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RESP withdrawal rules and strategies

What, how much and when it's available

The basic structure of the Registered Education Savings Plan (RESP) has been around since the 1970s. They allow for tax-free savings and investment growth to help pay for post-secondary education, and since the 1990s have been supplemented by a range of government support programs.

This article looks beyond how RESPs are funded and grow, to what ultimately matters most to parents and students – which is how they are put to work paying for that education once it is underway.

Knowing what's inside, to explain how it comes out

In order to follow the different ways that money comes out of an RESP, it helps to first identify the source of that money. Here are the three main money components, along with a brief point about the tax consequences of each:

Personal contributions

An RESP subscriber (commonly parents) may enter into a contract with an RESP promoter to save for one or more student beneficiaries. The contributions made by the subscriber are not tax-deductible; however, they are also not taxable when withdrawn. The current lifetime contribution maximum is $50,000 per beneficiary.

Government assistance

No tax is due when government assistance is paid to an RESP, whether from the Canada Education Savings Grant (CESG), the Canada Learning Bond (CLB) or a provincial government program. Amounts are taxable when later paid to a student as part of an educational assistance payment or EAP (discussed below).

Accumulated income

Earnings on both contributions and government assistance are tax-free while within an RESP. That accumulated income is taxable in the year of a withdrawal, either to the student when paid as part of an EAP, or to the subscriber when paid in the form of an accumulated income payment or AIP (discussed below).

Withdrawals for education purposes – Educational Assistance Payment (EAP)

An RESP is designed to assist with education expenses once a beneficiary is enrolled in post-secondary schooling. Most often that will be a full-time program leading to a degree, diploma or certificate, but part-time and distance learning may also qualify, including apprenticeships for skilled trades. The government maintains a list of all eligible programs and institutions.

Most of the RESP withdrawal rules relate to the conditions and tax treatment of EAPs, which are comprised of the latter two of the three components described above: government assistance and accumulated income. Whether paid to the student or to an educational institution on his or her behalf, the student is taxed on all EAPs taken in the January-December taxation year, regardless of the school year in which they are enrolled.

Though the entire EAP is taxable, the RESP promoter tracks the proportion drawn from each of government assistance and accumulated income. The relevance of this distinction will become clearer below when we look at the treatment of a refund of contributions after a student completes (or chooses not to continue with) schooling.

What kind of educational expenses qualify?

There is no fixed list of qualifying expenses. Instead, according to the RESP Provider User Guide: "An RESP promoter is not required to obtain receipts from a beneficiary as proof of expenses before making an EAP. The RESP promoter determines whether the EAP helps further the beneficiary's education, whether it is reasonable, and whether the payment complies with requirements of the Income Tax Act and the terms of the plan."

The 13-week limit and 6-month horizon

The EAP limit during the first 13 consecutive weeks of enrollment is $5,000 for full-time studies, or $2,500 if studying part-time. If tuition and related payments are higher, the RESP promoter must obtain approval from the government on a case-by-case basis before approving a higher EAP amount.

After 13 weeks, there is technically no annual limit on the amount of EAPs that can be paid, though the 13-week rule is re-applied if the student is out of school for 52 weeks or more. As an outer boundary, a student can receive payments for up to six months after a program has been completed, so long as the expenses would have qualified as EAPs if they had been paid before the student's enrollment ended.

Reviewing large EAP requests

Despite there being no annual EAP maximum, it doesn't mean the floodgates are wide open. To reduce the administrative burden on RESP promoters, the Canada Revenue Agency (CRA) has a yearly EAP threshold below which it will not question the reasonableness of EAPs. It was set at $20,000 in 2008, indexed thereafter in line with the Consumer Price Index. The figure for 2022 is $25,268.

Below this amount, the RESP promoter is not expected to assess the reasonableness of each expense, but more scrutiny will be applied above the threshold. Also, bear in mind that CRA may later inquire into those expenses, so receipts should be retained as proof should the need arise.

Refund of contributions

A subscriber may, at any time, request a refund of contributions. A refund is not taxable, whether paid to the subscriber or directed to the student. Either way, RESP contribution room is not restored when there is a refund.

However, if a student is not qualified for an EAP when a refund is taken, a portion of the CESG and CLB may have to be repaid. The repayment is based on the proportion of refunded contributions that previously attracted that assistance. When this happens, any repaid CESG entitlement is lost, but repaid CLB entitlement is restored.

To avoid this effect, a subscriber could withdraw all contributions once a student is qualified for EAPs, leaving all remaining government assistance to continue to grow tax-shelterd within the RESP. One option for the refunded amounts would be to invest within the the tax-free savings account of the parent-subscriber and/or student.

Withdrawals when not enrolled – Accumulated Income Payment (AIP)

In limited circumstances where it is clear that it will not be possible for the RESP to pay an EAP, the accumulated income may be paid as an AIP. This payment is made to the subscriber and is subject to regular income tax plus an additional tax of 20%. The additional tax can be avoided if an equivalent contribution is made to the subscriber's Registered Retirement Savings Plan, provided the subscriber has available RRSP room.

Payment to a designated educational institution

In situations where neither an EAP nor an AIP can be made, the plan income must be paid to a Canadian educational institution which would otherwise qualify for EAP purposes. This is basically a forfeiture of the income as the subscriber does not receive a tax slip or a donation receipt.

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