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RESP

GUIDE



What every Canadian needs to know about RESP

A SIMPLE GUIDE TO REGISTERED EDUCATION SAVINGS

A GUIDE TO REGISTERED EDUCATION SAVINGS PLAN

RESP



What is a Registered Education Savings Plan?

Registered Education Savings Plan (RESPs) are regulated accounts used for saving money for a child's post-secondary education due to its tax-advantaged nature.

As long as both the account opener and beneficiary are Canadian, it doesn't matter who opens the account. It could be a child's parent, grandparent, a friend of the family, or anybody known who has willingness to contribute and has access to a child's Social Insurance Number. RESPs are non-transferable except to a sibling. A family RESP, however, can be opened only by parents or grandparents of the children and may be spent on the education of any child in the family.

Types of RESPs

There are three types of RESPs for saving money for a child's education and have tax breaks too.

- 1. Individual RESP plans:** Anyone can open an individual RESP and contribute to it. This can be a parent, a grandparent, anybody else who is known or unknown and who would like to contribute for a child's education savings.
- 2. Family RESP plans:** In this family plan, you can have one or more beneficiaries, although they all have to be related to the contributor (or be formally adopted). So one can open a family RESP for a child and your nephew, but one can't include your son's best friend from daycare. The beneficiaries also have to be under 21 when they're added to the plan.
- 3. Group RESP plans:** In a group plan, one single child is the beneficiary, and that child does not have to be related to you. However, since many people are contributing to this plan, the beneficiary shares the pooled earnings of investors with children of the same age. These plans come with more restrictions and rules than other plans.

INDIVIDUAL RESP PLANS

These plans are offered by

- a. Banks
- b. Credit Unions
- c. Mutual Fund Companies
- d. Investment Dealers
- e. Trust Companies

These plans have the following benefits

- A. There is only one beneficiary in this plan.
- B. There is more flexibility in terms of payment variations.
- C. Beneficiary does not have to be related to the subscriber/account holder.
- D. One can name a beneficiary at any age.
- E. One can start and stop contributions without penalties
- F. One can choose from a variety of investment options. ETFs, Mutual Funds, Stocks, Bonds, GICs etc.
- G. One can also choose their own Portfolio depending upon their individual risk tolerance.
- H. There is no minimum deposit amount and a lifetime max contribution limit of \$50,000.
- I. This plan can also be assigned to an adult above age 17 without any 20% CESG matchings.



FAMILY RESP PLANS

These plans have the following benefits

- A. Can be opened for more than one child in the same family.
- B. All beneficiaries should be related to the account holder by blood or by adoption.
- C. This plan is good if one has more than one child.
- D. Earnings can be flexibly shared among the beneficiaries.
- E. Each beneficiary gets an equal access to the government grants.
- F. Funds can be allotted to other beneficiaries if one beneficiary opts out of any future education for himself/herself.
- G. There is a family lifetime contribution limit of \$50,000 per beneficiary.
- H. There is no minimum deposit amount.
- I. Beneficiary should be less than 21 year of age at the time of their enrolment in this plan.
- J. Maximum CESG given per beneficiary is \$7,200.

GROUP RESP PLANS

These plans are offered by Scholarship Plan Dealers only who make all the investment decisions.

These plans have the following features.

- A. They are less flexible than Individual and Family plans.
- B. Upon leaving the plan one's investment earnings remain in the pool to be distributed among the remaining members.
- C. One gets their contributions back less any fees charged by the organization.
- D. There are heavy penalties of not following all their terms and conditions.
- E. They have upfront sales charges of upto 10%.
- F. They have a minimum initial deposit.
- G. There is a commitment required for regular contributions for a set time period (usually atleast 10years or so and varies from company to company)
- H. One should be certain that their child will continue his/her education after high school.

Benefits of RESPs

While the main benefit is the tax-free growth of your money there are numerous benefits to RESPs here are the main four:

1. Save on taxes: One can save taxes by investing in an RESP. It is a tax-advantaged account which means, the CRA will cut Canadians a tax break in order to encourage them to save for higher education, be it an apprenticeship, trade school, or university. Though a deposit will not occasion an immediate tax break for the investor, any and all gains within the account won't be subject to any income or capital gains taxes as long as the money is in the account. Once it's withdrawn and used for an approved education expense, which can include tuition, housing, books, or even living expenses while in school, investment gains will be subject to taxes, though since student income is generally very low or non-existent, the student may end up having to pay very little or nothing at all.

2. Avail of the RESP grant: Canada Education Savings Grant introduced by the government in 1998 matches 20% of any RESP contributions up to \$2,500 per account child per year. Lower-income kids are eligible for more CESG money. Children from low-income families are also eligible to receive money from the Canada Learning Bond, which is basically up to \$2,000 that the government can add to a child's RESP.

RESP



3. Investing your money: The funds accumulated in this account could be invested in mutual funds, ETFs, GICs, stocks & bonds etc.

4. A good example: Saving in the RESP could also be an example for your kids to teach them the value and importance of education. It also shows them that you value their education and invested in their future with a lot of careful planning. This not only encourages them to see school as being important, but also gives them security, knowing that they'll have financial resources to help with school expenses. It also shows them how investments grow over time and how compounding works. This may even inspire them to save and invest their own money in future!

Tax-efficient withdrawals

Not only do your investments grow tax-free in an RESP, but withdrawals could be tax-free as well. Since withdrawals are taxed in the hands of the student (who's likely in one of the lowest tax brackets) they'll owe little or almost no tax.

Meaningful gift-giving

RESP contribution could be the best gift any parent or known one can give to their child or a known child.

Tax Penalties

RESPs safeguarded by tax penalties and grant claw backs at the time of early withdrawal.

Limitations of RESPs

Irrespective of a family's income, no child can collect more than \$7,200 from the CESG. In case if the child decides not to study anything after high school, there are a lot of other job training options that your child may get qualified for. In that case, the account can easily be transferred to a sibling. And if there is no sibling, the people who contributed money may transfer it to their personal RRSP tax-free for retirement savings. When an RESP is closed, all government CESG grants must be repaid back to the government, and all gains on the investments inside the registered accounts will be subject to tax. RESPs can be kept open for 36 years—so there is quite a lot of time for you to convince your kids to go to college before you finally plan to close the account.

RESP contribution limit

One can contribute a lifetime maximum of \$50,000 per beneficiary to an RESP. The amount of annual contribution room that is eligible for the Canadian Education Savings Grant (CESG) is \$2,500. You are welcome to contribute more, but the 20% grant is only matched by the government up to \$2,500 per year. Your contribution room is accrued each year starting in 2007 or the year the child was born, whichever is later. The contribution room keeps accruing up to and including the year the child turns 17, so it's possible to accommodate that free CESG government money even if you miss out on a year or two. To maximize the CESG, you would have to contribute \$2,500 per year per beneficiary for 14 years, and then top it off with an extra \$1,000 in the 15th year. This is because the total CESG a child can receive is \$7,200. If you missed a year or started late, you can contribute more than \$2,500 to retroactively claim grants. You are eligible to receive an additional \$500 per year in CESG if you missed previous years set of grants. In short, you can catch up for one previous year at a time by contributing more than \$2,500 per year.



RESP withdrawal rules

Only the person (known as subscriber) who had set up the account and made contributions can make withdrawals. Withdrawals of contributions made by the Subscriber are called Post-Secondary Education Payments (PSE). They may be sent to either the Subscriber or Beneficiary. Withdrawals of the government grant/bond portion (known as the Education Assistance Payments “EAP”) can only be sent to the Beneficiary.

The subscriber must provide the financial institution who holds the RESP with a student’s proof of enrollment before being able to access funds.

PSE payments aren’t taxable. The student will be taxed on EAP withdrawals, which consist of both investment gains as well as government grant money. The financial company who holds the RESP will issue a T4A tax form in the student’s name for EAP payments only.

There is a \$5000 limit (or \$2500 if the student is enrolled part-time) on EAP contributions during the first 13 weeks of schooling. There is no limit on the amount of Subscriber (PSE) contributions that can be withdrawn. Once the 13 weeks has passed, any amount of EAP contributions can be withdrawn.

What is the CESG

Basic CESG - Basic Canada Education Savings Grant (CESG) is a grant paid by the federal government directly into an RESP. Since 1998, contributions made to an RESP are eligible to obtain the CESG subject to a few requirements.

All children under the age of 18 and a resident of Canada began accumulating CESG room of \$500 per year since 2007 (\$1,000 if there is unused grant room from previous years). This is not per RESP, but per Beneficiary. Available until the end of the calendar year in which the child turns 17. The maximum lifetime CESG paid to a Beneficiary for all RESP’s is \$7,200 in her or her lifetime.

How Does a Beneficiary Qualify for the CESG

To qualify for the CESG, the Beneficiary must meet the following requirements:

- Valid Social Insurance Number (SIN) Resident of Canada
- 17 years of age or younger Net family income to attract the appropriate grant level.

The PCG (Primary Care Giver) receives the CCB cheque for the child and is usually the mother. The PCG does not have to be the Subscriber of the RESP.

If the Beneficiary is a child in care under an Agency, the business number of the agency, institution or department is required instead of the PCG’s SIN.

Eligibility for the basic CESG

The CESG, including the Additional amount of CESG, is available until the end of the calendar year that a child turns 17. However, there are eligibility restrictions for children who are 16 or 17 years old.

To be eligible for the CESG, a child must:

- be a resident of Canada
- have a valid Social Insurance Number (SIN)
- be named as a beneficiary in a Registered Education Savings Plan (RESP)
- A contribution must be made to the RESP for a child to get the CESG.



Eligibility for the Additional amount of CESG

The Additional amount of CESG is available to eligible children from middle- and low-income families. Eligibility depends on the adjusted income level of the child's primary caregiver. The income levels are updated every year.

In 2018, a child is eligible for the Additional amount of CESG if the adjusted family income level is \$93,208 or less.

Contact the Canada Revenue Agency for more information about adjusted income levels at 1-800-387-1193.

CESG eligibility restrictions for children aged 16 or 17

Children who are 16 or 17 years old may be eligible to get the CESG. To be eligible, they must meet at least one of the following conditions before the end of the calendar year they turn 15:

at least \$2,000 is contributed to (and not withdrawn from) the RESP

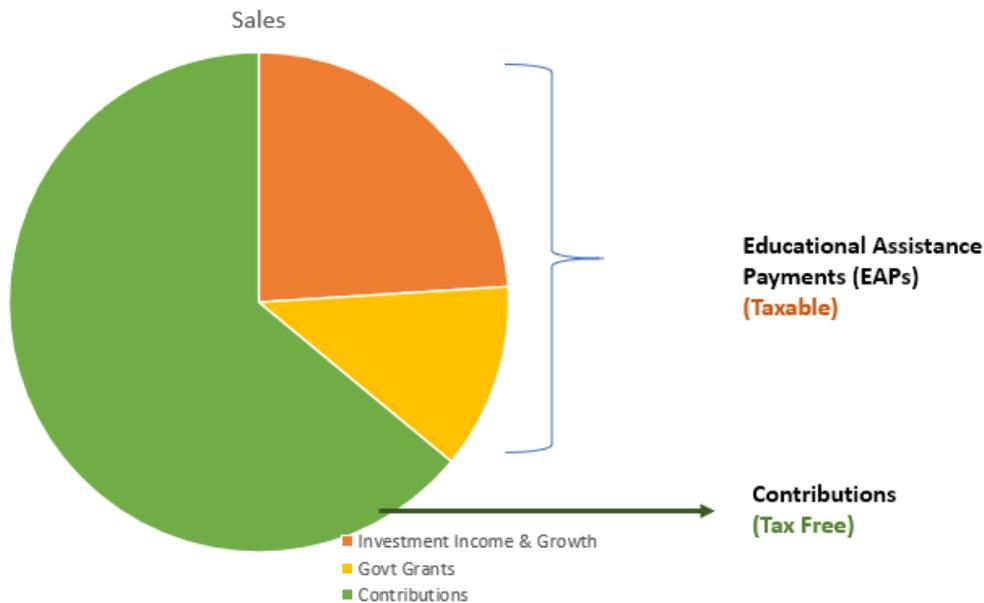
a minimum annual contribution of \$100 is made to (and not withdrawn from) the RESP in any four previous years

Use the calendar year to determine:

CESG eligibility

the amount of contributions made

the CESG room earned and used in the year



Withdrawals for Education Purposes

A Beneficiary must be enrolled full-time or part-time in a qualifying educational program at a qualifying post-secondary institution to qualify for an Educational Assistance Payment (EAP) from an RESP.

An EAP is composed of federal and provincial grant money, CLB funds and income earned on contributions, grant and CLB.

EAP withdrawals may be taken within a six month grace period after enrollment in a qualified educational program ceases.

The maximum amount of EAP that can be made to a student once qualified to receive them is:

- For full-time studies \$5,000, for the first 13 consecutive weeks of full-time studies in a qualifying educational program. After the student has completed the 13 consecutive weeks, there is an annual \$20,000 threshold limit (indexed annually = \$23,460 for 2018) on the amount of EAPs that can
- be paid if the student continues to qualify to receive them. If there is a 12-month period in which the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the \$5,000 maximum applies again; or
- For part-time studies \$2,500, for the 13-week period of enrollment in part-time studies in a specified educational program preceding the payment of an EAP.
- The annual withdrawal limit is \$23,976 (2019 figure)

Contributions can also be withdrawn (post-secondary education [PSE] withdrawal) and paid to either the beneficiary or the subscriber

An EAP is taxable income to the Beneficiary. However, most students have little or no income, so the tax paid will be very minimal, if any. Contributions in the plan belong to the Subscriber. However, the subscriber may opt to give the contributions to the Beneficiary to use for post-secondary education as well. This type of payment is called a Post-Secondary Educational (PSE) withdrawal. The only limit to this type of payment is the amount of contributions in the plan.

A PSE is not taxable income since the contributions are made with after-tax dollars. If the Subscriber wishes to keep the contributions, the Beneficiary could be paid the EAP, the contributions would then be returned to the Subscriber, and the plan would be closed.

What Qualifies as Post Secondary Education

A post-secondary institution can be any of the following:

- A university, college, or other educational institution in Canada that has been designated for purposes of the Canada Student Loans Act or the Canada Student Financial Assistance Act, or is recognized for purposes of the Quebec Student Loans and Scholarships Act;
- An educational institution in Canada certified by the Minister of Employment and Social Development to be providing courses, other than courses designed for university credit, that give a person occupational skills or improve a person's occupational skills;
- A university, college or other educational institution outside Canada that provides courses at a post-secondary school level provided the Beneficiary is enrolled in a course of at least 13 consecutive weeks.

A qualifying educational program is an education program that requires students to spend 10 hours or more per week on courses or work in the program and that lasts three consecutive weeks or more.



A specified educational program is an education program at a post-secondary school level that lasts three consecutive weeks or more and requires each student to spend at least 12 hours per month on courses in the program.

University Outside Canada

In 2011, a study abroad measure was introduced by the federal government. Since 2011, the 13-consecutive-week requirement for EAP purposes has been reduced to 3 consecutive weeks when the student is enrolled at a university outside Canada in a course on a fulltime basis. The 13-consecutive-week requirement remains unchanged for students enrolled in a course at a university outside Canada on a part-time basis or enrolled in a course at other educational institutions outside Canada.

The CRA will accept that an educational institution is a “university outside Canada” for the purposes of these new rules if it meets all of the following conditions:

- It has the authority to confer academic degrees of at least the baccalaureate level (Bachelor’s degree or equivalent); and
- It has an academic entrance requirement of at least secondary school standing; and is organized for higher learning.

Withdrawals If the Beneficiary Does Not Pursue Post Secondary Education

If the Beneficiary chooses not to pursue post-secondary education, and there are no other Beneficiaries (for a Family Plan), or a replacement Beneficiary is not named (for a Single Plan), the money within the RESP is handled as follows:

The contributions are returned to the Subscriber, the federal grant and CLB are repaid to the federal government and the provincial grant is repaid to the respective provincial government. There are two options for the income earned within the RESP. An AIP may be paid to the Subscriber or joint Subscriber providing all the following conditions are met:

- The RESP has been in existence for at least 10 years;
- Each individual who is or was a Beneficiary has reached age 21;
- No Beneficiary is attending school; and
- The Subscriber is a resident of Canada.

An AIP (Accumulated Income Payment) may be taken as cash. It is taxable income for the Subscriber (or joint Subscriber) and is subject to 20% tax. The Subscriber may also be subject to additional tax as they must report this as income on their tax return.

If the Subscriber has contribution room in their RRSP, they may elect to make a tax-free transfer of the AIP to their own RRSP or to their spousal RRSP. The transfer is limited to \$50,000. If the above conditions are not met, the Subscriber may not withdraw the income from the RESP for their own use and the income must be paid to a Designated Educational Institution, which is elected on the RESP application form or otherwise indicated by the Subscriber.

The conditions for an AIP may be waived by CRA if it is reasonable to expect the Beneficiary will not pursue post-secondary education due to a severe and prolonged mental impairment or if the Beneficiaries of an RESP are deceased.

The Difference in Growth of Savings in RESP vs. Savings Account

If you were to invest \$2,000 per year for 18 years in an RESP, you would receive \$7,200 in grant and your RESP would grow to approximately \$54,900 (assuming 2.5% interest).

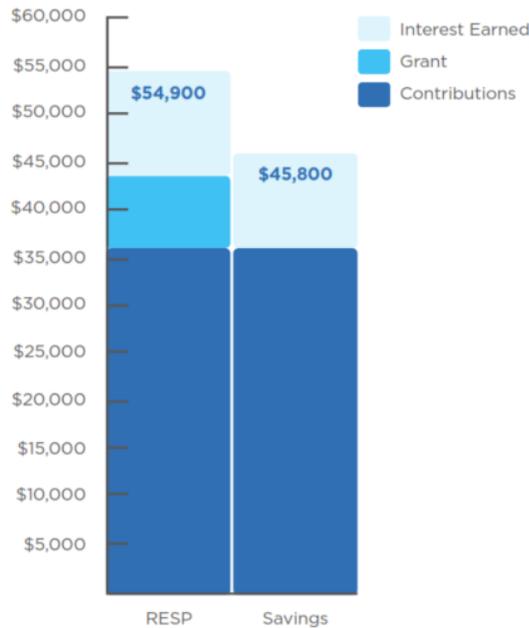


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If you were to invest \$2,000 per year for 18 years in a savings account, you would receive no grant and your RESP would grow to approximately \$45,800 (assuming 2.5% interest).

By depositing the same amount of money into an RESP instead of into regular savings, your money would be worth \$9,100 or more!



Taxation of RESPs

Contributions are:

- Not tax deductible
- Not considered taxable income when withdrawn, regardless of whomever receives the payment

Grants and interest generated within the contract:

- Interest accumulates tax-free
- Taxable upon withdrawal - the plan beneficiary will receive a T4 in his or her name for the amounts withdrawn

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