

The Proposed Registered Disability Savings Plan (RDSP)



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Among the many considerations of parents and grandparents of children with severe physical and/or cognitive disabilities, perhaps one of the most critical is how best to ensure their children's financial security when they are no longer alive to provide support.

The recent federal Budget has proposed the creation of a Registered Disability Saving Plan (RDSP) commencing in 2008. This plan, which is very similar to the already established RESP, (Registered Education Savings Plan), will allow contributions to the RDSP by family and friends of a person with marked disabilities.

While contributions will not be tax deductible, they will yield both modest and major matching contributions by the federal government. The RDSP will only be available to families whose child qualifies for the 'disability tax credit' or disability amount in the Income Tax Act. To qualify, Canada Revenue Agency (CRA) must confirm that a child fits criteria for being 'markedly

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Lifetime RDSP contributions will have a limit of \$200,000. Capital contributions withdrawn from the RDSP will not be taxed, as the tax has already been paid on these sums by the parent who contributes the money. Accumulated investment income will be taxable in the hands of the beneficiary as it is withdrawn. Properly planned, this will result in not just deferral of taxes but also non-taxation, due to the use of the personal exemption and disability tax credits available to the person with the disability.

The following is an example of sample family contributions together with Canada Disability Savings Grants:

Family Net Income and contributions compared to annual CDS grants:		
	Up to \$74, 357	Over \$74,357
First \$500 – 300% (maximum \$1500)		
Next \$1000 – 200% (maximum \$2,000)		First \$1,000 – 100% (maximum \$1,000)
\$1,500 contributed generates \$3,500		\$1,000 contributed generates \$1,000
CDSG Totals:	\$5,000	\$2,000

Ottawa will pay the beneficiary a Canadian Disability Savings Grant (CDSG) as long as family contributions are made until the end of the year in which the beneficiary turns 49. There will be a maximum lifetime CDSG limit of \$70,000. Family income ranges and corresponding federal contributions will be indexed to 2008 when the RDSP begins.

Ottawa will also provide a modest Canada Disability Bond, much like the RESP Canada Learning Bond, for very low-income households.

Monies can be contributed to the RDSP until the end of the year in which the beneficiary turns 59. Payments to the beneficiary must begin when the beneficiary turns 60. There will be limitations on how much can be removed each year, which will significantly hamper using the funds for larger necessary purchases such as homes or accessible vans. Present information suggests that the annual maximum withdrawal limit will be based on the recipient's life expectancy, and the fair market value of the RDSP, although details have not yet been determined.

To ensure that RDSP payments do not reduce federal income-tested benefits, amounts withdrawn from an RDSP will not be taken into account for the purpose of calculating

those income-tested benefits delivered through the income tax system, such as the Canada Child Tax benefit and the Goods and Services Tax credit. In addition, amounts paid out of the RDSP will not reduce Old Age Security or Employment Insurance benefits.

The potential effect of this income on federal and provincial income supplements, or Guaranteed Annual

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Income Supplement (GAINS), is not known at this time. If the income were treated as other income such as CPP, or investment income, it would result in a 50% clawback (reduction) on GAINS for every dollar of RDSP income. This would of course be contrary to the intent of the plan.

The bigger question is whether provincial disability benefits, which also provide income supports for persons with disabilities between the

age of 18 and 65, would be offset by RDSP income. Since the RDSP arrangements are federal, there is no guarantee that withdrawals from the RDSP would not offset provincial benefits dollar for dollar.

The ideal would be that payments from the plan would supplement - not reduce - income support provided under these programs, at least until the level of income support plus RDSP payments would exceed the Low Income Cut Off as defined in each province and territory.

In the case where the beneficiary dies or ceases to qualify for the RDSP (as in the rare case, for example, where an individual is cured of his or her disability) any CDSG or CDSB funded to the plan within the 10 years preceding the death (or cure) and the income earned on such amounts, will have to be repaid. Amounts left in the RDSP after repayment of these sums must be included in the estate of the beneficiary. ■

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