

# RRSP rollover into an RDSP can provide tax savings

Helping families plan with an RDSP gives advisors a broad topic of conversation with clients

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## Rudy Mezzetta

Transferring an RRSP or a registered pension plan (RPP) by will to a Registered Disability Savings Plan (RDSP) can result in significant tax savings for an estate while providing financial security for a child or grandchild with a disability.

The rules governing RDSPs allow for a tax-free rollover of the proceeds of a deceased's RRSP to an RDSP of the deceased's child or grandchild who has an impairment in physical or mental functions, and who was financially dependent on the deceased when they died.

The same rules apply to the proceeds of a RRIF or a pooled registered pension plan, or certain lump sums paid from an RPP.

The RDSP rollover provides “some really good planning” opportunities, said Carol Bezaire, senior vice-president of tax, estate and strategic philanthropy with Mackenzie Investments in Toronto, speaking virtually at the 2021 Institute of Advanced Financial Planners symposium in September.

For example, the estate of a deceased person leaving \$500,000 in a RRIF to three adult children, one of whom is disabled and financially dependent on the deceased, would face a \$225,000 tax liability (using a hypothetical 45% federal/provincial tax rate) if no RDSP rollover strategy were used.

If instead the deceased rolled over \$200,000 of the RRIF by will into the RDSP of the financially dependent child, the estate would only owe \$135,000 (45% of \$300,000), resulting in tax savings of \$90,000 for the estate.

Helping families plan with an RDSP gives advisors “a broad topic of conversation with clients” and a way to deepen relationships and build business, Bezaire said. This is particularly true when considering that there can be only one RDSP per qualified beneficiary under the rules governing the plan.

“If you get the account, this is a very long-term hold for you and your clients,” Bezaire said.

Any rollover into an RDSP may not exceed the RDSP beneficiary's lifetime contribution limit of \$200,000 (or the contribution limit available at the time of transfer), and will reduce the beneficiary's contribution limit by a corresponding amount.

Canada Disability Savings Grants or Bonds are not paid on amounts rolled over into an RDSP. Withdrawals made from the RDSP in respect of rolled over amounts will be taxable to the beneficiary, but won't affect the beneficiary's eligibility for income-tested disability benefits.

