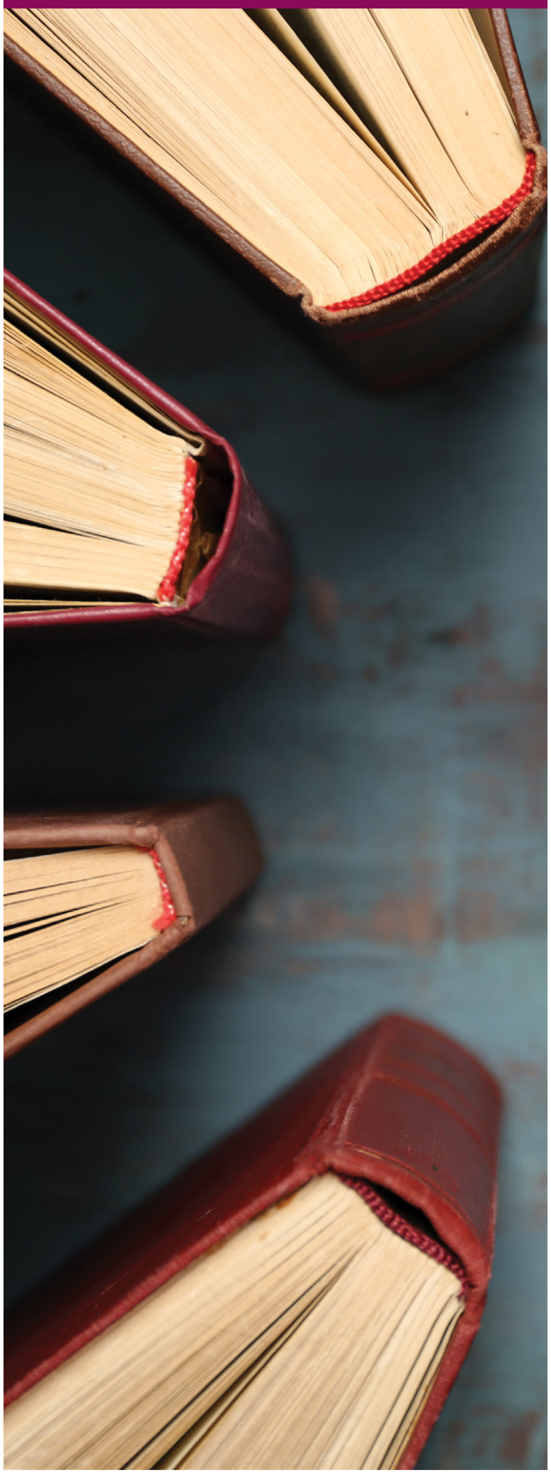
Education Library

Registered Education Savings Plan

TAX & FINANCIAL PLANNING



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 savings

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 When the income in the account is withdrawn to fund qualified post-secondary education, the withdrawals are taxable to the RESP beneficiary (the student), who is usually in a lower tax bracket than the subscriber (i.e. the person who opens the RESP and makes contributions).

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 in which 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 2024, on the first $500 that you put into your child's RESP each year, the CESG could add:

- Up to $100, if your net family income is $55,867 or less;
- Up to $50, if your net family income is between $55,868 and $ 111,733.

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 Employment and Social Development Canada (Education planning and student aid). 1-888-276-3624.

Planning tip: If the $50,000 maximum lifetime contribution is made at the beginning, you'll have even more education savings. If you have the means, the timing of contributions can have a significant impact. Ask your advisor about our *Maximizing education savings for children* article.

Receiving payments from an RESP

Withdrawals from the RESP can begin once the beneficiary is enrolled in a qualifying program at an eligible post-secondary institution. Valid proof of enrollment must be submitted with each request for a withdrawal for the beneficiary, and requests can be made up to six months after the end of the course of study. Payments from the plan are made up of two types: Education Assistance Payments (EAPs) and capital withdrawals (beneficiary or subscriber).

Education Assistance Payments

EAPs are taxable to the student and consist of a mix of RESP income and CESG, calculated according to a prescribed formula. The amount of EAP is limited to a maximum of $8,000 until the student has completed 13 consecutive weeks in a qualifying educational program. (Students requiring more than $8,000 in EAPs during the first 13 weeks of enrolment may apply to Human Resources and Skills Development Canada (HRSDC) for permission to receive a larger amount). Once the 13- week period is over, the beneficiary can withdraw any amount of EAP.

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Note:

Beneficiaries are limited to $7,200 in total CESG withdrawals in their lifetime.

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. Proof of amounts (valid receipts) are only required for EAP withdrawals over the annual threshold limit ($28,122 in 2024 and indexed annually by the consumer price index).

Eligible post-secondary educational institutions include a Canadian university, community college, technical college and certain universities outside Canada. A qualifying educational program is one that 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 withdrawal (beneficiary)

A capital withdrawal, also known as a Post-Secondary Education (PSE) withdrawal, to the beneficiary is a withdrawal of the capital (contributions) from the RESP to pay for the beneficiary's post-secondary education expenses.

Valid proof of enrollment is required. No tax slip is issued.

Planning tip: A PSE capital withdrawal may be requested when there is a grant or income in the plan and the subscriber has decided to hold some of the income for another beneficiary in the plan who has yet to attend school. This option is also used for beneficiaries who are enrolled in their first 13 weeks of school and need more than the $8,000 EAP limit.

Capital withdrawal (subscriber)

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

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Note:
All assets in a family RESP are pooled for distribution, including the grants, but a beneficiary cannot go over any of the lifetime grant limits. The maximum CESG that a beneficiary can receive through contributions in their name is $7,200 and this is the lifetime maximum CESG they can withdraw as well.

Even if the amount of CESG available in a family plan is higher, the lifetime EAP limit per beneficiary is still $7,200 in CESG. For example:

Beneficiary A received $2,000 in CESG
Beneficiary B received $5,000 in CESG
Beneficiary C received $7,200 in CESG

The total amount of CESG available in this RESP is $14,200. If beneficiary A requests an EAP of $20,000, the maximum possible amount for the CESG portion of A's payment is $7,200, with the balance consisting of income.

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. The CESG payments must be returned to the government. 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.

Planning tip: When setting up an RESP, consider naming joint spousal subscribers on the plan. 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.

Note: As of March 28, 2023, divorced or separated parents may open joint RESPs for one or more of their children.

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:

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Note:

Some additional incentive programs can only be paid if all the beneficiaries in a family plan are siblings.

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.

Saskatchewan Advantage Grant for Education Savings (SAGES) (Discontinued)

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Note:

You can no longer apply for this benefit. The Saskatchewan Advantage Grant for Education Savings (SAGES) program has been suspended as of January 1, 2018 , and is being wound down. SAGES grants will be converted to earnings and will continue to be paid out as part of an Educational Assistance Payment (EAP) to an eligible beneficiary enrolled in a qualifying educational program at a post secondary educational institution. On September 1, 2023: Promoters must convert all SAGES held in RESPs into accumulated income on this day.

Canada Learning Bond (CLB)

The Canada Learning Bond (CLB) is an education savings incentive for eligible children from low-income families which can provide up to a lifetime maximum of $2,000 per child.

An RESP must be open to receive the CLB however, no contributions to the RESP are needed to get the CLB. If there is more than one beneficiary, all beneficiaries must be siblings for the grant to be paid.

The beneficiary could receive $500 the first year they're eligible, then another $100 each eligible year after that until the age of 15. Eligibility for the CLB is based on the adjusted family income of the primary caregiver, who must file income taxes and be eligible to receive the Canada Child Benefit (CCB).

The CLB amounts accumulate for each eligible child born on or after January 1, 2004 until December 31 of the benefit year in which they turn 15 years of age, even if they are not beneficiaries of a Registered Education Savings Plan (RESP).

The CLB may be retroactive. The primary caregiver can request the CLB for an eligible child until the day before they turn 18. Once the child turns 18, they could also become the subscriber of their own RESP and request their own CLB entitlements from the day they turn 18 years of age until the day before they turn 21 years of age.

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 2006 or later;
B. The custodial parent, or the legal guardian, and the child must be residents of British Columbia;
C. The grant must be requested anytime from the child's 6th birthday until the day before their 9th birthday;
D. The child is the beneficiary of an RESP with a participating financial institution;
E. If there is more than one beneficiary, all beneficiaries must be siblings for the grant to be paid.

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 Wealth 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 Wealth, 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.**