed the maximum lifetime disability assistance payment (LDAP) for that year. Certain disability assistance payments made following a transfer of property from another RDSP of the beneficiary are not used when calculating the 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 reaches any age from 27 to 58 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 CDSA.

Note

No payment may be made to the beneficiary if the payment would allow the fair market value 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 started contributing to his son Paul's RDSP in 2008. David contributes \$10,000 annually to his son's RDSP over the next 20 years. The contributions made are eligible for the Canada disability savings grants at a rate of 100% of the total contributions made in the particular year, up to a maximum of \$1,000 annually. The total fair market value 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 fair market value of the fund is approximately \$226,000. Since the beneficiary will be 60 in 2028, grants may be paid from 2008 to 2017 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 lifetime disability assistance payments Paul is entitled to in the calendar year is equal to the fair market value 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:

2008 to 2017 = \$10,000 contribution + \$1,000 Grant = \$11,000 x 10 = \$110,000 + total (estimated) interest of \$3,700 for the period = \$113,700; plus

2018 to 2027 = \$10,000 contribution x 10 = \$100,000 + total (estimated) interest of \$5,500 = \$105,500.

So \$113,700 + \$105,500 = \$219,120 would be the total fair market value of the funds in the RDSP.

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:

\$219,120 divided by (80 + 3 - 60) + \$0 = \$9,526.96.

The total amount of **lifetime disability assistance payments** that Paul would be entitled to receive from his RDSP in the calendar year is \$9,526.96.

How are payments from a registered disability savings plan reported?

The Canada disability savings grant and, bond (see last page) 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 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.

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

The RDSP must close no later than the end of the calendar year following the first full calendar year that the beneficiary is no longer considered mentally or physically impaired. Any funds remaining in the RDSP after any required repayments of grants and bonds will be paid to the beneficiary. Also, the RDSP must be terminated and all amounts must be paid out of the plan by the end of the calendar year following the first calendar year throughout which the beneficiary no longer has the severe and prolonged impairment that qualified the beneficiary for the disability amount. The taxable portion of the disability assistance payment (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?

If the beneficiary of an RDSP dies, the RDSP must close no later than the end of the calendar year following the year of the beneficiary's death. Any funds remaining in the RDSP, after any required repayment of government grants and bonds, will be paid to the estate. The RDSP must be terminated and all amounts paid out of the plan by the end of the calendar year following the year in which the beneficiary dies. If a disability assistance payment (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.

What are the Canada disability savings grants?

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 \$3500 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 by December 31 of the year the beneficiary turns 49 years old.

What are the Canada disability savings bonds?

The government will pay income-tested bonds of up to \$1000 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.

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

If any of the following trigger events occur, all 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.

For more information on the grant and bond, go to the Human Resources and Skills Development Canada Web site at http://www.rhdsc.gc.ca/en/disability_issues/disability_savings/index.shtml.

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