

RDSP Frequently Asked Questions

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Public Opinion Research and Disability Consulting

FAQs re: Registered Disability Savings Plan

1. Question: RDSP applications are made through a bank or financial institution that does RDSPs. What does the financial institution need to get the application process going?

Answer: The financial institution needs two completed, application forms. It may also need a void (blank, unsigned, un-useable) cheque.

More detail: One application is to the financial institution itself, using the financial institution's own application form. The other application is a Government of Canada (HRSDC) form asking the financial institution to apply for a grant and bond on behalf of the beneficiary.

The financial institution will need some personal information about the beneficiary. This includes the beneficiary's first name, surname, birth date, gender (sex), and Social Insurance Number (SIN).

The RDSP may be opened and managed by the beneficiary or by a holder. A holder could be a legal parent or guardian if the beneficiary is under the age of majority. If a holder is involved, the financial institution will need the same kind of personal information on the holder as on the beneficiary.

The holder may also need to provide proof that he/she is a legal guardian or representative of the beneficiary. Such proof will be especially needed when the beneficiary is over the age of 18 years.

2. Question: What does the Government of Canada want from the person with a disability before allowing the person to benefit from a RDSP and receive grant or bond money from the government?

Answer: To open a RDSP, a person must be approved for the Disability Tax Credit, be a resident of Canada, have a Social Insurance Number, and be under the age of 60 years.

More detail: To benefit from a RDSP, an intended beneficiary or someone acting for the intended beneficiary must send an application to the Canada Revenue Agency for the Disability Tax Credit using form T-2201.

Form T-2201 requires the intended beneficiary to be a resident of Canada and have a Social Insurance Number (SIN). Form T-2201 also requires a doctor, occupational therapist or other qualified practitioner to describe the disability. The qualified health practitioner must be able to confirm that the disability or impairment

lasted at least 12 months and limited the person substantially all of the time.

Once the Disability Tax Credit is approved, the intended beneficiary needs to be under the age of 60 years to qualify for an RDSP and under the age of 50 years to be eligible for grant or bond money.

A RDSP beneficiary who submitted a tax return two years previously may be eligible to receive *both* Government of Canada bond money, which requires no matching contribution by the beneficiary, *and* grant money, where the Government matches the contributions of the beneficiary.

When a RDSP beneficiary did not submit a tax return for two years previously, the beneficiary will receive a grant limited to \$ 1 of government money for each \$ 1 contributed by the beneficiary (or family) to a maximum of \$ 1000 that year.

3. Question: The government considers Family Income when the government decides how much grant or bond money to give to a beneficiary's RDSP. Does the government look at Gross Family Income or Net Family income and does it consider deductions such as Tuition expenses?

Answer: The government looks at Net Family Income after certain deductions are subtracted from Gross Family Income.

More detail: The government looks at Net Family Income, which is found at line 236 of the Income Tax return. This is the amount that is determined after certain deductions are subtracted from Gross Family Income. A partial list of such deductions includes:

- Registered Pension Plan deduction.
- RRSP deduction.
- Annual union, professional or like dues.
- Child care expenses.
- Disability supports deduction.
- Moving expenses.
- Other employment expenses.

If the beneficiary is under the age of 18, family income means parents' income. If the beneficiary is 18 or older, family income means the income of the beneficiary and spouse if applicable.

4. Question: Does an RDSP application involve applying to a provincial government or filing a disability application to a provincial government?

Answer: The RDSP is exclusively a federal or Government of Canada plan. You would need to apply for the federal Disability Tax Credit. This means filling out form T2201, and having it signed by your doctor or other qualified health professional. You would then send it to the Canada Revenue Agency.

5. Question: RDSP money—does it have to stay in an RDSP plan for a minimum amount of time before the beneficiary can take it out?

Answer: Each financial institution has its own rules about withdrawals of money. The beneficiary or the person approved to manage the RDSP on the beneficiary's behalf should check the specific rules at the financial institution where the RDSP is located. The Government of Canada also has rules about how money can be taken out, as detailed below.

More detail:

The government will contribute to each plan up to Dec 31 of the calendar year in which the beneficiary turns 49.

At age 60, the beneficiary must begin taking regular payments from the RDSP. Such regular payments are called *Lifetime Disability Assistant Payments* (LDAP). The beneficiary can decide to take regular payouts from the RDSP before the age of 60 if this is permitted by the rules of the financial institution where the RDSP is located.

If such payments begin before the age of 60 and if the beneficiary has been receiving grant and bond money from the Government, then all grant and bond money received from the Government during the preceding 10 years must be refunded to the Government. All grant and bond money received *prior to* these 10 years remains the property of the beneficiary or his/her estate.

In lieu of taking regular payments (LDAP), an RDSP beneficiary can instead take a one-time payment provided that the rules of the financial institution allow this possibility. The one-time payment is called a *Disability Assistance Payment* or DAP.

6. Question: If someone other than the beneficiary contributes money to a beneficiary's RDSP, could the beneficiary still receive a grant or bond from the government?

Answer: Yes. The government will continue giving a grant or bond on the basis of the Net Income of the beneficiary. A friend or family member can contribute to a RDSP so long as he/she has the written permission of the person

in charge of the RDSP. The person in charge of the RDSP is often the beneficiary but is sometimes another person called the holder or policy holder.

More detail: The holder is responsible for the administration of the plan on behalf of the beneficiary. Friends and family members can contribute to a RDSP with the written consent of the Holder.

7. Question: Does an RDSP earn interest and if so at what rate is it earned?

Answer: Yes, it can earn interest. The money in an RDSP account can be left in a savings account, a frequent or default option. The types of investments that each particular financial institution offers are described in their documentation, often called their "Specimen Plan."

More detail: Beneficiaries or holders would be wise to check with their financial institution to verify what investment vehicles are offered within the RDSP.

8. Question: How many years is the Disability Tax Credit good for?

Answer: The approval periods may be for lifetime or short periods, after which it can be renewed. The doctor or other certified health practitioner signs the T2201 form. The health practitioner certifies when the disability began and how long it will probably last. The disability credit allowance begins when the disability started. If the health practitioner says that the disability is permanent and the government agrees, the Canada Revenue Agency will give a lifetime Disability Tax Credit certificate. If there is a chance of recovery, the person with a disability is given a disability credit allowance for a fixed time period.

More detail: Usually a Disability Tax Credit is permanent (lifetime) or for a fixed term as requested by the health practitioner. A fixed term Disability Tax Credit must be periodically reapplied for. You may want to consult with CRA for more information. <http://www.cra-arc.gc.ca/disability/>

9. Question: If you take out money and interest earned before 10 years, will any of it be taxed?

Answer: The government will take back all the grant and bond money given within 10 years of taking money out of the RDSP. Grant and bond money given prior to that 10 year period remain the property of the RDSP beneficiary. No taxes are applied to money that had been put into the plan but interest income is taxable.

More detail: Any payment coming from a RDSP is subject to payment of income tax in the following way. The portion of the

payment made up of grant, bond and earnings (interest, for example) is taxable. The portion of the payment made up of contributions is *not* taxable.

10. Question: What happens to the grant and bond money if a person temporarily loses Disability Tax Credit within 10 yrs of the last bond or grant given by the government?

Answer: The RDSP must be closed by December 31 of the year after the year in which the beneficiary no longer has a disability and therefore is no longer eligible for the Disability Tax Credit. If the last bond or grant money was given within 10 years of losing the Disability Tax Credit, then all the grant and bond money from that 10 year period must go back to the government.

If the person receives a Disability Tax Credit again, the person could open a new RDSP and apply for grant and bond money. The previous grants and bonds would not normally be given back. The lifetime limits (currently \$70K for grants and \$20K for bonds) would not normally be reinstated. For example, if a person had previously received \$5000 in grants and \$2500 in bonds and repaid all of it, the new lifetime limits would be \$65K for grants and \$17.5K for bonds instead of \$ 70,000 and \$ 20,000.

More detail: In some cases, a beneficiary's Disability Tax Credit certificate was for a fixed term and the beneficiary forgot to renew it. The Disability Tax Credit is now outdated and is no longer valid. The Government (Canada Revenue Agency) does not automatically "deregister" the RDSP.

The beneficiary must reapply for the Disability Tax Credit with the help of a qualified health practitioner. Any bond or grant money given to the beneficiary during the preceding 10 years would normally be returned to the government. The beneficiary may be eligible to keep the grant and bond money from the past 10 years if the health practitioner specifies in a new T2201 certificate that the beneficiary continued to be affected by the disability without interruption.

If a beneficiary no longer has a disability, then the plan must be closed by December 31 of the following year. All grant and bond paid must be repaid to the Government for the 10 years prior to the date the individual was no longer considered to have a disability.

Any grant and bond that was paid to the Plan more than 10 years previously remains the property of the beneficiary. If the person acquires a disability again and re-qualifies for the Disability Tax Credit, the individual will be eligible to open a new RDSP. However, the individual will have lost eligibility for any grant and bond that had been repaid or had become their property.