

Tax Tip
Week of April 5, 2010

Transfer of RRSP to a RDSP

A Registered Disability Savings Plan (RDSP) is intended to help individuals, primarily parents, to save for the long-term financial security of a person who is eligible for the Disability Tax Credit. Contributions to a RDSP are not tax deductible and can be made until the end of the year in which the beneficiary turns 59 years of age. Contributions that are withdrawn are not included as income for the beneficiary when paid out of an RDSP. There is no annual limit on amounts that can be contributed to an RDSP of a particular beneficiary in a given year. However, the overall lifetime limit for a particular beneficiary is \$200,000.

The 2010 federal budget proposes to extend the tax free RRSP rollover rules of a deceased individual's RRSP proceeds to the Registered Disability Savings Plan of financially dependent infirm child or grandchild. Currently the most common tax free rollover is to a surviving spouse. An infirm child or grandchild is generally considered to be financially dependent if the child's income for the year preceding the year of death did not exceed a specified threshold which is \$17,621 for 2010. The amount of RRSP proceeds rolled over into an RDSP cannot exceed the beneficiary's available RDSP contribution room. This would be the \$200,000 less contributions previously made to the plan.

Individuals that have established a Registered Disability Savings Plan should consider this option as they balance the financial needs of the surviving spouse and disabled child.