BY JAMIE GOLOMBEK

RDSP Changes

The federal budget made disability planning more efficient

As trusted advisors, most of us are likely well versed in the ins and outs of registered plans. But what about the registered disability savings plan (RDSP)? If you have a client who is living with a disability, or is a parent of a child with a disability, then it behooves you to brush up on the intricacies of the RDSP as it can be an excellent way for families to save, tax-deferred, for the future, as well as potentially collect up to $90,000 in government grants and bonds.

Favourable changes to the RDSP announced in the 2019 federal budget mean that should the effects of your client's disability improve such that they're no longer eligible to claim the disability tax credit (DTC), the client is no longer obliged to terminate their RDSP and they can potentially keep any government funds contributed to date. Before going through the recent changes, let's begin with a short RDSP refresher.

Launched in 2008, the RDSP is a tax-deferred registered savings plan open to Canadians eligible for the DTC. Up to $200,000 can be invested in the plan, and while contributions are not tax-deductible, all earnings and growth accrue tax-deferred until withdrawn from the plan. The main attraction of the RDSP, however, is the ability to supplement the plan with matching government funds: the Canada Disability Savings Grant (CDSG) and Canada Disability Savings Bond (CDSB), both potentially available for RDSP beneficiaries age 49 and under.

CDSGs and CDSBs are based on "family" income, which includes income of the beneficiary's parents if the RDSP beneficiary is under age 19. Once the beneficiary reaches age 19, it's the beneficiary's own family income that is used to determine the amount of government assistance.

When family income is below $95,259 in 2019, CDSGs are equal to 300 per cent of the first $500 of annual contributions and 200 per cent on the next $1,000 for a maximum annual entitlement of $3,500, subject to a lifetime maximum of $70,000. If family income is over that amount, the CDSG is simply 100 per cent on the first $1,000 of annual contributions.

Families who have income below $31,120 can also receive a CDSB of $1,000 annually, up to a lifetime maximum of $20,000. The $1,000 CDSB is then phased out gradually as income increases above this amount until it's fully eliminated once family income reaches $47,630. Note that unlike the CDSG, the CDSB is not a matching amount, meaning that no contributions are required to get up to $1,000 in CDSBs annually, depending on family income.

RDSPs can continue to remain open even if the beneficiary becomes ineligible for the disability tax credit (although contributions will not be permitted).

Under the current rules, when the beneficiary of an RDSP ceases to be eligible for the DTC, no further contributions may be made to RDSPs, and no CDSGs or CDSBs can be paid into the plan. In addition, the tax rules generally require that the RDSP be closed by the end of the year following the first full year throughout which the beneficiary is no longer eligible for the DTC. Currently, there is one limited exception: if a medical practitioner certifies that a beneficiary is likely to be eligible for the DTC in the foreseeable future, an election can be made to keep the RDSP open for five years.

The RDSP issuer is required to set aside an amount (known as the "assistance holdback amount") equal to the CDSGs and CDSBs paid into the RDSP in the preceding 10 years. This requirement ensures that RDSP funds are available to meet potential repayment obligations. When the RDSP is closed, the assistance holdback amount must be repaid to the government, with any remaining assets going to the RDSP beneficiary.

In the 2019 federal budget, the government relaxed these rules by announcing that RDSPs can continue to remain open even if the beneficiary becomes ineligible for the DTC (although contributions will not be permitted, and further CDSGs and CDSBs will not be available).

For years throughout which the beneficiary is ineligible for the DTC, and that are prior to the year in which the beneficiary turns age 51, the assistance holdback amount rules apply, and any RDSP withdrawals may prompt the repayment of grants and bonds. Once the beneficiary turns 51, however, the assistance holdback amount will be gradually reduced over 10 years, based on the CDSGs and CDSBs paid into the RDSP during a reference period. For example, for the year in which the beneficiary turns 51, the reference period will be the nine-year period immediately prior to the beneficiary becoming ineligible for the DTC. The assistance holdback amount will therefore be equal to the amount of grants and bonds paid into the RDSP in those nine years, less any repayments of those amounts.

These new rules will generally apply beginning in 2021 but, as of the budget date, RDSP issuers are no longer required to close an RDSP solely because an RDSP beneficiary is no longer eligible for the DTC.

JAMIE GOLOMBEK, CPA, CA, CFP, CLU, TEP, is the managing director, tax and estate planning at CIBC Financial Planning and Advice in Toronto. He can be reached at Jamie.Golombek@cibc.com.