



FEDERAL GOVERNMENT INTRODUCES NEW RDSP RULES

The Registered Disability Savings Plan (RDSP) is a long-term, tax-deferred savings program that can help Canadians living with disabilities and their families save for the future. To open an RDSP, the beneficiary must be less than 60 years of age, be a Canadian resident with a valid Social Insurance Number (SIN), and be eligible for the Disability Tax Credit (DTC).

The new RDSP measures eliminate the current requirement to close the RDSP account if the RDSP’s beneficiary is no longer DTC eligible. The measure also eliminates the medical certification requirement for keeping the RDSP open. Additionally, the new measures eliminate the repayment requirement for government grants and bonds received in the 10-year period prior to the beneficiary becoming ineligible for the DTC provided withdrawals do not commence until age 60.

Under the previous rules, when an RDSP beneficiary no longer qualified for the DTC, the account had to be closed within a prescribed timeframe and government grants and bonds received 10 years prior to DTC ineligibility had to be repaid. The issue with this provision was that if the RDSP beneficiary became DTC eligible again in the future, they would not be able to recoup the government grants and bonds already forfeited. This is addressed in the 2019 Federal Budget.

New RDSP Rules

Now beginning after 2020, RDSPs will no longer be required to close upon the loss of the beneficiary’s DTC eligibility. During the time an individual is DTC ineligible, the RDSP cannot receive contributions, grants, or bonds.

However, a transfer may be permitted from a deceased parent’s or grandparent’s RRSP, RRIF or RPP on a tax-deferred basis to the RDSP until the end of the fifth calendar year following the loss of the DTC.

Withdrawals are permitted after the beneficiary loses their DTC. RDSPs are subject to the Assistance Holdback Amount (AHA). AHA will apply at a ratio of \$3 of grant/bond for every \$1 redeemed and will include all government grants/bonds received in the 10 years immediately

Previous RDSP Rules

Under the previous rules, if the RDSP beneficiary no longer qualified for the DTC, the RDSP had to be closed by either:

- December 31st of the year following the loss of the DTC eligibility. (general closing period), or
- December 31st of the 5th year following the year of the DTC ineligibility. (RDSP applicant can apply for this extension if they received certification from a medical practitioner and a DTC election was made within the general closing period)

RDSP CLOSING PERIOD EXAMPLE:

John lost his DTC eligibility on February 24th, 2016.

General Closing Period:

John would have to close his RDSP by December 31st, 2017



Extended Closing Period:

John would have to close his RDSP by December 31st, 2021.



before the beneficiary became DTC ineligible. This period is known as the “reference period”. Starting in the calendar year the beneficiary turns 51, the AHA reference period will decrease by one year every year going forward, ultimately eliminating the AHA by the time the beneficiary turns 60.

The proposals also include a phase-in period. As of March 20th, 2019, RDSPs are not required to close as a result of DTC ineligibility.

An additional measure aims to protect the RDSP upon bankruptcy of the beneficiary. Under the new rule, contributions made within the 12 months prior to bankruptcy could be seized (and the AHA paid back). This proposal now treats RDSPs similarly to Registered Retirement Savings Plans.

New RDSP Rule Example: Meet John

As of January 1st, 2024, John is 47 years old and has been a beneficiary of an RDSP account since 2008. John has received the maximum annual Canada Disability Savings Grant amount of \$3,500, except for 2016 and 2018. In those two years, he exceeded the maximum family net income threshold and the grant amounts were reduced to \$1,000.

Due to a new treatment, John's disability was cured and consequently, he lost his DTC eligibility. Under the new proposed rules, the RDSP account can remain open, but no further contributions are permitted.

Implications of the New RDSP Measures:

The AHA reference period is fixed to the previous 10 years from the year John's DTC eligibility was lost. This can be seen in John's AHA schedule where it reflects all government assistance received from 2014 to 2024.

The drawdown of government grants begins the year after John turns 50.

When John turns 51 (2028), the AHA reference period shortens by a year and the total AHA is reduced. This is evident in John's 2028 AHA schedule where all government benefits received in the year 2014 (\$3,500) are subtracted from his total AHA. In 2028, the remaining grant portion goes from \$30,000 to \$26,500. In 2029, the grant portion of \$3,500 made in 2015 reduces the total to \$23,000. The grant balance will decline annually until it is zero.

John's AHA Schedule

YEAR 2024; JOHN'S AGE: 47										TOTAL AHA: \$30,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2025; JOHN'S AGE: 48										TOTAL AHA: \$30,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2026; JOHN'S AGE: 49										TOTAL AHA: \$30,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2027; JOHN'S AGE: 50										TOTAL AHA: \$30,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2028; JOHN'S AGE: 51										TOTAL AHA: \$26,500									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2029; JOHN'S AGE: 52										TOTAL AHA: \$23,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2030; JOHN'S AGE: 53										TOTAL AHA: \$22,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2031; JOHN'S AGE: 54										TOTAL AHA: \$18,500									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2032; JOHN'S AGE: 55										TOTAL AHA: \$17,500									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2033; JOHN'S AGE: 56										TOTAL AHA: \$14,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2034; JOHN'S AGE: 57										TOTAL AHA: \$10,500									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2035; JOHN'S AGE: 58										TOTAL AHA: \$7,000									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2036; JOHN'S AGE: 59										TOTAL AHA: \$3,500									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
YEAR 2037; JOHN'S AGE: 60										TOTAL AHA: \$0									
\$3,500	\$3,500	\$1,000	\$3,500	\$1,000	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500
2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023

Conclusion

Upon the loss of their DTC eligibility, RDSP beneficiaries no longer have to worry about closing their RDSP account. More importantly, beneficiaries will have their grants protected in the event that their disability returns. However, it is important that RDSP applicants understand how the new RDSP rules impact the AHA. They also need to plan effectively in order to maximize the benefits for the beneficiaries.

If you think you may be impacted by these new rules, speak with your financial advisor.

This should not be construed to be legal or tax advice, as each client's situation is different. Please consult your own legal and tax advisor. The Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB) are provided by the Government of Canada. Eligibility depends on family income levels. Please speak to a tax advisor about RDSP's special rules; any redemptions may require repayment of the CDSG and CDSB.

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