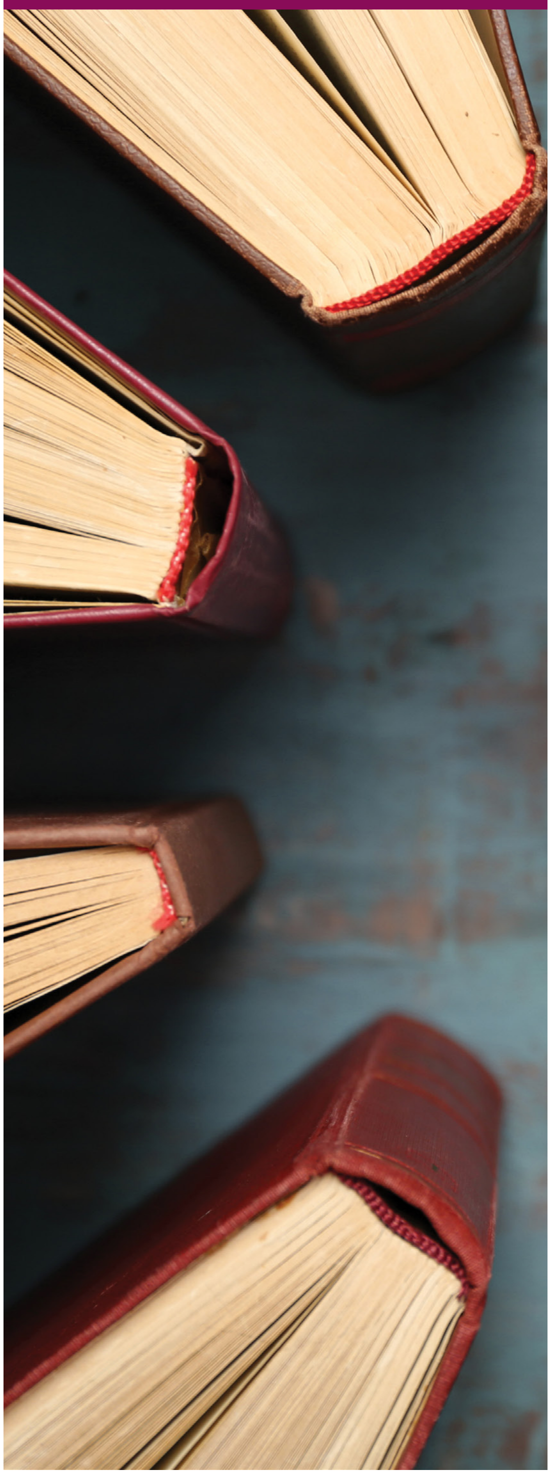
Education Library

Registered Education Savings Plan

TAX & FINANCIAL PLANNING



RICHARDSON GMP

With the ever increasing cost of post secondary education, a Registered Education Savings Plan (RESP) is an attractive way to plan for this major life event. The benefits of using an RESP for education savings include:

- tax deferral
- income splitting
- government grants and incentives to top up your education

An RESP is a government sponsored savings program that allows for the tax deferred growth of investments in the plan and takes advantage of education savings grants. When the income in the account is withdrawn to fund qualified postsecondary education, the withdrawals are taxable to the RESP beneficiary (the student), who is usually in a lower tax bracket than the subscriber.

The person who opens the RESP and makes contributions is known as the "subscriber". The person for whom the plan is set up is the "beneficiary." An RESP beneficiary must be a Canadian resident and must have a Canadian Social Insurance Number (SIN). There is no age restriction on the beneficiary of an RESP, however, age restrictions do apply to eligibility for grants.

Types of plans

There are two types of RESPs: individual and family.

Individual plans

An individual plan is created for one beneficiary. A subscriber may designate anyone as the beneficiary of an individual plan, including themselves, a spouse or common-law partner.

Family plans

A family plan is set up on behalf of one or more beneficiaries who must be related by blood or adoption to the subscriber. Children, grandchildren, and siblings are considered related while nieces and nephews are not. Subscribers may not designate themselves or a spouse or common-law partner as beneficiary under a family plan.

Contribution limits

The lifetime contribution limit is $50,000 per beneficiary (there is no annual contribution limit). Contributions over $50,000 are subject to a penalty of 1% per month. Contributions are not tax deductible to the subscriber and any interest on money borrowed to contribute to an RESP is also not tax deductible. The maximum number of years you can contribute to an RESP is 31 years and the maturity date is 35 years after it has been set up.

For individuals who qualify for the disability tax credit, the lifespan of the RESP is 40 years and the contributory period is 35 years.

Canada Education Savings Grant

The Canada Education Savings Grant (CESG) provides an annual government grant equal to 20% of the first $2,500 contributed to the RESP up to $500 annually. Only contributions made prior to the end of the calendar year the beneficiary turns 17 years of age are eligible for the CESG. In the case of children aged 16 and 17, the grant will be paid only if there have been contributions of at least $100 a year for a minimum of four years or if total previous contributions had reached $2,000.

The maximum lifetime grant per child is $7,200 (20% of $36,000 total contributions). The administrator of the RESP applies for the CESG on behalf of the subscriber. Note that the CESG is excluded from the lifetime contribution limit of $50,000. Depending on the net family income, additional grants are available to the child beneficiary. For example, in 2011, on the first $500 that you put into your child's RESP each year, the Additional Canada Education Savings Grant could add:

- up to $100, if your net family income is $44,701 or less
- up to $50, if your net family income is between $44,701 and $89,401

CESG carry forward limits

Any child who is a Canadian resident accumulates "grant room" from the later of the child's date of birth or January 1, 1998 until the year the child turns 17. Grant room accumulates whether or not a child is an RESP beneficiary.

If you contribute less than $2,500 in any year, the unused CESG room can be carried forward. The maximum CESG payable in any one year is $1,000 per beneficiary. So, a $5,000 annual contribution is required to reach the annual grant limit and gives an opportunity to catch up on unused grant room.

Planning tip: To find out the amount of grant room available and the contribution history to an RESP you can contact Human Resources and Skills Development Canada (HRSDC).

Planning tip: If the $50,000 maximum lifetime contribution is made, $14,000 will not attract grants. If you have the means, you could consider contributing this amount to an RESP to benefit from the tax deferral and income splitting on the investment growth.

Receiving payments from an RESP

Withdrawals from the RESP can begin once the beneficiary is enrolled in a qualifying program at an eligible postsecondary institution. Payments from the plan are made up of two types: Education Assistance Payments (EAPs) and Capital Contributions.

Education Assistance Payments (EAP)

Education Assistance Payments (EAP) are taxable to the student and consist of the RESP income and CESG. The amount of EAP is limited to a maximum of $5,000 until the student has completed 13 consecutive weeks in a qualifying educational program. Once the 13 week period is over, the beneficiary can get any amount of EAP. Students requiring more than $5,000 in EAP during the first 13 weeks of enrolment may apply to Human Resources and Skills Development Canada (HRSDC) for permission to receive a larger amount. Funds used for an eligible program have few restrictions and generally include tuition fees, books, equipment, lab fees, accommodation, transportation and other incidentals relating to a student's education.

Eligible post-secondary educational institutions include a Canadian university, community college, technical college and certain universities outside Canada. A qualifying educational program is an educational program which lasts at least three consecutive weeks, and requires a student to spend no less than 10 hours per week on courses or work at a post-secondary level. A program at a foreign educational institution must last at least 13 weeks.

Capital contributions

All original contributions made to the plan over the years can be withdrawn tax-free by the beneficiary or the subscriber.

Planning tip: Consideration should be given to the combination of capital withdrawn and EAP received to ensure the beneficiary makes the best use of their personal credits and low tax bracket.

Changing beneficiaries on an RESP

If the named beneficiary does not go on to post-secondary studies and the subscriber wishes to change beneficiaries, this can be accomplished provided the following requirements are met:

1. **Individual Plan** - the new beneficiary can be anyone, even the subscriber. However, to be eligible to use the CESG money, the replacement beneficiary must be:
   - under age 21 and
   - either the brother or sister of the former beneficiary.

   OR

   - both the former and replacement beneficiaries are under 21 and
   - both are connected to the subscriber by blood or adoption.

Alternatively, the funds within the individual plan can be transferred to an individual plan for a sibling of the original beneficiary. If one of these options cannot be fulfilled, the CESG must be repaid to the government.

2. **Family Plan** - the replacement beneficiary must be related to the subscriber and under the age of 21. The CESG paid into the family plan can be used by the replacement beneficiary or any other of the beneficiaries up to a maximum of $7,200 per beneficiary. Any excess must be repaid.

What if the beneficiary does not go to school?

If the beneficiary does not go on to post-secondary studies (and there is no one else who can be substituted as a beneficiary) you must collapse the RESP. An RESP may allow the subscriber to gain access to **Accumulated Income Payments** (AIP) when all of the following rules are met:

- All of the plan's beneficiaries are over 21 but none is pursuing a post-secondary education
- The plan has been in existence for at least 10 years
- The subscriber is a Canadian resident
- The recipient of the AIP is a subscriber of the RESP

If the subscriber has RRSP contribution room available, the AIP can be transferred to an RRSP in the subscriber's name (to a lifetime maximum of $50,000). Otherwise the earnings are taxable and subject to a 20% penalty.

If the above four requirements are not met, the earnings are forfeited. The original capital can be withdrawn with no tax consequences because it was paid with after-tax dollars. The CESG payments must be returned to the government.

Planning tip: When setting up an RESP, naming joint spousal subscribers on the plan should be considered. This will allow for the option of transferring an AIP to either spouse's RRSP. In the event of the death of one of the joint subscribers, the surviving subscriber will have the right to continue managing the RESP.

Planning tip: If a subscriber has invested in an RESP and it appears that no beneficiary will use the plan before its mandatory expiration, the subscriber should consider foregoing RRSP contributions to ensure adequate contribution room is available to allow a transfer of plan earnings (AIP) into the RRSP.

Should a grandparent be the subscriber of an RESP?

On the death of the subscriber, the RESP will become part of the subscriber's estate. For estate planning purposes, it is important to ensure that the will names a successor who will take over as the subscriber of the plan on the death of the original owner. This is particularly important when a grandparent is the subscriber of an RESP for their grandchild(ren).

Alternatively, it may be beneficial to establish the RESP with the beneficiary's parents as the subscribers. Grandparents can gift funds to their children for contribution to the grandchildren's RESP. Should the grandchildren decide not to pursue higher education, the funds could be transferred to the parents' RRSPs.

Additional incentive programs available for education savings:

Quebec Education Savings Incentive (QESI)

Until the beneficiary is 18, a refundable tax credit, the QESI, is available that provides a grant of 10% of annual RESP contributions up to a maximum of $250 per year. Depending on family net income, additional grants are available. Also, since 2008, any benefits accrued during previous years can be added to the basic amount, to a maximum of $250 per year. The lifetime QESI grant is capped at $3,600 per child.

Planning tip: If you have made contributions since 2007 for which you have not claimed the QESI, we can help you to catch up on contributions and any available grants.

British Columbia Training and Education Savings Grant (BCTESG)

The B.C. Government will contribute $1,200 to eligible children through the B.C. Training and Education Savings Grant (BCTESG). To be eligible for the $1,200 available via the *B.C. Training and Education Savings Grant* the following criteria must be met:

A. The child was born in 2007 or later
B. You and the child must be residents of British Columbia
C. The child is the beneficiary of a Registered Education Savings Plan (RESP) with a participating financial institution

Saskatchewan Advantage Grant for Education Savings (SAGES)

The Government of Saskatchewan will provide a grant of 10% on contributions made since January 1, 2013, to a Registered Education Savings Plan. The maximum grant is $250 per child per year. To be eligible for the grant, the child must be a resident of Saskatchewan when the contribution is made.

Canada Learning Bond (CLB)

This federal program provides $500 to children in families entitled to the *National Child Benefit Supplement* plus an additional 15 annual $100 entitlements for each year the family is entitled to the NCBS for the child. No matching contributions are required.

Planning tip: Even if you cannot make the contributions for the education of your children and grandchildren, you could receive $500 or more from the Government of Canada for simply opening an RESP account.

Conclusion

An RESP is a great way to save for your child's education. For more information on your specific situation, please consult your Richardson GMP Investment Advisor.

Tax & Estate Planning

As an individual investor or a business owner you have unique objectives and priorities that need to be considered. At Richardson GMP, your Investment Advisor collaborates with our in-house Tax & Estate Planning professionals to deliver customized wealth management solutions designed to address tax, estate, insurance, philanthropic and succession needs.

Our approach. Our expertise. Our experience.
Our difference.