

# Enhancing the Registered Disability Savings Plans—2010 Federal Budget

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Included in this year's Budget were a number of proposals that would enhance the Registered Disability Savings Plans (RDSPs) that are available for persons with disabilities who are eligible for the Disability Tax Credit.

The RDSP is loosely modelled after the RESP structure, with a lifetime maximum of \$200,000 per beneficiary to be invested tax-free until withdrawal. The RDSP program includes matching government grants (the Canada Disability Savings Grant - CDSG) and the Canada Disability Savings Bond (CDSB) for low and modest income families.

## ***Rollover of RRSP Proceeds to an RDSP***

The 2010 Budget proposes to extend the existing RRSP/RRIF rollover rules to allow a rollover of a deceased individual's RRSP or RRIF to the RDSP of a financially dependent disabled child or grandchild.

An individual who qualifies to be an RDSP beneficiary and who meets the age and residency requirements for RDSP contributions will be eligible to roll over RRSP proceeds received as a result of the death of their parent or grandparent to their RDSP if the requirements under the existing RRSP rollover rules are satisfied (that is, if the RDSP beneficiary was financially dependent on the deceased individual by reason of physical or mental infirmity).

The amount of RRSP proceeds rolled over into an RDSP cannot exceed the beneficiary's available RDSP contribution room. (The lifetime contribution limit for RDSPs is \$200,000). The rolled-over proceeds will reduce the beneficiary's RDSP contribution room, but will not attract the CDSG. Since the amount of RRSP proceeds rolled over to an RDSP will not have been subject to income tax, the amount will form part of the portion of a disability assistance payment that is included in the beneficiary's income when withdrawn from the RDSP.

Parents and grandparents of dependent disabled persons should consider amending their beneficiary designations and Wills to be able to take advantage of this benefit.

## **Transitional Rules**

To allow time for financial institutions and Human Resources and Skills Development Canada to adjust their RDSP systems, RDSP contributions benefiting from the proposed rollover measure cannot be made before July 2011.

## ***Carry Forward of RDSP Grants and Bonds***

Annual RDSP contributions attract CDSGs of up to \$3,500, depending on the beneficiary's family income and the amount contributed, up to a lifetime limit of \$70,000. Beneficiaries are currently unable to carry forward unused CDSG and CDSB entitlements to future years.

Upon opening an RDSP, CDSB entitlements will be determined and paid into the plan for the preceding 10 years (though not before 2008, the year RDSPs became available), based on the beneficiary's family income in those years. Matching rates on RDSP contributions will be paid in descending order, with contributions using up any grant entitlements at the highest available matching rate first, followed by any grant entitlements at lower rates. Plan holders will receive annual statements of CDSG entitlements. The carry forward will be available starting in 2011.