
RDSP offers a bonus

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Starting in 2011, the registered disabled savings plan (RDSP), which is open to Canadians who qualify for the disability tax credit, offers a tremendous bonus to those who are eligible.

The RDSP is a savings plan that you contribute to after-tax, with earnings and growth accumulating tax-deferred. The maximum amount that you can invest is up to \$200,000. Contributions can be taken out tax-free, with the growth and other funds when withdrawn being reckoned as part of your income for tax purposes.

A major benefit of the RDSP is that the funds can be supplemented with Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) for beneficiaries who are under 50 years old, and the bonus offered this year is that CDSGs and CDSBs can be collected retrospectively for previous years, subject to any unused entitlements.

CDSGs are subject to an income test, based on the family's income if the beneficiary is 18 or under, and on the beneficiary's income if older. For any income up to \$83,088, the CDSG is equal to 300% of the first \$500 contributed, and 200% of the next \$1000, giving a maximum annual entitlement of \$3500. For those with the higher income, the CDSG is limited to 100% on the first \$1000 contributed each year, which still doubles the contribution. The maximum lifetime CDSG you can receive is \$70,000.

CDSBs, the bonds, are payable without any contributions being required. Again the amount is means tested, with an annual income up to \$23,855 qualifying for \$1000, a sliding scale between \$23,855 and \$40,970, and nothing paid if the income is above this. All these income levels are adjusted each year for inflation. For the first time from 2011, the CDSGs and CDSBs can be collected retrospectively, based on new contributions in the case of the grant funds. They will ultimately be paid on the basis of the preceding 10 years, but will not be paid for years prior to 2008. The amounts would be based firstly on the highest matching rates, then on the lower rates, and depend on the income test for each year.

This example will show you how beneficial this can be. Ruby has a disability that qualifies her for this plan, has had it prior to 2008, and has really had little income, certainly below the threshold values mentioned above. She has not opened an RDSP yet, so she hasn't used any of her entitlements for this or previous years.

If in 2011 she can find \$2000 with which to open an RDSP, this will be matched with \$10,000 from the government. It works out like this. Under the 'highest matching rate' rule, \$500 is allocated to each of the years 2008, 2009, 2010, and 2011, qualifying her to receive three times as much (\$1500) for each year for a total of \$6000. With a low income she qualifies for CDSBs of \$1000 for each year, giving her another \$4000 in her savings plan.

She hasn't used up all her entitlements, so if in 2011 or later years she can find more money to invest, she can come back and claim more grant funds at 200%. To make sure you get the maximum benefit, contact your financial advisor.

Questions about RDSPs?

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