What do you need to know about:

Registered Education Savings Plans

QUBE PAGES

What is an RESP?

Registered Education Savings Plans (RESPs) are tax-advantaged savings accounts that allow subscribers, often parents, to put money aside for a beneficiary, usually their child. RESPs are a practical tool for parents to help them save for their child's education. This is due to the additional government contributions of both the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB).

Types of RESPs Available

Individual RESP

These plans are designed for a single beneficiary of any age who does not need to be related to the subscriber.

Family Plan

The family plan includes multiple beneficiaries related to the account subscriber. The family plan includes new beneficiaries to family plans that must be below 21 years old, and contributions to this plan are not allowed for any beneficiary older than 31.

Group Plan

The group plan only allows for a single beneficiary who does not need to be related to the subscriber. These plans are provided by group plan dealers and payments from the group plan are determined by the number of students of the same age in school that year. Everyone agrees to keep up contributions, and if someone cannot, they forfeit the earnings.

Opening an RESP

When opening an RESP there are two things that are required. A Social Insurance Number (SIN) for both the subscriber and the beneficiary, and a Promotor. A SIN number can be obtained at a Service Canada Desk or Online. The SIN is used for registering the RESP and to request the CESG and the CLB. The Promoters of RESPs can be a bank or any other financial institution.

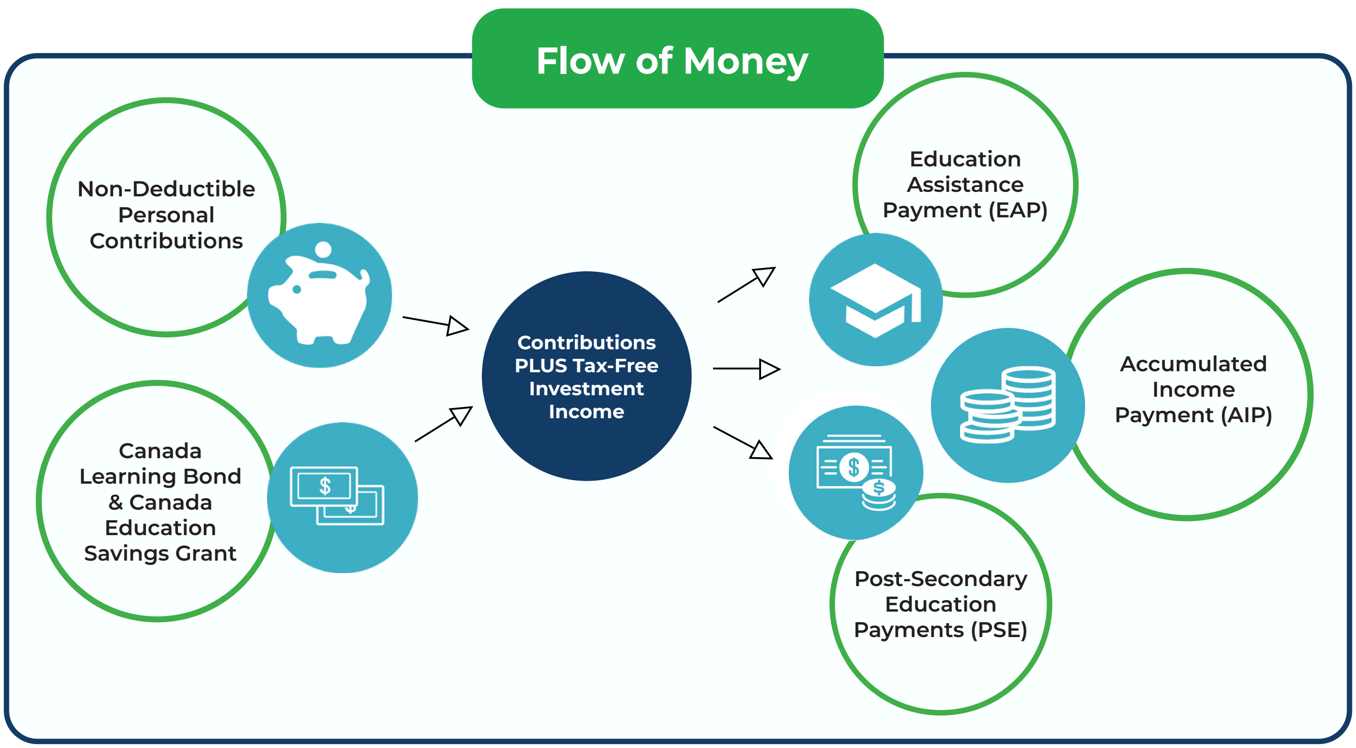
Once a contract is signed and a plan is opened through the promoter, it will be registered by the CRA (Canada Revenue Agency). The CRA determines the eligibility of opening an RESP. If the plan was opened by someone other than the beneficiaries' parents or legal guardian, they will be informed within 90 days.

Contributing to an RESP

RESPs are tax-advantaged accounts, similar to Tax-Free Savings Accounts (TFSA), where any contribution to an RESP is not tax-deductible for the contributor, but the contributions benefit from tax-free growth. Unlike TFSAs, any income or growth made from the investments will be considered a taxable benefit when withdrawn.

RESPs have a lifetime limit totalling $50,000 with no annual contribution limit for each beneficiary. Contributions to a plan are limited to a 31-year period with a requirement that the account will be either paid out or collapsed by the end of the 35th year since the plan was established. This extends from 35 years to 40 years for a single beneficiary who is eligible for the disability tax credit.

Note: Any money borrowed to contribute to an RESP is not tax-deductible. Over contributions are subject to a tax of 1% per month on the excess. If there are multiple contributors to a beneficiary's RESP, any tax is assessed on a pro-rata basis.



Government Incentives

The Employment and Social Development Canada (ESDC) administers the Canada Learning Bond (CLB) and the Canada Education Savings Grant (CESG). The ESDC determines eligibility, the incentive amount, withdrawal payments and transfers from an RESP.

To apply for the CESG or the CLB one of two or both forms need to be filled out:

- If you are a parent or legal guardian, the **SDE 0093 E form** must be downloaded and filled
- If you are a grandparent, aunt, uncle or unrelated to the beneficiary **SDE 0093 E - Annex B** must be filled out and given to the RESP promoter along with the main **SDE 0093 E form**

*Forms can be found on the Government of Canada ESDC website.

Canada Education Savings Grant (CESG)

The CESG encourages parents (subscribers) to save for their child's post-secondary education. This would include both full-time and part-time studies in either trade school, college, or university. Through the CESG, the federal government will make additional contributions to an RESP to supplement those made by the subscriber(s).

The CESG gives a 20% grant for the first $2,500 in annual contributions to an RESP, which is available for all eligible children and an additional contribution that is based on the income earned of the subscriber.

To assist low-income families, the following Additional CESG contributions are made:

- **10%** on the first **$500** of annual contributions from families with an adjusted income between **$48,535** and **$97,069**
- **20%** on the first **$500** of annual contributions from families with an adjusted income of **$48,535** or less

The grant is available until the beneficiary turns 17 or until the maximum lifetime benefit of $7,200 is reached. Since 2007, every child under the age of 18 that has no contributions will accumulate $500 per year of unused CESG room (before 2007, $400 was accumulated per year), and this will continue to carry forward until contributions are made, or by the end of the calendar year the beneficiary turns 17. The CESG payments are designed to encourage long-term planning for a child's education.

Because the CESG encourages long-term saving, payments made for beneficiaries aged 15 to 17 must meet specific requirements:

- Minimum **$2,000** of RESP contributions were made in the calendar year the beneficiary turns **15** or earlier; or
- A minimum of **$100** in annual RESP contributions was made in any four years prior to the beneficiary turning **15**

Canada Learning Bond (CLB)

The Canada Learning Bond (CLB) is another enhancement to the RESP system. It contributes $500 upon the first year of eligibility and $100 per year up to a maximum of $2,000 to a child's RESP before the age of 15. This eligibility is based on the adjusted family net income and number of children in the family. For example, the July 2020 to July 2021 income for a family with one to three children must be below $48,535 to be eligible; the income threshold increases along with the number of children.

Withdrawals from RESPs

The withdrawals from an RESP fall under two categories: The Education Assistance Payments (EAP) and Post-Secondary Education Payments (PSE). This separation of payments occurs because some of the contributions have previously been taxed. Any gain, whether through investments or government contributions, will be taxable to the beneficiary. To request a withdrawal, the beneficiary must show proof of enrollment from the post-secondary school to the promoter.

1.0 Education Assistance Payments (EAP)

- Payments made to the beneficiary from any accumulated earnings, the CESG or the CLB, fall under this category. These payments must be included in their income in the year they are paid to the beneficiary.
- For the first **13** months, the EAP is limited to **$5,000** for any qualifying educational program and **$2,500** for a specified educational program. After **13** months have passed, this limit is lifted.
- The promoter will issue a **T4A** tax form in the students name for EAP payments only.

***Note:** If the beneficiary does not attend post-secondary, the CESG and CLB must be repaid to the government.

2.0 Post-Secondary Education Payments (PSE)

- Payments from subscriber contributions are funds paid beneficiary without incurring any taxable gain.
- No tax form will be generated.

RECOMMENDATION

It is suggested to **withdraw the EAP payments as soon as possible** or in lower-income years. As the student progresses through their education, it can be expected they will increase their annual net income, whether that is through summer work or through long-term co-op work programs.

Accumulated Income Payments (AIP) to Subscribers

The AIP provides an option to withdraw the money from the RESP when the beneficiary does not attend post-secondary or if there is money left within the account. As a Canadian resident, the account must have been open for at least 10 years and the beneficiary must be at least 21 years old before being able to use this option.

There are two options when requesting an AIP withdrawal:

1. To withdraw the funds as Income. Upon withdrawal, any gain on the contributions will be considered taxable income to the subscriber. There is an additional 20% tax on the accumulated income to account for investing in a tax-advantaged account.
2. Transfer into an RRSP. Contingent of RRSP contribution room, it is possible to avoid the additional 20% tax by transferring the RESP into the subscribers RRSP. Any benefit received by the government must be repaid.

To request an AIP transfer into an RRSP, you must fill out the T1171 Form (Tax Withholding Waiver on Accumulated Income Payments from RESPs).

To withdrawal from the AIP as income, you can request the withdrawal from the RESP Promotor but you must also fill out the T1172 Form (Additional Tax on Accumulated Income Payments from RESPs).

The Why

At Qube, we are passionate about several great topics that focus on the investment needs of many Canadians, and part of that is to promote financial literacy to anyone within our reach. The whitepapers we design are created to bring awareness to the benefits that wealth managers can provide. We ultimately want to gain the opportunity to prepare investment proposals for potential clients. Qube services clients anywhere in Alberta and British Columbia. You can reach Qube at:

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