The Registered Disability Savings Plan And The Accident Victim



What is an RDSP?

The Registered Disability Savings Plan (RDSP) is a government initiative intended to assist eligible Canadians with disabilities and their families in saving for their long-term financial security. It is effective for 2008 and later taxation years. Individuals who are disabled or have become disabled as a result of an accident may be in a position to take advantage of the RDSP.

Key features

- The government will contribute to the RDSP in the form of the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB) for a total annual benefit of up to $4,500.
- Investment income and capital gains remain tax deferred while in the RDSP, but are taxable to the beneficiary when paid.
- Anyone can contribute, with written permission, to an RDSP on behalf of the disabled beneficiary. Contributions are not tax deductible. A beneficiary may only have one RDSP.
- To be eligible as a beneficiary of an RDSP, an individual must qualify for the disability amount on his or her income tax return. To qualify for the disability amount, a doctor or appropriate medical practitioner must certify that the individual has a prolonged physical or mental impairment.
- RDSPs can be opened with most major financial institutions.

Canada Disability Savings Grant

Annual RDSP contributions will qualify for matching government grants based on the following limits and family net income. Family net income is based on the income of the parents and the beneficiary when the beneficiary is less than 19 years of age and on the income of the beneficiary (and spouse, if applicable) for legal adults.

Family Net Income	Contributions	Grant	Maximum
$87,123 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

Greater than $87,123 (or no income tax return)	On the first $1,000	$1 for every $1 contributed	$1,000

The CDSG is available only when the beneficiary is under age 50 at December 31, and it is subject to a $70,000 lifetime maximum grant. Lifetime contributions to an RDSP are limited to $200,000. There is no annual contribution limit.

Canada Disability Savings Bond

On an annual basis, the government will assist beneficiaries in the form of a bond that is paid directly into an RDSP. The assistance amounts are as follows:

Family Net Income	**Bond**
$25,356 or less	$1,000
Between $25,356 and $43,561	$1,000 is reduced on a prorated basis
More than $43,561 (or no income tax return)	No bond is paid

There is a lifetime maximum benefit of $20,000. For both the CDSB and CDSG, family net income brackets are to be indexed to inflation. As with the CDSG, the bond is available only if the beneficiary is under age 50 at December 31.

Contributions must remain within the fund for 10 years, or else the CDSG and CDSB must be repaid. Unused bond and grant entitlements can be carried forward for 10 years. Individuals who have been disabled since before the introduction of the RDSP and who open their RDSP in 2014 will receive credit for bonds and grants back to 2008.

Maximizing the RDSP benefit and the accident victim

One should consider opening an RDSP if the beneficiary is:

- Under 50 years of age;
- A Canadian resident with a social insurance number;
- Eligible for the disability amount; and
- Looking for long-term savings.

As the grant and the bond are linked to family net income, we will consider two scenarios:

- Family net income exceeds $87,123
- Family net income is less than $25,356

Income exceeds $87,123

An annual contribution of $1,000 generates the maximum grant of $1,000, and the beneficiary is not eligible for any CDSB. The return on the investment is 100 per cent and growth is tax deferred. The benefit of making additional contributions is that funds are tax sheltered until paid to the beneficiary, who may be in a lower tax bracket than the contributor.

In most cases, the appropriate course of action once an individual is certified as disabled is to open an RDSP and make the $1,000 annual contribution. Contributions beyond that amount may be made to an RDSP to take advantage of the tax deferral and the transfer of income to the lower-income beneficiary. However, one should consider the beneficiary’s tax free savings account first, as it allows investments to grow

tax free compared to the RDSP, which is tax deferred.

Income is less than $25,356

An annual contribution of $1,500 will generate a combined grant and bond of $4,500 – a return of 300 per cent. As families in this income level may not have surplus funds for investment, they may not be in a position to contribute further amounts, nor may they be concerned with long-term savings. In cases with an adult beneficiary, the family net income of the beneficiary may be low, but economic reasons to contribute greater amounts may exist where parents or other family members have surplus funds to invest for the benefit of the disabled person.

A $1,500 annual contribution for 10 years invested at 3 per cent will grow to approximately $58,000 in an RDSP compared to $17,500 (or less depending on the individual’s marginal tax rate) in a similar investment outside of an RDSP. There is a significant financial advantage to invest in an RDSP. In situations where funds are unavailable for annual cash contributions, the beneficiary can still qualify for the $1,000 bond.

As families in this situation may not have disposable cash flow, appropriate planning for an accident victim may involve setting aside $1,500 from any insurance or settlement award for each year until the beneficiary turns 50, to fund annual contributions to an RDSP. This plan will ensure that the funds are available to maximize the government grants.

As with any tax-planning strategy, professional advice is important.

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