Registered education savings plans (RESPs)

The Basic Canada Education Savings Grant (and other government grants) and tax-deferred growth make RESPs an attractive way to save for the rising cost of a child's education.

What is an RESP?

An RESP is a tax-deferred education savings vehicle through which the federal government allows a subscriber to save money for a beneficiary's post-secondary education.

A subscriber is an individual other than a trust. The exception is where a subscriber dies; in that situation, the estate of the deceased may take over as the subscriber of an existing plan. In the case of a jointly held RESP, only spouses or common-law partners may be joint subscribers. A subscriber may also be a government agency acting as the primary caregiver of the beneficiary; not all institutions will administer such a plan.

Who qualifies as a beneficiary?

This depends on the type of RESP. Qualifications for an RESP set up as an "individual" plan differ from those for a "family" plan. In an individual plan, the beneficiary can be anyone, whether related to the subscriber or not. In fact, the beneficiary can be the subscriber. Since there are no age restrictions on this type of plan, a subscriber who thinks he or she may attend post-secondary school someday may want to set up an RESP naming himself or herself as the sole beneficiary.

In order to add a beneficiary to a family plan (i.e., an RESP that permits more than one beneficiary), the beneficiary must be under 21 years of age and related to the subscriber by blood relationship or adoption. For this purpose, "blood relationship" includes children, brothers, sisters, grandchildren and great-grandchildren. It does not include the subscriber or the subscriber's spouse, nieces or nephews. Further restrictions are in place when applying for certain government grants. In family plans, contributions can only be made for beneficiaries under 31 years of age.

Under both the individual and family plans, a subscriber can designate a new beneficiary at any time, although certain restrictions may apply which also affect the grants in the plan. The family plan provides the most flexibility when it comes to sharing the grants (to the maximum limits), growth and contributions.

Beneficiary(ies)
A beneficiary is the person who will be attending post-secondary education (or persons, in the case of a family plan) and to whom Invesco agrees to make educational assistance payments if the beneficiary qualifies to receive such payments.

Subscriber
A subscriber is an individual who enters into the RESP contract with Invesco and names a beneficiary on whose behalf he or she will make contributions. A subscriber may also be a government agency acting as the primary caregiver of the beneficiary.

Spouses or common-law partners only may be joint subscribers to an RESP. Trusts are prohibited from being subscribers to RESPs.

The RESP rules allow for a replacement subscriber to be named if the original subscriber dies. Where the RESP allows another person to make a contribution into the plan after the death of the original subscriber, that person is then considered the replacement subscriber under the plan. Therefore, if the estate of a deceased subscriber continues to make contributions into an RESP, the estate is considered to be a subscriber.

A former spouse or common-law partner may also become a subscriber under an RESP if he or she acquires these rights as a result of the breakdown of the marriage or common-law partnership.

RESP contributions

Since 2007, there has not been a required specific annual maximum contribution for a beneficiary. There is, however, a lifetime limit, which has been increased to $50,000 from $42,000 per beneficiary.

Contributions to an RESP are not tax-deductible, which is why contributions may be withdrawn tax-free from the plan at any time (see *Refund of contributions* on page 7). The income or growth in the plan, however, remains tax-sheltered for the life of the plan until it is paid out in the form of educational assistance payments to qualifying beneficiaries, or as accumulated income payments to the subscriber, or is forfeited to a Canadian post-secondary eligible designated institution.

Contributions can be made each year before the end of the 31st year following the year the plan was entered into. Contributions made on behalf of a beneficiary of a family plan are restricted further as contributions must be made before the beneficiary's 31st birthday. The plan must be collapsed before the end of the 35th year‡ following the year the plan was entered into. This allows the plan to continue to provide tax-deferred growth while the beneficiary is pursuing post-secondary education. When transferring between plans, the receiving plan must adopt the earlier plan inception date.

‡ For Individual RESP beneficiaries that qualify for a disability tax credit, the contributory period and the lifespan of the RESP may be extended to 35 years and to 40 years, respectively. The terms and conditions of the RESP must include this optional provision.

Example 1a
Note: For years after 2006, the RESP overcontribution penalty will apply to excess contributions amounts made in respect to an RESP for a particular beneficiary that exceeds the lifetime RESP limit.

In January 2004, Sally contributed $4,000 to an RESP for her daughter Anne. In October 2004, Anne's aunt, not knowing that Sally had already set up a plan, set up a separate RESP for Anne and contributed $2,000. A total contribution of $6,000 was made on Anne's behalf; two-thirds of it was made by Sally and one-third was made by Anne's aunt. Since the annual contribution limit per beneficiary up to 2006 is $4,000, a total of $2,000 has been over-contributed. The penalty of 1% per month will be charged for October, November and December 2004, resulting in a penalty of $60 ($2,000 x 1% x 3 months). Sally will be responsible for $40 ($60 x 2/3) and Anne's aunt will be responsible for $20 ($60 x 1/3). This penalty will continue until the $2,000 is withdrawn from either plan. Anne's lifetime contributions-to-date is $6,000, even after the overcontribution has been withdrawn.

RESP transfers

Currently, transferring RESPs to another RESP for the same beneficiary does not result in adverse consequences. In the event there are different beneficiaries on transfers between individual RESP plans, tax penalties and grant repayments may apply unless the beneficiaries of both plans are siblings and the receiving plan beneficiary was under age 21 at the time the receiving plan was entered into.

Family RESPs offer the best grant-sharing possibilities where siblings are designated before they turn 21.

Penalty tax on overcontributions

If contributions are made in excess of the annual (up to 2006) or lifetime limit, they are subject to a penalty tax of 1% per month of the amount of the overcontribution at the end of that month. If the RESPs have more than one subscriber, the penalty is based on the proportion of contributions per subscriber. The penalty is calculated on the T1E-OVP return "Individual Tax Return for RESP Excess Contributions" and must be remitted to the Canada Revenue Agency (CRA) within 90 days after the end of the year for which there was an overcontribution (generally, March 31).

Withdrawing an overcontribution will reduce the amount, if any, that is subject to the penalty tax. However, the overcontribution will still be included in the calculation of the $50,000 lifetime limit for that beneficiary.

If the overcontribution amount is over $4,000 in a given calendar year, a Canada Education Savings Grant (CESG) repayment must be calculated and paid to Human Resources and Skills Development Canada (HRSDC).

If the overcontribution amount is under $4,000, a CESG repayment is not required, however, the subscriber must complete an HRSDC statement for the exception. Any contribution amount over the beneficiary's $50,000 lifetime limit is not eligible for CESG or Quebec Education Savings Incentive (QESI).

What is the Canada Education Savings Grant?

To promote saving for a child's education and to give a boost to RESPs, the government introduced the Basic and Additional CESG. The Basic CESG, which is deposited directly into the RESP itself, is equal to 20% of the annual contributions made to an RESP, to a maximum of up to $1,000 per year per beneficiary, depending on the availability of CESG carryforward. The CESG is not included in determining the lifetime $50,000 RESP contribution limit.

Starting from the later of 1998 or birth, every Canadian resident under the age of 18 began to accumulate Basic CESG room of $400 per year up to 2006 and $500 per year thereafter. Basic CESG room is used to determine the maximum amount of Basic CESG that a plan can receive from the government in a year. As of January 1, 2007, Basic CESG payments are based on a maximum of 20% of contributions actually made in the year or $2,500, whichever is less. Unused CESG is automatically carried forward from year to year. This outstanding amount will be paid on the next $2,500 of annual contributions up to $500 for a maximum annual CESG payout of $1,000 for a $5,000 contribution.

Period	Basic CESG annual room	Contribution required for Basic CESG annual room	Basic CESG annual limit	Contribution required for Basic CESG annual limit*
1998-2006	$400	$2,000	$800	$4,000
2007-onwards	$500	$2,500	$1,000	$5,000

*When carryforward room is available

CESGs are available up to and including the year in which a beneficiary turns 17. The maximum amount of CESG that can be received is up to $7,200 per beneficiary. The beneficiary must qualify for the CESG each year to accumulate CESG room and to receive the CESG and any outstanding CESG carryforward room.

To ensure that RESPs are used as systematic savings plans over the long term, contributions made for beneficiaries in the calendar year they turn 16 or 17 years old will receive a CESG only when:

- A minimum of $2,000 of contributions has been made and not withdrawn, to RESPs in respect of the beneficiary before the calendar year in which the beneficiary was 16 years of age; or
- A minimum of $100 of annual contributions has been made and not withdrawn, to RESPs in respect of the beneficiary in any four years before the calendar year in which the beneficiary was 16 years of age

For Invesco to apply for a CESG on behalf of an RESP beneficiary, the Social Insurance Number for the subscriber(s) and the beneficiary(ies) and a duly completed prescribed grant application must be provided.

History of RESP contribution limits:

Year(s)	Annual	Lifetime
1990-1995	$1,500	$31,500
1996	$2,000	$42,000
1997-2006	$4,000	$42,000
2007-		$50,000

Example 1b

In January 2013, Bob contributed $3,000 to an RESP for his son Jeff. Also in January, Jeff's uncle (Andy) contributed $9,000 for an RESP that he set up for Jeff. The total lifetime RESP contributions made into RESPs for Jeff prior to 2013 was $46,000, which was below the maximum lifetime RESP contribution limit. As of January 2013, Bob and Andy have over-contributed into Jeff's RESP by $8,000 with the total lifetime contributions equaling $58,000. As of February 2014, Andy withdrew $8,000.

The over-contribution penalty is based on the proportion of contributions per subscriber. Of the $8,000 overcontribution, Bob contributed $3,000 so his share of the over-contribution is $2,000 calculated as ($3,000/$12,000 x $8,000). Andy contributed $9,000, his share of the over-contribution is $6,000 calculated as ($9,000/$12,000 x $8,000). Since the over-contribution was withdrawn in February of the following year, the overcontribution penalty will apply from January to January (13 months). Bob will be responsible for $260 in penalties calculated as ($2,000 x 1% month x13 months). Andy will be responsible for $780 in penalties calculated as ($6,000 x 1% month x 13 months). Since Andy withdrew $8,000 in February, the over-contribution penalty does not apply for the month of February 2014.

Example 2

In 2013 Joanne established individual RESPs for her nephew Matthew and niece Jennifer. Matthew was born May 3, 2004, and Jennifer was born June 25, 2007. The children are not beneficiaries of any other RESP other than the ones established by their aunt in 2013. For 2013, Joanne made contributions of $5,000 in each individual RESP. Due to the CESG carryforward, the $5,000 contribution in Matthew's plan attracts CESG of $1,000 ($500 from 2013 and $400 from 2004 and $100 from 2005 carryforward room). The $5,000 contribution in Jennifer's plan attracts CESG of $1,000 ($500 from 2013 and $500 carryforward from 2007). The remaining CESG carryforward amounts for Matthew and Jennifer are $3,700 and $2,500, respectively, for end of 2013 as per the table below.

Cumulative CESG carryforward amounts

Year	Matthew (born in 2004)	Jennifer (born in 2007)
2004	$400	N/A
2005	$400	N/A
2006	$400	N/A
2007	$500	$500
2008	$500	$500
2009	$500	$500
2010	$500	$500
2011	$500	$500
2012	$500	$500
2013	$500	$500
Paid to RESP	$1,000	$1,000
Remaining total	$3,700	$2,500

Other government grants

Additional CESG

An additional amount of CESG is available to assist lower-income families. The first $500 contributed to the RESP in a calendar year will attract an additional 20% if the child's family has qualifying net income of $43,953§ or less, or if a public agency is receiving a Children's Special Allowance on behalf of the child. The Additional CESG is reduced to 10% if the child's family has qualifying net income greater than $43,953§ but not exceeding $87,907§. The remaining contribution amounts for the year will remain eligible for the regular CESG up to a maximum limit. Qualifying net income is the same information used to determine eligibility for the Canada Child Tax Benefit. Unused Additional CESG is not eligible for carryforward to future years.

For those families with the lower net income, the resulting maximum CESG for the year is increased up to $1,100 (20% on first $500 of RESP contribution and 20% of entire RESP contribution, up to $5,000 for the year). For those families with net income between the two thresholds mentioned above, the resulting maximum CESG for the year is increased up to $1,050 (10% on first $500 of RESP contribution and 20% of entire RESP contribution, up to $5,000 for the year).

Where contributions are made by others who are not the primary caregiver (the person receiving the Canada Child Tax Benefit), consent must be obtained from the primary caregiver in order to apply for the Additional CESG. Limits to the Additional CESG on the first $500 RESP contribution apply jointly to all RESPs of which the child is a beneficiary.

With respect to family plans, the beneficiaries must all be siblings in order to qualify for the Additional CESG and is only transferable to other eligible siblings. The Additional CESG is included in the lifetime maximum CESG limit of $7,200 per beneficiary.

§ The amounts of $43,953 and $87,907 apply to 2014 only and are subject to annual indexation.

Canada Learning Bond (CLB)

The CLB is available to every child born on or after January 1, 2004. Eligibility is linked to the National Child Benefit Supplement received with the Canada Child Tax Benefit or Children's Special Allowance. An initial $500 is provided when the beneficiary is first eligible; additional annual $100 payments are made for each eligible year up to the year the child turns 15, for a maximum lifetime total of $2,000. The CLB amount is paid into an RESP with the authorization of the primary caregiver and does not affect the lifetime RESP contribution limit.

The rules do not permit the CLB to be shared with other beneficiaries in a family plan but the earnings from the CLB may be shared. In order for the RESP to receive the CLB, the RESP must be an individual plan or a family plan where all the beneficiaries are siblings.

Quebec Education Savings Incentive (QESI)

Beginning in 2007, the Quebec government introduced the Quebec Education Savings Incentive (QESI) in an effort to assist and encourage Quebec residents to save for their children and grandchildren's education. A QESI benefit consists of a refundable tax credit that is paid directly into a RESP on behalf of an eligible RESP beneficiary. The credit is equal to 10% of the net contributions into the RESP over the course of a calendar year up to a maximum of $250. Also note that QESI benefits are generally deposited into the RESP in the year following the year an RESP contribution is made. Additionally, beginning in 2008, QESI benefits can accrue from previous years and may be recoverable in a given year up to a maximum of $250 based on additional contributions made into the RESP.

To be entitled to the QESI benefits, the beneficiary must meet all of the following conditions:

- be less than 18 years old
- have a Social Insurance Number (SIN)
- be a resident of Quebec on December 31 of the taxation year
- be the designated beneficiary of the concerned RESP

The lifetime maximum a beneficiary may receive in QESI benefit payments is $3,600 (one half of the lifetime CESG limit). Also note that beneficiaries who are 16 or 17 years of age would need to meet the CESG age rules (see page 3) in order to qualify for QESI benefit payments during those years.

For lower income households, additional QESI benefits are available. The rate of financial assistance for a household with a family income of $41,495 or less (2014) under the QESI is doubled, from 10% to 20% on the first $500 paid annually into an RESP. The basic QESI benefit may therefore be increased by up to $50 a year. Accordingly, the maximum allowable QESI benefit for a child from a low-income household is raised from $250 to $300 a year on a $2,500 RESP contribution. For children of households with a family income over $41,495 to $82,985 (2014), the basic QESI benefit may increase by up to $25 a year as the rate applicable on the first $500 in annual contributions paid into an RESP rises from 10% to 15%. The maximum allowable assistance for a child in a middle-income household is therefore raised from $250 to $275 a year on a $2,500 RESP contribution.

Example 3

Theresa gave birth to her first son Noah in February 2013. Noah will automatically accumulate $500 of CESG room for 2013. Theresa decided to start saving early for her son's education and therefore opened up an RESP for Noah with a $1,000 contribution right away. The government deposited a $200 CESG in the child's RESP ($1,000 x 20%). In 2014, Noah had $800 worth of CESG contribution room available ($500 created in 2014 + $300 carryforward from 2013). If Theresa contributes $5,000 in 2014, the RESP will receive a CESG of $800 ($4,000 x 20%) deposited directly into Noah's RESP account, which is limited to 20% of the amount of unused CESG room. The extra $1,000 contribution made by Theresa in 2014 cannot be carried forward to attract a CESG in a future year but remains in the plan earning tax-sheltered income.

Example 4

In 2010 Alan (as a resident of Quebec) opens an RESP account for his daughter Sandy, born in 2010, to save money for her education. He does not make any contributions in 2010 or in 2011. In 2012, however, he contributes $5,000, which gives entitlement to the basic amount of $250. In 2013 Revenu Québec will pay $500 into the RESP (of which, $250 relates to the 2012 QESI benefits entitlements and the other $250 relates to the accrued QESI benefits for previous years—2010 and 2011). Assuming Alan contributes another $5,000 in 2013, Revenu Québec will pay $500 into the RESP in 2014, thereby catching up all his accrued QESI benefits for previous years.

Example 5

Alan is the subscriber of an RESP for his daughter Sandy (born in 1997), which has $4,000 of pre-1998 (i.e., unassisted) contributions. In October 2010, Alan contributed a further $2,000 to the RESP, which attracted a CESG of $400. The RESP now has $2,000 of assisted contributions. In March 2011, Alan withdrew $3,000 of contributions ($2,000 assisted and $1,000 of pre-1998 contributions) from the plan, requiring a $400 CESG repayment. Since assisted contributions have to be withdrawn first, the full amount of CESG is redeemed in this case, and repaid to the government. Alan went on to contribute another $1,000 in October 2011; however, this did not qualify for a CESG as a result of his withdrawal of more than $200 pre-1998 unassisted contributions, and neither will any contributions in 2012 and 2013. Sandy will not earn any CESG room in either 2012 and 2013 so the amount of unused CESG room carried forward to 2014 is $5,700 representing unused CESG contribution room of $400 annually from 1998 to 2006 and $500 annually from 2007-2010, less $400 received by the RESP. All the beneficiaries named on a Family RESP at the time of a withdrawal of pre-1998 contributions would be affected in the same way.

Alberta Centennial Education Savings (ACES) Grant

Starting in 2005, the ACES Grant provides $500 to an RESP for every child born in 2005 and thereafter to natural or adoptive parents residing in Alberta. The grant also provides $100 to an RESP for children attending school in Alberta at ages 8, 11 and 14 in 2005 or later, and where a $100 minimum contribution was made on behalf of the beneficiary within 12 months prior to the ACES Grant application. In order for the RESP to receive the ACES Grant, the RESP must be an individual plan or a family plan where all the beneficiaries are siblings. The conditions of use and treatment of repayments of the provincial grant is generally the same as those for the CESG in that the ACES Grant can be shared by siblings; however, there is no lifetime limit in the Education Assistance Payment (EAP) portion as with CESG.

As part of its 2013 budget, the Alberta government announced the phase-out of the ACES program. As of September 2013, no timetable has been provided; however, qualifying Albertans may continue to apply for and receive the ACES Grant.

Saskatchewan Advantage Grant for Education Savings (SAGES)

As part of the 2013 budget, the Saskatchewan government as of January 2013 has introduced the Saskatchewan Advantage Grant for Educations Savings (SAGES). The grant will be available on RESP contributions at a rate of 10% on annual contributions up to a maximum of $250 per year per beneficiary. The lifetime SAGES maximum is $4,500. To qualify for SAGES, the child must be a resident of Saskatchewan when the RESP contribution is made; the child must be named as the RESP beneficiary; all beneficiaries of a family RESP must be siblings of one another; and RESP contributions must be made on or before December 31 the year the child turns 17 years of age.

British Columbia Training and Education Savings Grant (BCTESG)

As part of British Columbia's (B.C.) 2013 budget, the government introduced the B.C. Training and Education Savings Grant (BCTESG) to assist families saving for their children's education. The BCTESG is a payment of $1,200 to be deposited on behalf of the child into an RESP where they are the beneficiary. To qualify, an RESP must be established before the child turns 7, the child must be born on or after January 1, 2007 and the child must be a B.C. resident. After the child turns 6, families will be able to apply for the grant. An extension will be provided for beneficiaries turning 7 in 2013. Please note: RESP contributions are not required to receive this one-time BCTESG payment.

How are RESPs taxed?

Unlike RRSP contributions, contributions made to an RESP are not tax-deductible. If money is borrowed by the subscriber to make an RESP contribution, the interest paid on the loan is not tax-deductible.

The tax advantage of RESPs is that all income, growth and government grants, including any growth attributable to the government grants in the RESP, are tax-deferred until they are removed from the plan. If the income and government grants are paid to the beneficiary as an EAP, he or she will likely be in a low- or no-income bracket while attending school, and therefore he or she may pay little or no tax on the EAP when withdrawn.

Note that when income and grants are withdrawn as an EAP, the EAP is considered to be "Other Income" — no breakdown of Canadian dividends, foreign income, interest income or capital gains is made. As a result, the EAP is not eligible for the dividend tax credit or capital gains treatment. The EAP (income and grants — see section on *Education Assistance Payments*) is reported to beneficiaries on a T4A slip (plus a Relevé 1 for Quebec residents).

How can contributions, income and grants be withdrawn from the plan?

Withdrawals from an RESP can be classified as one of the following: a refund of contributions, educational assistance payments, accumulated income payments or a payment to a post-secondary designated educational institution. Government grants are only paid out in educational assistance payments; any grant balance remaining will be repaid to the government when the plan is terminated with any other type of payment.

Refund of contributions

The subscriber may withdraw contributions (refund of contributions) at any time without any income tax implications. However, the government has put in place several anti-avoidance rules to ensure that the CESG program is not abused as a result of premature refunds of contributions.

Contributions must be redeemed in the following order:

1. Assisted contributions — contributions that received CESG
2. Unassisted contributions from January 1, 1998 — contributions that did not receive CESG
3. Unassisted contributions prior to January 1, 1998 — contributions that did not receive CESG

Accordingly, for a plan that has received a CESG when a contribution is removed while no beneficiary is eligible for an EAP, an amount between 20% to 40% of the contribution withdrawn must be repaid to the government up to the extent that CESGs were received.

If more than $200 of pre-1998 unassisted contributions in the same calendar year are withdrawn from the plan, all the beneficiaries of the RESP will not qualify for CESG for the remainder of the year of withdrawal or the following two years. Additionally, the beneficiaries will not accumulate any new CESG contribution room for the following two years.

If any amount of assisted contributions is redeemed after March 22, 2004, all the beneficiaries of the RESP will not be eligible for the Additional CESG for the remainder of the year of the withdrawal and the following two calendar years.

Contributions that are withdrawn when one of the RESP beneficiaries is eligible for an EAP do not require grant repayments. Subscribers must take care that enough contributions remain in the RESP for younger beneficiaries to qualify for the CESG when he or she turns 16 and 17 in the calendar year.

Example 6

Jonathan set up a family plan for his three children: Sarah, Ted and Adam. For the years 2007 through 2013, he contributes $2,000 per beneficiary resulting in $2,800 of CESGs for each child ($2,000 x 20% x 7 years), for a total of $8,400 of CESGs in the plan. In 2014 his youngest child, Adam goes to university. The two older children did not pursue post-secondary studies. Adam may receive all of the growth or income accumulated in the plan; however, he may only receive up to $7,200 of CESGs. The remaining $1,200 of CESGs must be repaid to the government.

Example 7

Mary opened a family plan for her two children, Eve and Jason. As of August 2013, there are $25,000 in contributions and $5,000 CESGs. Mary's parents had also opened a plan for all four of their grandchildren. As of August 2013, there are contributions of $40,000 and $8,000 CESGs. Jason is starting university in September 2013, and an EAP is requested from Mary's family plan. Jason receives a letter from the promoter indicating the $5,000 EAP consisted of $4,000 CESG and $1,000 earnings. Since the lifetime maximum for the EAP CESG portion is $7,200, if an EAP is requested from the grandparents' RESP, a copy of the letter must be provided to the second promoter so that the subsequent EAP amount does not have more than $3,200 CESG.

Education Assistance Payments (EAPs)

EAPs are any amounts paid out under an RESP, other than a refund of contributions, including government grants, to a beneficiary to help the beneficiary attend a full- or part-time educational program at a post-secondary educational institution.

The subscriber of the RESP decides during the beneficiary's post-secondary enrolment period, when and how much should be paid out of the plan to the beneficiary. The subscriber can also choose whether to pay out income and grants (from an EAP) or contributions. A part of each EAP will be attributed to the government grants deposited to the plan, based on the ratio of government grants to total investment earnings. A maximum of up to $7,200 of CESG per beneficiary can be paid out in the beneficiary's lifetime. This is especially important when dealing with family plans or more than one plan.

In a family plan, if one beneficiary does not attend a post-secondary educational institution, the other beneficiaries in the plan can share in any growth or income in the plan, as well as any CESG, up to a maximum of $7,200 of CESG per beneficiary.

Full-time versus part-time educational program

For beneficiaries attending a full-time program, there is a $5,000 limit in EAPs per beneficiary per promoter during the first 13 weeks of a qualifying educational program. A qualifying educational program consists of at least 10 hours per week of courses for at least three consecutive weeks' duration in Canada and three consecutive weeks for students enrolled at a university outside of Canada on a full-time basis. The course length must be 13 consecutive weeks for a school outside Canada that is not a university.

If more than $5,000 is required in the first 13 weeks, prior approval must be obtained from HRSDC. Beyond the first 13 weeks, an additional EAP may be requested provided the beneficiary continues to be enrolled in a qualifying program. If there is a 13-month period in which the beneficiary was not enrolled in a qualifying educational program, the $5,000 limit will apply once again.

For beneficiaries attending a part-time program, there is a $2,500 limit in EAPs per beneficiary per promoter for a specified educational program in each 13-week period. A specified educational program in Canada consists of at least 12 hours per month of courses for at least three consecutive weeks and 13 consecutive weeks for programs outside Canada. If more than $2,500 is required in any 13-week period, prior approval must be obtained from HRSDC.

The above definitions also apply to eligible correspondence courses.

Subscribers must provide detailed proof of enrolment from beneficiaries so that promoters may determine the appropriate EAP limits. A combination of contributions and EAP may be withdrawn when the beneficiary is enrolled. However, since an EAP can only be paid when the beneficiary is enrolled, careful planning is required so that all possible income and grants are used by the beneficiary.

Accumulated Income Payments (AIPs)

If all intended beneficiaries of an RESP are not pursuing a higher education, the subscriber may request an AIP if he or she is a Canadian resident and meets one of the following conditions:

1. The RESP has been in existence for at least 10 years, and all the beneficiaries, past and present, are over 21 years of age and not eligible for an EAP
2. All beneficiaries, past and present, are deceased
3. The payment is made in the 35th year following the year of the plan inception date

Where a beneficiary with a severe and prolonged mental impairment is not reasonably expected to pursue a full-time or part-time qualifying post-secondary program, the subscriber may be permitted to take an earlier AIP if approval is obtained from the CRA.

AIPs, when withdrawn, are fully taxable to the subscriber at his or her marginal tax rate (MTR) as reported on their T4A slip (plus a Relevé 1 for Quebec residents). However, the subscriber has the option of transferring this accumulated income to his or her RRSP or to a spousal RRSP if RRSP contribution room is available. If the subscriber does not have enough contribution room to tax shelter this income, the excess will be subject to an additional penalty tax of 20% — this is above the normal tax he or she would pay on the RESP income inclusion. This tax is calculated and reported to the CRA on Form T1172 "Additional Tax on Accumulated Income Payments from RESPs" and is due with the subscriber's income tax return for the year in which the payment is received.

The maximum lifetime amount of income eligible for transfer to avoid the penalty tax is $50,000 per subscriber. Additionally, the RESP must be terminated before March 1 of the year following the year in which the first accumulated income payment is made.

The CRA's form T1171, "Tax Withholding Waiver on Accumulated Income Payments from RESPs" and a copy of the subscriber's assessment notice indicating his or her current year's RRSP contribution limit must be used by the subscriber to request that Invesco not withhold any tax on the direct transfer to an RRSP. Otherwise, the withholding tax rates are 30% for payments of $5,000 or less, 40% for payments between $5,001 and $15,000 and 50% for payments greater than $15,000 (for Quebec residents the rates are slightly higher). Note that these are simply withholding rates used by the CRA to estimate the amount of tax that may be due from the subscriber. The actual tax liability will be calculated by the subscriber when completing his or her tax return. The subscriber will then get credit for the taxes already withheld by Invesco when calculating the amount due to or from the CRA.

Example 8
In 1997 Michael established an RESP for his daughter Carole. The total income in the plan to date is $10,000. Carole turned 21 on July 25, 2013 and decided not to pursue a post-secondary education. Michael has $6,000 of unused RRSP contribution room for 2013. If he takes the full $10,000 as an accumulated income payment in 2013, he will have to pay tax of $4,000 (MTR 40% x $10,000) plus a penalty tax of $800 (20% x $4,000). However, if Michael takes only $6,000 of accumulated income payment in 2013 and the additional $4,000 in 2014 (assuming an additional RRSP contribution room of $4,000 is generated for 2014), he could defer all of the tax on the entire $10,000.

Clearly, it is beneficial for the subscriber to attempt to shelter any accumulated income payments from being subject to tax at rates that could be as high as 68% (including the 20% penalty tax). If he or she expects to receive accumulated income payments in the next year or two, the subscriber may wish to avoid making RRSP contributions in those years. This may make it possible to build up the RRSP contribution room necessary to be able to shelter the accumulated income payment and thus avoid the additional penalty tax.

An RESP must be terminated before March 1 of the year following the year in which the first accumulated income payment is made out of the plan. Therefore, when a subscriber is in a position to receive accumulated income payments, there may be advantages to spreading the payments over two calendar years. If the subscriber is transferring the amount to his or her RRSP or to a spousal RRSP, a transfer over two years may allow the subscriber to accumulate additional RRSP contribution room so that the penalty tax may be avoided on the amount transferred. Alternatively, if the subscriber has no contribution room (perhaps due to a pension adjustment), he or she can spread the accumulated income payment over two years to take advantage of graduated marginal tax rates each year.

Note that to avoid the penalty tax on the amount transferred to an RRSP or spousal RRSP, the RRSP contribution must be claimed on the subscriber's tax return for the same taxation year in which the accumulated income payment is received. So, if a subscriber received the first accumulated income payment in cash in April 2012, the subscriber would have had to transfer that same gross amount to his or her RRSP or to a spousal RRSP by March 1, 2013 and claim the RRSP deduction on the 2012 tax return. If the final accumulated income payment is received in February 2013, then this amount must have been transferred to his or her RRSP or to a spousal RRSP by March 1, 2014[†] and deducted on the 2013 tax return to avoid the penalty tax. Form T1172 must be completed and included in the subscriber's tax return.

Note, however, as discussed above, withholding taxes of up to 50% will apply on accumulated income payments where the conditions indicated on form T1171 are not met or confirmed and the funds are not directly transferred to an RRSP.

[†] For the 2013 tax year, the first 60-day deadline of March 1, 2014 falls on a Saturday. As a result, the deadline is extended to the next business day: Monday, March 3, 2014.

Payment to a Designated Educational Institution
In situations where an AIP cannot be made, the income proceeds are paid to a Designated Educational Institution in Canada. This is basically a forfeiture of the income as the subscriber does not receive a tax slip or a donation receipt.

Rollover to Registered Disability Savings Plan (RDSP)
As of January 1, 2014, the option of an RESP AIP rollover to an RDSP is available.

The education savings rollover is a tax-deferred transfer from an individual's RESP to their RDSP. When making a disability assistance payment or lifetime disability assistance payment, the education savings rollover portion of the payment should be treated as plan earnings and must be counted as a taxable amount for reporting purposes.

An education savings rollover can take place if the following conditions are met:

- the beneficiary of the RDSP is a beneficiary of the RESP that is rolling over income
- the RESP permits accumulated income payments; and
- the RESP beneficiary has a severe and prolonged mental impairment that prevents them from enrolling in a qualifying educational program at a post-secondary educational institution; or
- the RESP must be either:
  - open for at least 10 years, where each beneficiary in the RESP is at least 21 years of age and is not eligible to receive educational assistance payments at the time the rollover is made; or
  - open for at least 35 years
- the RDSP specimen plan text has been updated to allow RESP rollovers, and the RDSP requirements are met

As with any RESP AIP transaction, all grant balances are returned to the government, and the RESP must be terminated by the end of February of the following year. The subscriber of the RESP must, in writing, jointly elect with the RDSP holder to have the rollover take place.

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For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at www.invesco.ca.

What if the beneficiary does not attend a post-secondary educational institution?

If a beneficiary does not attend a post-secondary institution, the subscriber of a family RESP can name another individual connected to the subscriber by blood or adoption under 21 years old as a new beneficiary of the plan. If the RESP received Additional CESG, CLB or ACES Grant, the new beneficiary must be under 21 years of age and a sibling of all the existing beneficiaries.

Whether a beneficiary already exists on a plan, is added or is replacing an existing one, the maximum CESG portion paid (in EAPs) to any one beneficiary cannot exceed the CESG maximum of $7,200 per beneficiary; (see "Example 6" on page 7). Any excess CESG received must be repaid.

If the subscriber replaces the beneficiary by transferring from one plan to another, the beneficiary of both plans must be siblings and the receiving plan beneficiary was designated to his or her plan before he or she turned 21 years of age. If this condition is not met, the transfer is considered ineligible and all remaining grants are repaid to the government, and all contributions are deemed to have been made for the new beneficiary on the same dates. This may result in an over-contribution situation where penalty taxes may apply.

Conclusion

RESPs can be a tax-effective way to save for a child's post-secondary education. The introduction of the government grant programs makes these plans even more attractive as savings and investment vehicles.

The *Income Tax Act* (Canada), the *Canada Education Savings Act*, the Canada Education Savings Regulations, the *Alberta Centennial Education Savings Plan Act*, the Saskatchewan Advantage Grant for Education Savings Regulations, the British Columbia Education Savings Grant Regulations and the *Quebec Income Tax Act* take precedence over information contained in this article in event of discrepancies.

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