



Your Guide to Understanding the

# RDSP

REGISTERED DISABILITY SAVINGS PLAN

2023/2024

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This booklet has been created by Central 1 Credit Union to provide general information regarding the Registered Disability Savings Plan (RDSP) as a courtesy of your financial institution and is based on legislation in effect as of April 2023. Information in this booklet may not reflect legislative changes after the publication date. Refer to the Government of Canada's website for current legislation.

All examples provided are hypothetical and for illustrative purposes only. Please contact your investment representative at your branch to obtain personalized advice on your financial plan.

Further information related to the RDSP and other registered products may be obtained by phone at **1-800-959-8281**.

Information related to the Canada Disability Savings Grant or Canada Disability Savings Bond should be directed to Employment and Social Development Canada (ESDC) at **1-800-622-6232** or through their website:

<https://www.canada.ca/en/employment-social-development/programs/disability/savings.html>

**\*Federal budget 2023 proposes to extend the DTC eligibility requirements which would open up the RDSP to more qualifying beneficiaries.**

## What Is a RDSP?

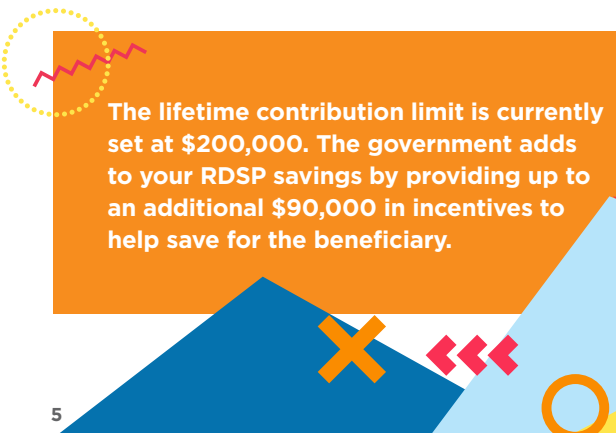
Launched in 2008, a Registered Disability Savings Plan (RDSP) is a government-assisted and tax-deferred savings account designed to help parents and others save for the long-term financial security of a relative or other person, known as the beneficiary, who qualifies for the Disability Tax Credit (DTC) as approved by the Canada Revenue Agency (CRA).

The person, or organization, who opens and manages the RDSP is the **holder** of the plan. The plan holder is responsible for authorizing and making contributions to the RDSP for the beneficiary. The beneficiary is the **owner** of the RDSP.

The **beneficiary must be under the age of 60** when the account is opened, *unless the account is opened as a result of a transfer from the beneficiary's former RDSP*. **Government incentives are only available on contributions made while the beneficiary is under the age of 50.**

## Future source of income

Investing in a RDSP will provide the beneficiary with an additional source of income in the future without impacting most provincial disability benefits and other federal income-tested benefits as detailed below.



The lifetime contribution limit is currently set at \$200,000. The government adds to your RDSP savings by providing up to an additional \$90,000 in incentives to help save for the beneficiary.

## Income-tested benefits

Assets in a RDSP are excluded from determining the beneficiary's eligibility for provincial disability assistance benefits in some provinces, such as British Columbia, Manitoba, and Ontario.

Having a RDSP will not impact the beneficiary's eligibility for federal income-tested benefits such as GST, OAS, EI, and the CCB.

However, payments received from a RDSP may affect eligibility for disability support and other disability pension payments. You should consult with the provincial benefit provider for further information before opening a RDSP.

## Creditor protection

In 2019, the federal budget exempted RDSPs from seizure by creditors in bankruptcy, except for contributions made in the 12 months prior to the date of filing. This exemption came into force June 21, 2019.

## Who can be the holder?

The beneficiary who qualifies for the Disability Tax Credit (DTC) **must** also be the holder of the RDSP unless they are under the age of majority or contractually incompetent. That is, the beneficiary is unable to manage the account and make investment decisions. The RDSP can have more than one holder; however, a beneficiary can only have one RDSP.

The following chart highlights who can be the holder of the RDSP where the beneficiary is a minor or an adult.

RDSP Holder Requirements	Beneficiary	Legal Parent
<b>Minor beneficiary</b>	✗	✓
<b>Adult beneficiary</b>		
<i>who is contractually competent</i>	✓	✗
<i>who is <b>not</b> contractually competent</i>	✗	✗
<i>whose contractual competence is in doubt</i>	✗	✗ ✓, if QFM
<b>Deceased beneficiary</b>	✗	✗

RDSP Holder Requirements	Qualifying Family Member (QFM)	Legal Representative
<b>Minor beneficiary</b>	✗	✓
<b>Adult beneficiary</b>		
<i>who is contractually competent</i>	✗	✗
<i>who is <b>not</b> contractually competent</i>	✗	✓
<i>whose contractual competence is in doubt</i>	✓	✗
<b>Deceased beneficiary</b>	✗	✓

## Replacing a holder

The holder information can only be changed due to one of the following circumstances:

- The holder is no longer the beneficiary's legal guardian, **OR**
- The holder or beneficiary dies

In any of the above scenarios, only a qualified person or institution may become the replacement holder of the RDSP.

## Beneficiary information

The beneficiary of the RDSP is the person with a disability who is entitled to receive money from the plan in the future. You should note that a beneficiary designation is irrevocable, which means it cannot be changed once the account is opened.

To be named as a beneficiary on a RDSP, the individual must:

- Qualify for the Disability Tax Credit (DTC)
- Be a resident of Canada when the RDSP is opened
- Have a valid Social Insurance Number (SIN)
- Be the age of 59 or under on December 31 in the year the plan is opened

Information on applying for the SIN and/or the DTC is located on the following government websites

**Social Insurance Number**  
<https://www.canada.ca/en/employment-social-development/services/sin/apply.html>

**Disability Tax Credit**  
<https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html>

## Minor beneficiary

Where the RDSP was not opened by the legal parent of the minor beneficiary, the beneficiary becomes the holder or joint holder, with their parent(s), of the RDSP when they reach the age of majority. Otherwise, the RDSP holder can remain as is with no changes. But, if the adult beneficiary is not contractually competent, the guardian can become the RDSP holder.



**The legal representative or public department cannot be a joint holder of the RDSP once the beneficiary reaches the age of majority and is contractually competent.**

## Contractual competence

The adult beneficiary must have contractual competence to enter into a RDSP agreement and be the holder of the plan.

The beneficiary lacks contractual competency where they are not able to understand the general basics of the RDSP or the terms and conditions of the contract being formed. In this case, a qualified person or institution can open the RDSP for the beneficiary and become the holder.

### Qualified Person

A legally appointed guardian, tutor, or curator

### Qualified Institution

A legally appointed public department, agency, or institution

## Competency in doubt - temporary measures

The government provided temporary measures in 2012 to allow provinces and territories

to develop long-term solutions to support families in obtaining legal authority to represent contractually incompetent adults. These measures provide for a Qualifying Family Member (QFM) to open a RDSP for the beneficiary until the beneficiary's competence is no longer in question or a legal representative is appointed. **The temporary measures are proposed to expire on December 31, 2026.**

### Qualified Family Member (QFM)

A QFM can be a beneficiary's spouse, common-law partner, or parent. The government also proposed in Budget 2023 to broaden the definition of Qualifying Family Member to include an adult brother or sister of the beneficiary.

**After 2023 a Qualified Family Member (QFM) can only open a RDSP for a beneficiary for the purpose of transferring an existing RDSP where the QFM is the holder.**

## Residency restrictions

There are no residency restrictions for opening a RDSP for a beneficiary if the holder has a valid SIN or business number. **It is strongly advised that you seek independent international tax advice** from a qualified specialist to decide if a RDSP is the proper savings vehicle for you, due to the tax implications that may arise if the holder and/or beneficiary are currently, or subsequently become, non-residents of Canada. **The beneficiary must be a resident of Canada with a valid SIN at the time the designation is made.**

Contributions to the RDSP can only be made while the beneficiary resides in Canada.



**A contribution to a RDSP while the beneficiary is a non-resident of Canada will cause the plan to be non-compliant and will require the plan to be closed.**

## Contributions and Taxable Earnings

RDSP contributions are non-tax-deductible deposits that can be made by, or on behalf of, the beneficiary up to the end of the year the beneficiary turns 59. Although there is no annual contribution limit, **the RDSP is subject to a lifetime contribution limit of \$200,000**, DTC eligibility, and residency restrictions.

While all contributions made to the RDSP remain tax-free, government incentives and income earned in the RDSP are sheltered from tax until withdrawn by the beneficiary in the form of a Disability Assistance Payment (DAP).

Since the beneficiary is the sole owner of the RDSP assets, the taxable portion of the DAP will be reported on a T4A slip in their name for the year of withdrawal.

### Over contributions

It is important to make sure contributions to the RDSP do not exceed the \$200,000 lifetime contribution limit. This would cause the RDSP to become non-compliant and result in the plan being closed. Your plan administrator will monitor the plan and take measures to make sure it remains compliant.

### How long can you contribute to a RDSP?

RDSP contributions can be made up to the end of the year the beneficiary turns 59 of age, so long as the beneficiary is a resident of Canada and qualified for the Disability Tax Credit (DTC) when the contribution is made.

## Taxation of RDSPs

RDSPs benefit from preferential tax treatment like the Registered Education Saving Plan (RESP). All government contributions (grants, bonds) and income in the RDSP become taxable income to the beneficiary in the year of withdrawal. A T4A information slip will be generated in the name of the beneficiary and must be reported on their personal income tax return. **Private contributions are not subject to tax.**

The RDSP issuer is required to withhold tax at source where the total of taxable payments exceeds the annual prescribed threshold.

### Withholding tax threshold

Year	2023	2022
Federal maximum Basic Personal Amount (BPA)	\$15,000	\$14,398
Federal Disability Amount (DA)	\$9,428	\$8,870
Total	\$24,428	\$23,268

## Eligible Investments

A RDSP can hold the same investments that you buy in an RRSP or TFSA. This includes cash, credit union shares, Guaranteed Investment Certificates (GICs) and limited mutual funds. Mutual funds are only available through a licensed dealer. You will need to speak with your credit union to decide if they offer this type of investment. **Effective March 22, 2017, the government imposed a penalty tax against the beneficiary if the RDSP holds a non-qualifying investment.** The penalty tax is equal to 50% of the value of the non-qualified investment when it was purchased. Additionally, there is an advantage tax equal to 100% of the income and gain earned on a prohibited investment if not immediately withdrawn. **Your credit union restricts RDSPs to hold qualified investments only.**

## Government Incentives

The government of Canada provides free money on contributions to RDSP beneficiaries in the form of incentives to accelerate the growth in the RDSP. This provides future savings and a source of income for the disabled beneficiary.

Incentives are paid to the RDSP based on the amount of your contribution and limits are imposed by the government. **Contributions must be made by the end of the year the beneficiary turns 49 to attract government incentives.**

The amount received from the government is based on the amount of the contribution and the beneficiary's family income. Where the beneficiary is a minor, the family income is based on the information provided to obtain the Canada Child Benefit (CCB).

### Canada Disability Savings Grant (CDSG)

The Canada Disability Savings Grant (CDSG) is a government incentive that provides a matching grant equal to 300%, 200% or 100% of contributions made to the RDSP during the year based on the beneficiary's net family income.



**The Government of Canada paid out \$351.6 million in grant payments to over 168,000 beneficiaries in 2017.**

— Government of Canada/CDSP 2017 Annual Statistics Review

The following chart demonstrates the financial benefit of making an annual contribution in the amount of \$1,500 with the addition of the grants received on the contribution.

#### 2023 Net Family Income

CDSG on annual contributions	Less than \$106,717	Maximum grant	Total contribution and grant
First \$500	300%	\$1,500	\$2,000
Next \$1,000	200%	\$2,000	\$3,000
Over \$1,500	0%	\$0	\$0
<b>Total:</b>		<b>\$3,500</b>	<b>\$5,000</b>

#### 2023 Net Family Income

CDSG on annual contributions	More than \$106,717	Maximum grant	Total contribution and grant
<b>First \$1,000 only</b>	100%	\$1,000	\$2,000
<b>Next \$500</b>	0%	\$0	\$0
<b>Total:</b>		<b>\$1,000</b>	<b>\$2,000</b>

**Lifetime maximum CDSG: \$70,000**

Note, the maximum annual grant is \$1,000 where the beneficiary's family income exceeds the annual threshold or where the net family income is not available from the Canada Revenue Agency (CRA).

### Canada Disability Savings Bond (CDSB)

The Canada Disability Savings Bond (CDSB) is an additional incentive paid to low-income beneficiaries where the net family income is \$53,359 or less. The maximum amount available is \$1,000 each year. **You do not have to make any contributions to the RDSP for the beneficiary to receive the bond. However, a RDSP needs to be opened before the end of the year the beneficiary turns 49.**



**The Government of Canada paid out \$155 million in bond payments to over 168,000 beneficiaries in 2017.**

— Government of Canada/CDSP 2017 Annual Statistics Review

The following chart highlights the amount of bonds available to a beneficiary with a low-income. **To qualify for the bond, it is important that the beneficiary files their annual personal tax return.**

If the beneficiary is a minor, the net family income will be based on the parent or guardian that received the Canada Child Benefit (CCB).

*Beneficiary's Family Income (2023)	Bond
\$34,863 or less	\$1,000
*From \$34,863 to \$53,359	Under \$1,000
More than \$53,359	\$0
<b>Maximum annual grant</b>	<b>\$1,000</b>
<i>* Based on formula in the Canada Disability Act.</i>	
<b>Lifetime maximum CDSB: \$20,000</b>	

*\*Net family income based on the tax return of the second preceding tax year. For example, the 2023 income threshold is based on your net income in 2021.*

## Unused grant and bond- carry-forward entitlement

If you open a RDSP before the end of the year the beneficiary turns 49, the account will receive the beneficiary's unused grant and bond entitlements from the past 10 years, starting from 2008 (the year the RDSPs became available). The available amount is calculated automatically by the government and will be deposited to the RDSP based on the amount of the contribution and the beneficiary's net family income in those years. Although you must contribute to the RDSP to receive unused grant entitlements for the beneficiary, **a contribution is not required for the beneficiary to receive unused bond entitlements.**

The annual maximum amount of unused grants and bonds available to the beneficiary is \$10,500 for grants and \$11,000 for bonds. The maximum

amount includes any grant entitlement for the current year.

**A CRA statement of entitlement issued each year will provide you with maximum entitlements for the year.**

The following examples demonstrate the value of contributing to a RDSP, assuming the beneficiary is qualified to receive grants and bonds in the current and previous 6 to 10 years

### Contribution with Unused Grant Room: \$3,500

Contribution	<b>\$3,500</b>
Canada Disability Savings Grant (\$500 x 7 years at 300%)	\$10,500
Canada Disability Savings Bond (\$1,000 x 11 years)	\$11,000
<b>Total contribution with incentives</b>	<b>\$25,000</b>

*Subject to the lifetime maximum limits of \$70,000 (grants) and \$20,000 (bonds) respectively*

**Remember, the annual maximum unused grant entitlement that can be used and paid out in the calendar year is \$10,500. This includes any grant entitlement for the current year.**



## RDSP Withdrawals and Payments

Payments from a RDSP can be requested at any time, and for any purpose. They may consist of contributions, grants, bonds, earned income and rollover amounts. There are two main types of payments made from a RDSP:

- Disability Assistance Payments (DAPs)



- A discretionary payment from the RDSP that can be made to the beneficiary at any time
- Lifetime Disability Assistance Payments (LDAPs)
  - A regularly scheduled periodic payment that, once started, must continue for the life of the beneficiary or until the RDSP is terminated
  - Payments must begin by the end of the year the beneficiary turns 60 and are subject to an annual withdrawal limit based on a prescribed formula

### Withdrawal limits

DAP and LDAP requests are subject to withdrawal limits calculated depending on the amount of private contributions from the holder or government contributions (i.e. the grants and bonds).

When private contributions exceed government contributions at the beginning of the year, the RDSP is considered a Non-Primarily Government-Assisted Plan (Non-PGAP).

Likewise, when the grants and bonds paid into the RDSP exceed the amount of private contributions in the previous year, the RDSP becomes a Primarily Government-Assisted Plan (PGAP) in the current year.

**A RDSP that is a PGAP is subject to limits on withdrawals (DAPs and LDAPs) as described below.**

#### Beneficiary is age 59 or less

The maximum annual amount available in a RDSP that is a PGAP must not exceed the greater of the amount calculated for a LDAP and 10% of the Fair Market Value (FMV) of the assets in the RDSP at the beginning of the year.

#### Beneficiary is over the age of 59

When the beneficiary is over the age of 59 in a PGAP, the LDAP cannot exceed the amount determined in the prescribed formula.

#### Beneficiary is age 28 to 58

In a PGAP plan, the beneficiary can request payments from the RDSP at any time if after the payment, the FMV of the property in the RDSP is not less than the Assistance Holdback Amount (AHA). The DAP available in this case cannot be more than the amount determined in the prescribed formula. **The holder's consent is not required for withdrawals up to this specified amount.**

### Repayment of grants and bonds on payment requests

While the RDSP provides incentives to encourage long-term savings of 10 years or more, receiving payments (DAPs or LDAPs) before age 59 may trigger the repayment of all or part of the Assistance Holdback Amount (AHA). **Payments made after the age of 60 are not subject to repayment as grant and bond payments end at the end of the year the beneficiary turns 59.**

The AHA is the total amount of grants and bonds paid to the RDSP within the last 10-year period, less any part of the amount that has been repaid to the federal government. The RDSP issuer will set aside this amount as required.

Since 2014, payments made from a RDSP are subject to the three to one proportional repayment rule. This requires an amount that is three times the amount of the payment to be returned from AHA to the federal government if the grants and bonds were paid to the RDSP within a ten-year period preceding the date of withdrawal. **That is \$3.00 of grant or bond payment for each \$1.00 withdrawn.** If a plan has been established for more than 10 years and grants and bonds were paid at least ten years ago, then those amounts would not be part of the AHA.

Repayments will be applied using the first-in, first-out method, starting with the oldest grants and bonds paid into the RDSP followed by the newest.

## EXAMPLE



Peter (age 55) is the beneficiary of a RDSP that has been in existence for 10 years. The Assistance Holdback Amount (AHA) for his RDSP is \$35,000 (amount of grants and bonds paid in the past ten years).

Peter requested Disability Assistance Payment (DAP) of \$3,000 from his RDSP. Since Peter is under the age of 60, the repayment rule applies to his withdrawal request. As a result, the RDSP issuer had to return \$9,000 (\$3 x \$3,000) from Peter's AHA portion.

If the maximum AHA in this example was \$7,000, then the amount to be repaid would be capped at \$7,000 not \$9,000 as the repayment amount only applies to the balance remaining in the AHA.

The 2019 federal budget amended the repayment rules to exclude the requirement to close the RDSP when the beneficiary no longer qualifies for the Disability Tax Credit.

## Shortened life expectancy - specified year

The beneficiary is considered to have a shortened life expectancy when a medical doctor or nurse practitioner provides a written certification that the beneficiary's life expectancy is 5 years or less.

A specified year starts when the medical confirmation is provided to the RDSP issuer and remains in effect for each of the 5 years after the year of certification or until the designation is removed.

## The RDSP becomes a Specified Disability Savings Plan (SDSP) during the years of certification.

The holder has two options available when the beneficiary has a shortened life expectancy:

## Repayment of grants and bonds on plan closure

In addition to the above, the repayment of grants and bonds will be required in the following circumstances:

- When the RDSP is closed, OR
- When the beneficiary passes away

In these situations, the amount that needs to be returned to the federal government **is the lesser of:**

- All grants and bonds that have been in the RDSP for under 10 years

**OR**

- The fair market value of the RDSP

Keep the RDSP as is	Designate the RDSP as a SDSP
10-year AHA repayment rules apply on DAPs	10-year AHA repayment rules <b>do not</b> apply
Payments can be made at any time	Payments must start before the end of the year following the year the RDSP was designated as a SDSP
There is no annual maximum payment limit	The annual minimum payment must be at least equal to the LDAP formula
LDAP formula does not apply when the beneficiary is age 59 or less	The taxable portion on all withdrawals cannot exceed \$10,000 in the year (unless the LDAP minimum is a greater amount)
Regular payment rules will be reinstated if the beneficiary survives more than 5 years	If the beneficiary survives more than 5 years, the RDSP remains a SDSP unless the holder requests to remove the designation or the plan no longer qualifies as a SDSP

Once an election has been made to specify the RDSP, the SDSP cannot receive any contributions or government incentives. The carrying forward of unused grants and bonds will not apply in the years after the year the plan is designated as a SDSP. The SDSP is also prohibited from receiving a rollover from a RESP. However, a rollover from a retirement savings plan is allowed.



**RDSP issuers must notify the government immediately when a RDSP is established or transferred to another RDSP**

## Rollovers

A rollover to a RDSP occurs on a tax-deferred basis subject to the beneficiary's \$200,000 lifetime contribution limit. The amount of the rollover is considered a private contribution that does not attract government grants. It is fully taxable upon withdrawal.

There are two types of rollovers that you can transfer to a RDSP:

- Registered savings rollover; and
- Education savings rollover

For both types of rollovers, **the RDSP beneficiary must be a resident of Canada and age 59 or less by the end of the calendar year the rollover takes place.**

## Rollover from a registered savings plan

The holder can request a rollover from a registered savings plan to a RDSP when the RDSP beneficiary receives a death benefit. Only death benefits received from the passing of a legal parent or grandparent would apply.

A registered savings plan includes a Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Registered Pension Plan (RPP), Specified Pension Plan (SPP) or Pooled Registered Pension Plan (PRPP). **A rollover can also be directed from the estate of the parent or grandparent if the RDSP beneficiary was also a beneficiary of the estate.**

## Death of a RDSP beneficiary

If the RDSP beneficiary dies while the plan is still open, the RDSP must be closed by December 31st of the year following their death. When the RDSP is closed, all grants and bonds received in the RDSP in the last 10 years must be returned to the government. All remaining funds in the RDSP will be paid to the deceased beneficiary's estate. The taxable portion of any DAPs will be reported on a T4A slip in the name of the beneficiary's estate for the year of withdrawal.

## Transfers between RDSPs

The holder can transfer all property in the RDSP from one financial institution to another so long as the beneficiary is the same on both plans. Once the transfer is complete, the transferring plan must be closed as the beneficiary can only have one RDSP in their name. The issuer of the RDSP must agree to pay any required DAP when the transfer occurs in a year after the beneficiary attained the age of 59.

The holder is responsible for initiating the transfer request on the prescribed form which must be completed by both the relinquishing and receiving financial institution.

## Rollover of education savings income

Where the RDSP beneficiary is also a beneficiary of a Registered Education Savings Plan (RESP), the RDSP holder and RESP subscriber can jointly elect to transfer the accumulated investment income portion from the RESP to the RDSP. The amount of the transfer is subject to the \$200,000 lifetime limit as described above. To qualify for the rollover, one or more of the following conditions must be met:

- The beneficiary has a severe and prolonged mental impairment that can reasonably be expected to prevent him/her from pursuing post-secondary education;

### OR

- The RESP account has been in existence for at least 10 years and all the beneficiaries in the plan are at least 21 years of age and are not pursuing post-secondary education;

### OR

- The RESP has been in existence for more than 35 years.

### The following requirements apply when a RESP rollover occurs:

- RESP contributions will be returned to the RESP subscriber on a tax-free basis
- All RESP grants and bonds will be repaid to the respective government authority
- The RESP must be closed by the end of February following the year the rollover is made

## How Do You Get Started?

Please visit your local credit union branch to discuss how a RDSP can help people with disabilities save for their long-term financial needs. Before making any investment decisions, it is advised that you ask your credit union advisor about deposit insurance protection.





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