

Budget changes provide additional flexibility for registered disability savings plans

One of the biggest concerns for parents of severely disabled children is making sure that those children will be provided for throughout their lives. In 2008, the federal government introduced Registered Disability Savings Plans (RDSPs) to permit parents (or others) to save for disabled children on a tax-assisted basis. RDSPs are structured very much like Registered Education Savings Plans (RESPs), in that contributions to such plans, while not deductible by the contributor, can accumulate within the plan on a tax-deferred basis. Any person may make contributions to an RDSP, subject to a lifetime contribution limit per beneficiary of \$200,000.

Where amounts are contributed to an RDSP, the government will provide matching contributions (Canada Disability Savings Grants or CDSGs) and, for lower income taxpayers, will provide an additional grant (Canada Disability Savings Bonds or CDSBs) of up to \$1,000 per year to a cumulative maximum of \$20,000. Such matching contributions or grants can significantly increase the amount held by the plan.

For 2009, matching contributions were calculated as follows:

- for families with net incomes equal to or less than the third marginal tax bracket threshold (for 2009, \$81,452), the government will provide:
 - \$3 for every \$1 on the first \$500 of contributions;
 - \$2 for every \$1 on the next \$1,000 of contributions.

Thus, the maximum grant is \$3,500, reached on a contribution of \$1,500.

- For families with net income above the third bracket threshold of (for 2009) \$81,452, the grant is:

- \$1 for every \$1 on the first \$1,000 of contributions.

Grants are subject to a lifetime limit of \$70,000 and are not available after the end of the year in which the beneficiary reaches the age of 49.

The rules governing withdrawals from an RDSP are somewhat complex but generally, once payments commence, they must be made at least annually and must, in any event, start before the beneficiary turns 60. As is the case with RESPs, amounts originally contributed to the RDSP are not taxed on withdrawal, but amounts representing investment income earned within the plan or any government-matching contributions or grants are taxed in the hands of the plan beneficiary.

The recent federal budget has made some changes to the rules governing RDSPs, which will provide additional flexibility with respect to both the ability to make contributions to those plans and to receive matching government funds based on contributions made.

The first such change will enable parents of RDSP beneficiaries to have the amounts held in their RRSPs at the time of death effectively transferred to the RDSP. More specifically, the budget proposals will allow beneficiaries of RDSPs who receive RRSP proceeds as a consequence of the death of a parent or grandparent to contribute such proceeds to their RDSPs on a tax-free basis. The amount contributed will be limited by the beneficiary's available RDSP contribution room and, when the funds are withdrawn by the RDSP beneficiary he or she will be taxed on the amount withdrawn.

Transitional rules will apply to effectively backdate the application of the proposed change to January 1, 2008, the first date on which an RDSP could be established. Under those transitional rules, it will be possible to make an election to contribute up to the amount of a deceased annuitant's RRSP proceeds to the RDSP of an eligible individual. While the general rules will take effect for deaths occurring on or after the budget date of March 4, 2010, it will not be possible to make such RDSP contributions

until July 2011, in order to allow RDSP systems to be adjusted to take account of the new rules.

The second change proposed in this year's budget will increase CDSG and CDSB entitlement by allowing carryforwards for the first time. Under current rules, neither CDSG nor CDSB entitlements can be carried forward to future years. Recognizing that families of children with disabilities may not be able to contribute regularly to RDSPs set up for those children, a 10-year carryforward of CDSG and CDSB entitlements will be permitted, beginning in 2011. Upon the opening of a RDSP, CDSB entitlements will be determined and paid into the plan for the preceding 10 years (but not before January 1, 2008), based on the beneficiary's family's income in those years. Balances of unused CDSG entitlements will also be determined and maintained for the same period. CDSGs will be paid on unused entitlements, up to an annual maximum of \$10,500.