

## **New Registered Disability Savings Plans**

On March 19<sup>th</sup>, 2007, Finance Minister Jim Flaherty presented a Budget which contained several measures of importance to Canadians who have a family member with a disability.

The Budget proposes to introduce a new program called the Registered Disability Savings Plan (RDSP), to help parents and others save for the long-term financial security of a child with a severe disability. The RDSP is meant to benefit persons eligible for the Disability Tax Credit (DTC) and will be similar in concept to Registered Education Savings Plans.

Some highlights of this new program include:

- Generally, any person eligible for the disability tax credit (DTC) and resident in Canada, or their parent or other legal representative, will be eligible to establish an RDSP. The DTC-eligible individual will be the plan beneficiary. The Social Insurance Number of the beneficiary, and of the parent or other legal representative, will be required in order to establish the plan.
- Contributions – which are not tax deductible - can be made by anyone (not just the person who set up the plan), subject to the beneficiary's \$200,000 limit of lifetime contributions. There is no limit on annual contributions.
- Contributions must cease at the end of the year in which the disabled beneficiary reaches 59 years of age.
- Annual RDSP contributions may earn grants, called Canada Disability Savings Grants (CDSGs), at matching rates of 100%, 200% or 300%, depending on "family net income" and the amount contributed, to an annual maximum of \$3,500 and a lifetime maximum of \$70,000.
- Additional government contributions, called Canada Disability Savings Bonds (CDSBs), of up to \$1,000 per year and \$20,000 per lifetime will be provided to RDSPs established by lower income families.
- For example, families with income below \$20,883 may receive \$3,500 per year in CDSBs and CDSGs if they contribute nothing from their own resources or \$4,500 if they contribute \$500 from their own resources. Families with incomes over \$74,357 may receive \$1,000 in CDSGs if they contribute \$1,000.
- An RDSP will be eligible to receive Canada Disability Savings Grants and Canada Disability Savings Bonds until the end of the year in which the beneficiary turns 49.
- The investment income on contributions, Canada Disability Savings Grants and Canada Disability Savings Bonds will accrue on a tax deferred basis.
- The beneficiary must begin withdrawing from the RDSP by the end of the year in which the beneficiary attains 60 years of age. Withdrawals may be subject to maximum annual limits determined by the life expectancy of the beneficiary and the fair market value of the property of the plan.
- There will be a requirement for an RDSP to repay to the government all CDSGs and CDSBs (and associated investment income) paid to the plan in the ten years preceding a payment from the plan, upon the cessation of the beneficiary's eligibility for the DTC or the death of the beneficiary.

- Where the beneficiary of an RDSP either ceases to be eligible for the DTC or dies, the funds in the RDSP (net of repayments as described above) will be required to be paid to the beneficiary or pass to the beneficiary's estate. That amount (net of contributions) will be included in the income of the Beneficiary for tax purposes.
- When the Canada Disability Savings Grants, Canada Disability Savings Bonds and investment income earned in the plan are paid to the beneficiary, they will be taxed to the beneficiary.
- Contributions cannot be returned to the contributor, but must be paid to the disabled beneficiary. Contributions will not be taxed to the beneficiary.
- The Government will work with financial institutions to allow them to begin offering RDSPs to Canadians as soon as possible in 2008. Individuals establishing an RDSP in 2008 will be eligible for a full year's CDSG and CDSB entitlement.
- Amounts paid out of an RDSP will not be taken into account for the purposes of calculating income-tested benefits delivered through the income tax system. In addition, RDSP payments will not reduce Old Age Security or Employment Insurance benefits. The budget suggests that RDSP payments should not disqualify a plan beneficiary from receiving provincial or territorial income support provided to persons with disabilities, and should supplement—not reduce—income support provided under these programs at least until the level of income support plus RDSP payments exceeds the Low Income Cut Off (LICO) for the province or territory. The federal Minister of Human Resources and Social Development will work with the provinces and territories to ensure that the RDSP is an effective savings vehicle to improve the financial security and well-being of children with severe disabilities.