

BY



**GENA KATZ, FCA, CFP,**  
*an executive director  
 with Ernst & Young's National Tax  
 Practice in Toronto.*  
*"Tax Break" appears monthly.*  
*advisorsedge@rmpublishing.com*

# SAVING GRACE

RDSPs may help cover the extraordinary costs of disability.

If you have clients who support a disabled family member, it's important to remind them there will soon be new tax assistance available in the form of the Registered Disability Savings Plan (RDSP).

Very similar to Registered Education Savings Plans (RESPs) in design and taxation, RDSP contributions will not be tax-deductible. Instead, investment income will accrue on a tax-deferred basis, and withdrawals from the plan, to the extent that they represent accrued earnings and government assistance, will be taxable to the beneficiary. And, just like RESPs, supplementary government grants and bonds may also be available.

RDSP beneficiaries will need to be Canadian residents eligible for the Disability Tax Credit (DTC). For the plan to remain in effect, the beneficiaries will also need to be eligible for the DTC in each subsequent year. Like RESPs, there will be no annual contribution limit, but the lifetime maximum contribution limit will cap at \$200,000. RDSPs aren't just for disabled children; contributions can commence in any year and continue until the year in which the beneficiary turns 59.

To supplement savings, the federal government will pay a Canada Disability Savings Grant (CDSG), a matching contribution ranging from 100% to 300%, depending

on the amount contributed and the family income. For 2008, if family income is less than \$75,770, a maximum grant of \$3,500 will be paid for a \$1,500 contribution. If family income exceeds \$74,669, the grant would be 100% of the first \$1,000 contributed annually. The lifetime grant will be limited to \$70,000.

The pie will be further sweetened for lower-income families (those earning less than \$37,889 for 2008). They will be eligible to receive federal Canada Disability Savings Bonds (CDSBs), which add up to an additional \$1,000 per year, with a maximum lifetime limit of \$20,000. The bond supplement will depend on family income, not on the amount contributed. Both the CDSG and CDSB will be payable until the beneficiary turns 49.

Disability assistance payments can be made from an RDSP at any time, and used for any purpose pertaining to the disabled beneficiary. However, the payments must begin no later than the year the beneficiary turns 60. Unlike RESPs, contributors won't receive a refund of their contributions.

Once lifetime disability payments are initiated, they must be made every year. Annual payments are limited to the value of the plan's assets at the beginning of the year divided by three, plus

the remaining life expectancy of the beneficiary. This is intended to ensure the plan continues to provide for the beneficiary throughout his or her remaining lifetime. In addition to this annual limit, no payment can be made from a plan if it causes the fair market value of plan assets to fall below the amount of grants and bonds paid into the plan in the 10-year period preceding the payment, plus any related investment income, or the assistance holdback amount.

Each disability assistance payment will be comprised of a taxable and non-taxable portion. The non-taxable portion will constitute the proportion of contributions made to the plan to the total value of plan assets, excluding the assistance holdback amount. The remaining taxable portion will be paid out as income.

To prevent the possible loss of various federal benefits, the disability assistance income will be excluded for purposes of calculating various income-tested benefits, such as the GST credit and the Canada Child Tax Benefit, and will not reduce Old Age Security or Employment Insurance benefits.

Although the related tax legislation has been passed, RDSPs are not yet available. Human Resources Development Canada and the financial institutions are currently working on systems issues, which may not be resolved for a number of months. <sup>AE</sup> **KATZ**