

# Registered Educational Savings Plan

By Kevin Dolan

A RESP can help fund the cost of post-secondary education. A RESP allows a child's educational savings to grow on a tax-deferred basis with income withdrawals taxed in the student's hands, making it an ideal choice.

## Contributions

- There is no annual limit on contributions, but there is a lifetime limit of \$50,000 per beneficiary.
- The Federal Government will pay a Canadian Education Savings Grant (CESG) of 20% per year per beneficiary on contributions up to \$2,500.
- The maximum annual grant is \$500 per year per beneficiary to a lifetime limit of \$7,200 per beneficiary.
- To be eligible, the beneficiary must be a Canadian resident, have a SIN number and be under 18 years of age.
- Where unused grant room is being carried forward, it is subject to a \$1,000 per year maximum CESG payment, so you should only contribute up to \$5,000 in a year.
- Carry forward room starts from the child's birth and not when the plan was opened.
- Family plans can have one or more beneficiaries.
- Beneficiaries must be related by blood or adoption to the contributor (i.e. not an aunt, uncle, niece, nephew, or cousin).
- Contributions are not tax-deductible.
- RESPs are included in a subscriber's assets on death and must be addressed in your will by including mirror RESP clauses, naming a successor Subscriber or appointing a Testamentary Trust.

## Withdrawals

- The subscriber (a parent or grandparent) is the legal owner of the RESP, so requests for withdrawals must come from them.
- If the child(ren) don't attend post-secondary education, contributions can be withdrawn after all grant money has been returned to the government and any income can be contributed to the subscriber's RRSP.
- If the child(ren) do attend, there are two types of withdrawals: Contributions (PSE); and Grants and Gains (EAP).
- To make an EAP or PSE withdrawal, proof of registration is required from the post-secondary institution.
- PSE withdrawals are tax-free and returned to the subscriber.
- EAP withdrawals will be taxed in the hands of the child(ren) who (usually) have a lower tax rate.
- EAP withdrawals are limited to \$5,000 for the first three months the student is attending a designated post-secondary institution.
- After a full-time student has completed 13 consecutive weeks in a qualifying educational program, there is no limit on the amount of EAP that can be paid, if the student continues to qualify to receive them.

Source:

<https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/registered-education-savings-plans-resps.html>