

All about...
**Registered
Disability
Savings Plans**

All About RDSPs

For Canadians with disabilities, the RDSP is an effective way to build long-term financial security through...

- Valuable government incentives
- Tax-free growth from earnings while money remains the plan
- Lump-sum and regular income payments
- Virtually no effect on most other disability-related benefits



Eligibility

Who qualifies to be the beneficiary?

- Eligible for Disability Tax Credit
- Canadian resident
- Under age 60
- Valid Social Insurance Number



A beneficiary over the age of 18 can be the account holder of their own RDSP. Recent changes announced by the federal government now make it easier for the spouse, common-law partner or parent of a disabled individual to open up an RDSP and become the account holder of the plan on behalf of a disabled adult family member in cases where the beneficiary's capacity to enter into a contract is in doubt.

A legal parent, guardian or agency legally authorized to act on behalf of a minor beneficiary may set-up and become the holder of the plan until the beneficiary attains the age of majority.

*Only one RDSP is permitted per beneficiary across all financial institutions.

Key RDSP Information

- \$200,000 lifetime maximum contribution
- Must begin withdrawing from the plan by the end of the year in which the beneficiary turns 60
- Only one RDSP per beneficiary
- Only one beneficiary per RDSP
- Grants and bonds are only available on contributions made to the plan before the end of the calendar year in which the beneficiary turns 49

Disability Tax Credit

In order to apply for the Disability Tax Credit, download Canada Revenue Agency Form T2201 at <https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2201.html>, complete the form with the assistance of a qualified practitioner and send it to Canada Revenue Agency for approval.

- Part A is completed by the intended beneficiary of the RDSP (or their representative)*
- Part B is completed by one of the following qualified practitioners:
 - Medical doctor
 - Optometrist
 - Occupational therapist
 - Audiologist
 - Physiotherapist
 - Psychologist
 - Speech-language therapist

*A representative can be legally appointed to act on the beneficiary's behalf regarding matters pertaining to income tax. Complete Canada Revenue Agency form T1013 to become a representative in this capacity.

Government Incentives

Valuable federal government incentives boost the value of an RDSP

- **Canada Disability Savings Grant**
 - The plan may qualify for up to \$3,500 annually, to a lifetime maximum of \$70,000 in grants
 - Carry forward for up to 10 years based on dollar value of contributions to the plan in any given year
- **Canada Disability Savings Bond**
 - The plan may qualify for up to \$1,000 annually, to a lifetime maximum of \$20,000 in bonds
 - Carry forward for up to 10 years
 - No annual contribution required to qualify for the Canada Disability Savings Bond

*Government incentives only available until age 49

How to Maximize Grants

Annual net income	Annual contribution	Earns maximum annual grant
\$100,392 or less*	\$1,500	\$3,500 (\$3 for every \$1 contributed on first \$500 in annual contributions) (\$2 for every \$1 contributed on the next \$1,000 in annual contributions)
More than \$100,392*	\$1,000	\$1,000 (\$1 of grant for every \$1 contributed)

*Government grants and bonds are based on net annual income of two years earlier. The government sets the income thresholds annually. Illustrated are 2022 income thresholds, based on 2020 net annual income.

How to Maximize Bonds

How to Maximize Bonds – no contributions required

If annual net income	Earn maximum annual grant of
\$32,797 or less*	\$1,000
More than \$32,797 and less than \$50,197*	Up to \$1,000, pro-rated based on income

*Government grants and bonds are based on net annual income of two years earlier. The government sets the income thresholds annually. Illustrated are 2022 income thresholds, based on 2020 net annual income.

Make the Most of an RDSP

- Contribute early and invest wisely to benefit from tax-deferred growth
- Aim to maximize government incentives
- Reach your target contribution amount with regular automatic contributions to your RDSP
- Catch up on grants and bonds:

Government incentive	Maximum annual catch-up amount	Contribution required
Grants	\$10,500	\$3,500
Bonds	\$11,000	\$0

Tax-deferred Growth

Benefits of tax-deferred growth

- Earnings grow tax-free while in the plan
- Helps money invested grow faster so you accumulate more
- Beneficiaries with low income pay little tax



* Withdrawals from the plan will be taxed in the hands of the beneficiary

Payments & Withdrawals

1. Lifetime Disability Assistance Payment – (LDAP)

2. Disability Assistance Payment – (DAP)

- Funds can be used for any purpose
- Annual income payments (LDAP) must begin by age 60
- Lump-sum withdrawals (DAPs) – some restrictions apply
- If a payment is taken from the plan the lesser of \$3 for every \$1 payment or all grants and bonds received in the previous 10 years must be repaid.
- Beneficiary pays tax on earnings received (i.e. grants, bonds and investment income)

RDSP – Lifetime Disability Assistance Payment

- Recurring annual payments that must continue until the termination of the plan or the death of the beneficiary.
- May begin at any age but must commence by the end of the year in which the beneficiary reaches age 60
- Waiting until age 60 to begin payments will ensure all grants and bonds received up to age 49 would be protected against the rule that all grants and bonds received in the last 10 years must be repaid to the government
- The total amount of money that may be withdrawn from an RDSP each year is limited to a maximum annual amount, set by the government or 10% of the account. This does not apply if private contributions exceed that of the government.

Death of the Beneficiary

- All grants and bonds received in the 10 years preceding the beneficiary's death must be returned to the government.
- The remaining grants, bonds, income growth and account holder contributions will pass to the beneficiary's estate.
- The proceeds of the plan will be distributed according to the individual's will. If the individual dies without a will, the funds will be distributed according to provincial estate laws.

RESP to RDSP Rollover

- Beneficiaries of both an RESP and RDSP may be eligible to receive a tax-free roll-over of RESP accumulated income into their RDSP if they suffer from a prolonged mental impairment that would prevent them from attending post-secondary education
- RESP contributions will be returned to the subscriber
- Education Savings Grant or Canada Learning Bond will have to be repaid to the government
- The rollover will be considered a contribution to the RDSP and is subject to the \$200,000 lifetime contribution limit
- Rollover will not attract Canadian Disability Savings Grants

RRSP to RDSP Rollover

- There is an opportunity for parents and grandparents of disabled dependent children to rollover assets in their RRSP, RRIF, or RPP into the child's RDSP
- There are a couple benefits to initiating this rollover:
 - The tax due on the estate of the deceased parent or grandparent could be reduced as assets in the RRSP would become taxable in the year of passing.
 - The assets inside the RDSP are an exempt asset in most provinces for calculation of social assistance benefits.
 - When the money is withdrawn from the RDSP it is taxed in the hands of the beneficiary presumably at a lower rate and over many years.
 - The rollover of RRSP assets into an RDSP does not attract any government incentives.
 - Individuals initiating the rollover should ensure that they complete the required forms and tax filings.

Supplements Other Disability Support

Having an RDSP and/or withdrawing money from it does not impact other federal government benefits or programs such as:

- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)
- Canadian Pension Plan (CPP)
- Goods and Services Tax Benefit (GST Benefit)
- Most provincial disability support programs – please check with your provincial government.

Henson Trusts & RDSPs

Henson Trust	RDSP
No eligibility criteria	Must qualify
Unlimited contribution amount	\$200,000 maximum contribution
No government incentives	Up to \$90,000 in government incentives
No rules or formulas pertaining to withdrawals	Rules or formulas pertaining to withdrawals
Trustee controls funds	Contractually competent beneficiary can control funds

How to get Started

Next Steps:

1. Apply for the Disability Tax Credit
2. Open an RDSP
3. Determine how best to invest contributions
4. Set up a regular automatic contribution
5. Catch up on grants and bonds



Appendix – Catching up to gain

In 2021, the beneficiary has an income of \$22,000 and unused grants and bonds going back to 2011.

Age	Holder's Contribution	Grants Awarded	Bonds Awarded
30	\$3,500	\$10,500	\$10,000
31	\$4,000	\$10,500	\$1,000
32	\$5,000	\$10,500	\$1,000
33	\$5,000	\$10,500	\$1,000
34	\$4,000	\$8,500	\$1,000
35 - 49	\$1,500 per year going forward	\$3,500 per year until \$70,000 lifetime maximum grant reached	\$1,000 per year until \$20,000 lifetime maximum reached

For illustration purposes only - Contribution amounts can change if new entitlement information is received (i.e. a change in income) and may impact the matching rate for the contributions and therefore grant awarded. This scenario is for a beneficiary with a consistently "low" income. A beneficiary in this scenario might have \$35,000 total in entitlement available in 2021 (10 years x \$3,500 but the maximum EDSC will award in any given year is \$10,500).

Thank You

For more information:

bmo.com: www.bmo.com/rdsp

Canada Revenue Agency: www.cra-arc.gc.ca

ESDC: <http://www.esdc.gc.ca>

Disclaimer

BMO Mutual Funds refers to certain mutual funds and/or series of mutual funds offered by BMO Investments Inc., a financial services firm and separate legal entity from Bank of Montreal.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus of the mutual fund before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

® “BMO (M-bar roundel)” is a registered trade-mark of Bank of Montreal, used under license.

RDSP – Lifetime Disability Assistance Payment

The maximum annual LDAP amount is limited by a legislative formula that considers the fair market value of the plan and the life expectancy of the beneficiary

$$\text{Maximum LDAP} = \frac{\text{value}}{3 + (\text{life expectancy} - \text{age})}$$

- Maximum LDAP example:
\$300,000 RDSP, beneficiary LE 80, age 60

$$\frac{\$300,000}{3 + (80 - 60)} = \text{\$13,043 annual maximum LDAP}$$

- LDAPs are subject to the 10-Year AHA (Assistance Holdback Amount) rule on any Grants and Bonds received in the past 10 years

RDSP – Disability Assistance Payment

DAPs are a lump sum payment made from the RDSP to the beneficiary or to the beneficiary's estate

$$\text{Maximum DAP} = \frac{\text{value}}{3 + (\text{life expectancy} - \text{age})}$$

- Maximum DAP example:
\$300,000 RDSP, beneficiary LE 80, age 27

$$\frac{\$300,000}{3 + (80 - 27)} = \text{\$5,357 maximum DAP}$$

- DAPs are subject to the 10-Year AHA (Assistance Holdback Amount) rule on any Grants and Bonds received in the past 10 years