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RESP – Registered Education Savings Plan

A tax-sheltering tool to help with post-secondary education

The Registered Education Savings Plans (RESPs) assist subscribers (usually parents) to save for post-secondary education for beneficiaries (usually their children). RESPs provide three main financial benefits:

1. Government money is added to the subscriber's personal contributions
2. Tax-sheltered growth of both the personal and government money in the plan
3. Tax is usually borne later by the student-beneficiary, who will typically be at a lower tax bracket than contributors

How are RESPs set up?

To set up an RESP, a subscriber contracts with an RESP promoter (an offering financial institution) to save for the education of a beneficiary. The subscriber may then make contributions to the plan or invite anyone else to contribute.

A beneficiary must be a Canadian resident with a social insurance number (SIN) when the plan is opened. Any person may be a subscriber, but usually it is the beneficiary's parent. The SIN of the subscriber must also be provided to register the plan in the tax system.

Most plans are set up as an individual plan with one beneficiary, or a family plan where the beneficiaries are related siblings or cousins. There are also group plans administered based on age-determined groups.

There's no minimum or maximum beneficiary age to open an individual plan. You can even set one up for yourself. Contributions may be made for up to 30 years, and the plan may stay open for up to 35 years. If the beneficiary qualifies for the disability tax credit, these timelines are extended by 5 years.

What is the maximum allowable contribution and what is the tax treatment?

In terms of personal contributions, there is no maximum annual contribution limit, as long as the lifetime personal contribution does not exceed $50,000 per beneficiary. There are however annual limits to the amount of government assistance (see below), which could influence personal contribution timing.

Tax treatment depends on source of the money and timing:

- Personal contributions are after-tax, meaning there is no tax deduction at that time.
- Government assistance is not taxable when credited to a plan.
- While in the plan, there is no tax on income earned on either personal or government contributions.
- When taken out, all income and government assistance are taxable to the beneficiary when paid as education assistance, but withdrawal of personal contributions is not taxable.

How much government assistance can subscribers receive?

There are three main sources of federal government support (and some provinces also have programs):

Canada Education Savings Grant (CESG)

Basic CESG is a 20% matching grant of up to $500 annually, to a lifetime maximum of $7,200. Carryforward room must be claimed before the beneficiary turns 18 years of age. In theory, if cash is available, the full lifetime $50,000 contribution could be made in one year, but then only a single year's CESG would be collected, leaving thousands of government support money unused.

Additional CESG

On the first $500 of annual contributions, an extra grant of 100% is provided for low-income families, or 50% for middle-income families. These thresholds are indexed annually.

Canada Learning Bond (CLB)

For a child in a low-income family, the CLB provides $500 in the first year, then $100 annually to age 15, for up to $2,000 total. No personal contributions are required. The CLB is provided to low-income families in addition to CESG benefits.

How are funds withdrawn from the plan? What is the tax treatment for withdrawals?

The subscriber may choose how much and what type of draw is to be taken from the RESP:

Education Assistance Payment (EAP)

An EAP can be paid once a beneficiary is attending qualified education, training or an apprenticeship program – either in Canada or abroad. As a distribution of the plan's government assistance and accumulated income, the full amount is taxable to the beneficiary.

Refund of contributions

Personal contributions can be returned to the subscriber at any time without tax consequences, as long as the beneficiary is enrolled in a qualifying program at the time. If not, the withdrawal of personal contributions may trigger repayment of recent years' government assistance, according to a formula based on the timing of the original contributions.

Accumulated Income Payment (AIP)

This is a taxable payment of any remaining income in the plan to the subscriber, generally only if the beneficiary will not be attending school. An extra 20% tax applies, which may be avoided by rolling the AIP amount into an RRSP (assuming the subscriber has at least that amount of room in their RRSP). The plan must then be closed by the year following the AIP.

For more information, please consult your financial advisor and tax professional.