

PERSPECTIVES

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Financial Planning

Registered Disability Savings Plans: Changes you should know about

By Sylvia Ellis, Senior Estate Planning Advisor

Jamie Golombek, Managing Director, and Debbie Pearl-Weinberg, Executive Director, Tax and Estate Planning, CIBC Financial Planning and Advice, recently wrote a great summary about changes to Registered Disability Savings Plans (RDSPs). As these changes may be important to you, we wanted to share them.

RDSPs are tax-deferred savings plans open to Canadian residents eligible for the disability tax credit ("DTC"), their parents and other eligible contributors. Up to \$200,000 can be contributed to the plan until the end of the year in which the beneficiary turns 59, with no annual contribution limits. While contributions are not tax-deductible, all earnings and growth accrue on a tax-deferred basis.

Federal government assistance in the form of matching Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) may be deposited directly into the plan up until the end of the year in which the beneficiary turns 49. The government will contribute up to a maximum of \$3,500 CDSG and \$1,000 CDSB per year of eligibility, depending on the beneficiary's family income.

Under the current rules, when the beneficiary of an RDSP ceases to be eligible for the DTC, no contributions may be made to the RDSP and no CDSGs or CDSBs will be paid into the plan. In addition, the tax rules require that the RDSP be closed by the end of the year following the first full year throughout which the beneficiary is no longer eligible for the DTC. Currently, there is one limited exception: If a medical practitioner certifies that a beneficiary is likely to be eligible for the DTC in the foreseeable future, an election can be made to keep the RDSP open for five years.

The RDSP issuer is required to set aside an amount (known as the *assistance holdback amount*) equal to the CDSGs and CDSBs paid into the RDSP in the preceding 10 years (less any grants and bonds repaid). This requirement ensures that RDSP funds are available to meet potential repayment obligations. When the RDSP is closed, the assistance holdback amount must be repaid to the government, with any remaining assets going to the RDSP beneficiary.

For years, individuals with disabilities, their families and other advocates have raised concerns about the need to close an RDSP and pay back the CDSGs and CDSBs upon loss of DTC eligibility. They cited as the reason for their concerns that this did "not appropriately recognize the period of severe and prolonged disability experienced by an RDSP beneficiary."

As a result, the federal government in its recent budget announced that RDSPs can continue to remain open (although contributions will not be permitted) even if the beneficiary becomes ineligible for the DTC. For the years the beneficiary is ineligible for the DTC, and that are prior to the year in which the beneficiary turns 51 years of age, the assistance holdback amount rules apply and withdrawals may prompt the repayment of grants and bonds.

However, once the beneficiary turns 51, and over the following 10 years,

the assistance holdback amount will be reduced based on the CDSGs and CDSBs paid into the RDSP during a reference period. For example, for the year in which the beneficiary turns 51, the reference period will be the nine years immediately prior to the beneficiary becoming ineligible for the DTC. The assistance holdback amount will therefore be equal to the amount of grants and bonds paid into the RDSP in those nine years, less any repayments of those amounts.

These new rules will generally apply beginning in 2021. But, as of federal budget day, RDSP issuers will no longer be required to close an RDSP solely because an RDSP beneficiary is no longer eligible for the DTC.

In another change for RDSPs, the federal budget proposes to exempt RDSPs from seizure in bankruptcy, with the exception of contributions made in the 12 months before the filing.

Here's the full article:

https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/2019-federal-budget-en.pdf



Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.



CIBC
Wood Gundy

The Stan Clark Financial Team

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Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca

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