Manulife Investment Management

Tax, Retirement, & Estate Planning Services

Registered Education Savings Plans (RESPs)

The facts

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A registered education savings plan (RESP) is a tax-assisted plan that can help save money for post-secondary education.

Contributions to an RESP aren't tax deductible, but the money inside the plan will grow tax deferred until it's withdrawn for a post-secondary educational program. In addition, there are grants and incentives available from the Government of Canada and certain provinces to help build education savings.

Manulife Investment Management has written this booklet to provide you with information to help you understand the technical details of RESPs and to offer tips on what to look for and how to maximize the benefits of these plans to find the plan that best meets your needs.

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What is a registered education savings plan?

An RESP is an education savings plan (ESP) that has been registered with the Canada Revenue Agency (CRA).

More specifically, an RESP is a contract between you (the subscriber) and a promoter (sometimes referred to as provider). Under the contract, the subscriber names one or more beneficiaries—the future student(s)—and agrees to make contributions for them. The promoter agrees to pay educational assistance payments (EAPs) to the beneficiaries of the plan.

The **promoter** is the administrator of the RESP.

The **subscriber** sets up the ESP and makes contributions to it.

The **beneficiary** is the individual (future student) named by the subscriber and for whom the RESP contributions are made.

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Why open an RESP?

An RESP is a convenient way to save for future post-secondary education.

- Government grants and incentives may be available to help RESP savings grow. The federal government offers two incentive programs: the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB). Some provinces have also introduced incentive programs.[1]
- Investment income generated in an RESP is tax-sheltered as long as it remains in the plan.
- An RESP can be opened for a child, yourself, or another adult.
- When withdrawn for enrolment in a qualifying post-secondary educational program, plan growth, and government grants will be taxed at the student's tax rate (the student may pay little or no tax on this money).

What to look for

Different RESP providers and plans have different features, risks, and costs. It's important to choose the plan that best suits your needs.

Ask your RESP provider for information about the plans offered.

- What grants and incentives are supported? Make sure that your plan offers the grants that are important to you. All plans offer the basic CESG. However, not all plans support all the other government of Canada or provincial government grants.[1]
- What are the fees? Understand what fees you may be expected to pay when you open the plan, as well as any other costs you may incur as long as you hold the plan.
- How much flexibility are you allowed in making your contributions? Many plans allow you to decide when and how much to contribute, up to the lifetime limits, while other plans require you to make contributions according to a set schedule.
- What are your investment choices? An RESP may invest in a wide range of qualified investments that carry different risks and rates of return. The availability of investment options will depend on your plan.

[1] Manulife RESPs are eligible to receive CESG, enhanced CESG, and CLB amounts on behalf of beneficiaries. Payments from provincial incentive programs can't be paid into Manulife RESPs at this time.

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What to look for

- When and how will you receive payments from the plan? To receive payments for post-secondary education from your plan, the student will need to provide proof of enrolment in a qualifying program, sometimes by a certain deadline.
- What options are available if your beneficiary doesn't continue with post-secondary education? Depending on your situation and the terms of your plan, you may have the following options:
  - You may leave the plan open—your beneficiary may decide to continue education at a later date.
  - You may be able to use the money for another beneficiary or, under certain conditions, transfer a beneficiary's RESP to a registered disability savings plan (RDSP).
  - You may close the plan.
- What happens if you find you need to terminate the plan? Your contributions, less any fees or penalties, will be returned to you tax-free. Grants and incentives that remain in the plan will be returned to the applicable government. Under specific conditions, the earnings on the plan assets may be returned as taxable payments to you. You may be able to reduce or eliminate the tax by transferring money to your registered retirement savings plan (RRSP), or a spousal RRSP if you have available RRSP contribution room.

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How an RESP works

The subscriber enters into the RESP contract with the promoter and names the beneficiary (future student).

The Subscriber contributes to the RESP.

Government grants or incentives (as applicable)

- Canada Education Savings Grant (CESG) is paid to the RESP.
- Canada Learning Bond (CLB) is paid to the RESP.
- Provincial education savings programs are paid to the RESP.

The promoter administers amounts paid into the RESP. Income isn't taxable as long as it remains inside the plan. The promoter makes payments from the RESP in accordance with plan terms.

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Types of withdrawals

			Source	Taxation
1	Student beneficiary **enrolls in** post-secondary education	**Post-secondary education (PSE) contribution withdrawal**	RESP contributions	Returned tax-free to subscriber
		Educational assistance payment (EAP)	RESP earnings, CESG, and other incentives	Taxable to student beneficiary at the student's marginal tax rate
2	Student beneficiary **does not** enroll in post-secondary education	**Contribution withdrawal**	RESP contributions	Returned tax-free to subscriber
		Accumulated income payment (AIP)	Earnings on contributions, grants, and incentives	Paid to subscriber and taxable at the subscriber's marginal tax rate, plus an additional 20% tax

CESG: unused grants returned to government; no tax consequences
CLB: returned to government; no tax consequences

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Types of RESPs

There are three types of RESPs to choose from:

- individual plans
- family plans
- group plans

The RESP you choose depends on how many beneficiaries you have, how old they are, and what you want to invest in. Your RESP provider can give you information about specific plans and help you choose the plan that's right for you.

Individual plans and family plans

When you enter an individual or family plan, a separate trust is established for each plan. Individual plans allow only one beneficiary. Family plans are for one or more beneficiaries.

Individual and family plans are offered by many financial institutions including banks, credit unions, mutual fund companies, insurance companies, investment dealers, and scholarship plan dealers.

As a subscriber, you can decide when and how much you want to contribute (up to the lifetime limit per beneficiary). Alternatively, you can decide to take a break from making contributions at any time. The terms of the plan may set a minimum contribution amount. The plan may allow you to decide how to invest the funds in the plan or limit the investment options available.

Amounts paid into the plan under government incentive programs, as well as investment earnings that accumulate in the plan, are paid out as educational assistance payments (EAPs) to the beneficiary(s) when they're enrolled in a qualifying educational program.

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Types of RESPs

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- individual plans
- family plans
- group plans

Individual plan

- Established for only one beneficiary who must be a Canadian resident and have a valid Social Insurance Number (SIN).
- There are no restrictions on the age of the beneficiary.
- There are no restrictions on who can be named as beneficiary. A subscriber can be the beneficiary of their own plan.
- Anyone can be a subscriber and make contributions.
- Contributions can be made up to 31 years after the plan is opened (35 years for a specified plan[2]).

Family plan

- Established for one or more beneficiaries, who must be a Canadian resident, and have a valid SIN.
- Each beneficiary must be under the age of 21 when added to the plan.
- Each beneficiary must be related to the subscriber of the RESP by blood or by adoption.
- Where all beneficiaries are siblings, it's called a siblings only plan.
- Contributions can be made until the beneficiary is 31 years old.

[2] A **specified plan** is an individual plan where the beneficiary is entitled to the disability tax credit for the taxation year that ends in the 31st year following the year that the plan was entered. A specified plan can't permit another individual to be designated as a beneficiary under the RESP after the 35th year following the year the plan was entered.

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Types of RESPs

There are three types of RESPs to choose from:

- individual plans
- family plans
- group plans

Group plans

Group plans, also referred to as **education funds or scholarship funds**, are offered by scholarship or group plan dealers and are sold by prospectus. They're a set of individual plans that are administered on an age group concept. That is, all contracts for beneficiaries who are nine years old are administered together. The date the plan matures is set at the time of enrolment and is based on the beneficiary's birth date.

Contributions to a group plan are calculated by the promoter's actuary. The amount and frequency of these contributions stay the same as long as the beneficiary hasn't reached 18 years of age. Regular contributions throughout the term of the RESP are usually required, but each plan has its own rules.

Your savings are combined with those of other people and the earnings are shared when it's time to pay for school. Generally, when each plan matures, the contributions are returned to the subscriber and the earnings are divided among the beneficiaries who qualify to receive EAPs in each year of their post-secondary education. The amounts received by each beneficiary will differ as the government grants and incentives can't be shared among the beneficiaries of a group plan.

If your beneficiary doesn't begin post-secondary studies at the same time as the rest of the group, the earnings received from the plan may be affected. If you drop out of the plan before it matures, you may forfeit your earnings to the group.

It's important to read the prospectus to understand how the particular plan works.

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Overview: types of RESPs

	Individual plan	Family plan	Group plan
RESP promoter	Banks, credit unions, mutual fund companies, investment dealers, insurance companies, and scholarship plan dealers		Scholarship or group plan dealers (non-taxable entities such as foundations or non-profit trusts)
Subscriber	Can be: • an individual • an individual and their current or former spouse or common-law partner (joint subscribers) • a public primary caregiver		
Beneficiary	One	One or more	One beneficiary named by subscriber but as part of a plan for many children
Beneficiary must be related to subscriber by blood or adoption	No	Yes	No
Age of beneficiary	No age limitation	Under age 21 at the time designated Under age 31 at the time of contribution	May be specified by plan
Contributions	Subscriber decides when and how much to contribute up to the lifetime limit. Promoter may set minimum amount.		Regular contributions determined when you open the plan
Time limit for contributions	Up to 32nd year of plan (36th year for a specified plan)	Up to age 31 of each beneficiary	Contributions according to the plan schedule
Payout/withdrawals	Contributions: May be returned tax-free to the subscriber at any time or may be paid to or on behalf of a beneficiary to help finance education. However, if the beneficiary isn't eligible for an EAP, grants and incentives may need to be returned to the government. EAPs: Some plans make EAPs on a set schedule, while others let you decide.		Contributions: Usually repaid to the subscriber when beneficiary reaches a certain age EAPs: Based on the total number of students of the same age who are in school that year, but government incentives are paid to specific beneficiaries
Plan termination	End of 35th year after the year the plan was entered (40th year for a specified plan)	End of 35th year after the year the plan was entered	Date for plan maturity is set at enrolment and is based on the beneficiary's birth date

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RESP—the basics

Promoter

The promoter is the person or organization that offers the education savings plan (ESP) and applies to CRA for registration as an RESP at the request of the subscriber.

The promoter arranges to hold the funds with a trust company licensed in Canada.

The promoter administers all amounts paid into the RESP to pay EAPs to or for one or more plan beneficiaries.

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Subscriber

The subscriber is the individual who sets up the RESP, names one or more beneficiaries, and makes contributions to it. Generally, the subscriber of the plan can't be changed after the plan has been set up.

You can change a subscriber by way of plan transfer. For example, where the grandparents have opened the original plan and wish to transfer the ownership to the parents of the beneficiaries.

The subscriber is responsible for making sure that the contribution limits aren't exceeded. Control of the contributions remains with the subscriber. However, contributions may be paid to the beneficiary by or on behalf of the subscriber.

Who can be a subscriber?

Can a subscriber be changed or replaced?

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Subscriber

The subscriber is the individual who sets up the RESP, names one or more beneficiaries, and makes contributions to it. Generally, the subscriber of the plan can't be changed after the plan has been set up.

You can change a subscriber by way of plan transfer. For example, where the grandparents have opened the original plan and wish to transfer the ownership to the parents of the beneficiaries.

The subscriber is responsible for making sure that the contribution limits aren't exceeded. Control of the contributions remains with the subscriber. However, contributions may be paid to the beneficiary by or on behalf of the subscriber.

Who can be a subscriber?

A subscriber must be an individual; corporations and trusts aren't allowed to be a subscriber (unless the trust is the estate of a deceased subscriber). All subscribers under an RESP have to give their SIN to the promoter before the plan can be registered as an RESP.

- You can be a single subscriber.
- You and your current or former spouse or common-law partner can be joint subscribers.[3]
- A public primary caregiver of a beneficiary may also be a subscriber. A public primary caregiver may be the department, agency, or institution that cares for the beneficiary; or the public trustee or public curator of the province in which the beneficiary resides.

For an individual plan, there are no restrictions on who can be the original subscriber under an RESP. Anyone (parents, grandparents, or other relatives and friends) of any age can open an RESP and name a beneficiary. You can even set up an RESP for yourself.

For a family plan, the subscriber must be connected by blood or adoption to all plan beneficiaries.

[3] Current or former spouses (divorced or separated) can open an RESP account as joint subscribers. The latter option was introduced as part of the 2023 Federal Budget.

Can a subscriber be changed or replaced?

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Subscriber

The subscriber is the individual who sets up the RESP, names one or more beneficiaries, and makes contributions to it. Generally, the subscriber of the plan can't be changed after the plan has been set up.

You can change a subscriber by way of plan transfer. For example, where the grandparents have opened the original plan and wish to transfer the ownership to the parents of the beneficiaries.

The subscriber is responsible for making sure that the contribution limits aren't exceeded. Control of the contributions remains with the subscriber. However, contributions may be paid to the beneficiary by or on behalf of the subscriber.

Who can be a subscriber?

Can a subscriber be changed or replaced?

Changes to the subscriber are allowed in the following situations:

- A former spouse or common-law partner can become a subscriber as a result of a court order or written agreement for dividing property after a breakdown of the relationship.
- Another individual or another public primary caregiver who has, under a written agreement, acquired a public primary caregiver's rights may become a subscriber.
- If there are joint subscribers, the survivor would continue as the subscriber of the RESP. An individual can be named as successor subscriber and will become the subscriber after the death of the last surviving subscriber. Otherwise, the executors of the subscriber's estate may assume this responsibility.

You will need to check the terms and conditions of your RESP for changes that are allowed under the terms of the plan.

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Beneficiary

A beneficiary (future student) of an RESP is an individual named by the subscriber and to whom, or on whose behalf, the promoter agrees to make educational assistance payments. There are no limits on the number of plans you can establish for a beneficiary, or the number of RESPs a beneficiary may have. However, the annual and lifetime contribution limits are per beneficiary and not per RESP account.

Who can be a beneficiary?

Can the beneficiary be changed or replaced?

What happens on the death of the beneficiary?

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Who can be a beneficiary?

A beneficiary must have a SIN and be resident in Canada when the designation is made.[4] Contributions can be made only for beneficiaries who are resident in Canada. Also, only resident beneficiaries are eligible for the government incentives.

In an individual plan, there's no restriction on who can be the beneficiary. Only one beneficiary is allowed and there's no age restriction. You can be the beneficiary of your own RESP.

In a family plan, there can be one or more beneficiaries and each beneficiary must meet both of the following conditions:

- The beneficiary must be connected by blood relationship or adoption to each living subscriber, or have been similarly connected to a deceased original subscriber.
- The beneficiary must not have reached 21 years of age at the time of being named as a beneficiary. When one family plan is transferred to another, a beneficiary who's 21 years of age or older can still be named a beneficiary to the new RESP.

Connected by blood or adoption refers to a parent, brother, sister, child, or grandchild of the subscriber. This doesn't include the subscriber's nieces, nephews, aunts, uncles, or cousins. Adoption refers to a child adopted legally or in fact. Stepchildren are considered to be connected to their stepparent.

[4] Effective January 1, 2004, an individual can't be designated as a beneficiary unless the individual's SIN has been provided to the promoter of the plan and the beneficiary is a resident in Canada. There are exceptions for beneficiaries of RESPs entered into before 1999 and in limited cases, for transfers from another RESP for the same non-resident beneficiary.

Can the beneficiary be changed or replaced?

What happens on the death of the beneficiary?

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Beneficiary

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Who can be a beneficiary?

Can the beneficiary be changed or replaced?

You can name an alternate beneficiary as long as the terms of the plan allow it. This applies to both individual and family plans. If you have a group plan, check the terms of the plan to find out if you can change beneficiaries or transfer the plan to another beneficiary.

All contributions made to the plan for the previous beneficiary are treated as if they had been made for the new beneficiary on the date they were originally made. This can cause an overcontribution penalty unless:

- the new beneficiary is under 21 years old and a sibling of the former beneficiary, or
- both beneficiaries are under 21 years old and related to the original subscriber.[5]

Some government incentives, up to the maximum per beneficiary, may be transferable to a sibling. Otherwise, they're returned to the government if the beneficiary doesn't pursue an education at a qualifying post-secondary institution.

[5] The provision permitting the designation of non-related beneficiaries in contracts established prior to July 14, 1990 has been exempted. In this situation, you'll be able to keep this beneficiary in your plan and contribute for the beneficiary's post-secondary education but your plan won't be entitled to any CESG.

What happens on the death of the beneficiary?

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Beneficiary

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Who can be a beneficiary?

Can the beneficiary be changed or replaced?

What happens on the death of the beneficiary?

For an individual plan, you may be able to name a new beneficiary. For a family plan, the RESP continues with the remaining beneficiaries.

The plan will be terminated if all plan beneficiaries are deceased and a replacement beneficiary can't be made.

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Tax implications

RESP contributions aren't tax deductible when made and aren't taxable when withdrawn from the plan by the subscriber.

Interest on borrowings[6] used to contribute to an RESP isn't tax deductible.

Government grants may be paid to an RESP for an eligible beneficiary. These amounts aren't taxable until withdrawn from the RESP to fund the beneficiary's post-secondary education. Also income earned on the contribution and grants is tax deferred until withdrawn for post-secondary education purposes. They're taxable to the beneficiary at that time.

The subscriber may withdraw contributions, net of any fees, tax-free at any time; however, if withdrawals are made before the beneficiary enrolls in a post-secondary educational program, grants and incentives may need to be repaid to the government.

Under certain conditions, the subscriber may also be able to receive the accumulated investment income on the investments and the government incentives. These payments will be taxable to the subscriber at the subscriber's marginal tax rate plus an additional 20% tax.[7] The income tax can be deferred and the additional tax can be reduced or avoided, where up to $50,000 is transferred to an RRSP provided contribution room is available.

[6] Borrowing to invest may not be appropriate for everyone. You should be fully aware of the risks and benefits associated with leveraged borrowing since losses, as well as gains, may be magnified.

[7] For residents of Quebec, the additional tax is 12% federal plus 8% provincial.

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Contributions

A subscriber can make a contribution for a beneficiary under the plan if the beneficiary is a resident in Canada and the beneficiary's SIN has been provided to the promoter of the plan.

Contributions to an RESP aren't deductible from the subscriber's income. Control of the contributions remains with the subscriber and may be withdrawn tax-free at any time. Note that a withdrawal may require repayment of government incentives and may result in the beneficiary being ineligible for additional incentives.

The subscriber is responsible for making sure that the contribution limits aren't exceeded.

What are the contribution limits?

There's a lifetime contribution limit of $50,000 that can be contributed to all RESPs for a designated beneficiary. Since 2007, there's no annual limit for contributions to RESPs.

Government grants and incentives made to an RESP under the *Canada Education Savings Act* or under a designated provincial program aren't considered part of the lifetime limit.

What's the time limit for contributions?

The final contribution must be made by the end of the 31st year after the year the plan is entered into, or earlier if amounts have been transferred from an existing RESP. In addition, for a family plan, the final contribution must be before the beneficiary's 31st birthday.

For a specified plan, no contributions (except transfers from another RESP) may be made to the plan after the 35th year following the year the plan was entered into, and the plan must be terminated by the end of the 40th year after the year the plan was opened.

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What are the tax consequences of an overcontribution?

An excess contribution occurs at the end of a month when the total of all contributions made by all subscribers to all RESPs for a beneficiary is more than the lifetime limit ($50,000) for that beneficiary.

Each subscriber for that beneficiary is liable to pay a 1% per-month tax on the subscriber's share of the excess contribution that's not withdrawn by the end of the month. The tax is payable within 90 days after the end of the year in which there's an excess contribution. An excess contribution exists until it's withdrawn.

Subscribers have to file CRA Form **T1E-OVP, Individual Income Tax Return for RESP Excess Contributions** to calculate the amount of tax you have to pay on your share of the excess contribution for a year.

Note: The amount subject to tax can be reduced by withdrawing the excess contributions. However, in determining whether the lifetime limit has been exceeded, the withdrawn amounts are included as contributions for the beneficiary even though they've been withdrawn.

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Government grants and incentives

Grants and incentives are available from the Government of Canada as well as some provincial governments to assist and encourage parents or guardians to plan and save for their children's post-secondary education.

Note: Not all plans support all government programs. Check with the promoter for the incentives that are offered with their RESP.

Federal incentives

The federal government provides incentives under the Basic and Additional Canada Education Savings Grant and Canada Learning Bond programs. These programs are administered by Employment and Social Development Canada (ESDC). You must apply for each of these separately.

Canada Education Savings Grant (CESG)

The CESG is money that the Government of Canada will add to a child's savings in an RESP. The maximum lifetime CESG is $7,200 per child.

The CESG has two parts:

- Basic Canada Education Savings Grant – provides 20% on every dollar of the first $2,500 you save in the child's RESP each year
- Additional Canada Education Savings Grant – depending on the primary caregiver's net family income, you could receive an extra 10% or 20% on every dollar of the first $500 you save in the child's RESP each year

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Carry forward grant room

The CESG is available only on the first $2,500 of contributions per year per child (to a maximum of $500). The grant room accumulates until the end of the year that the child turns 17—even if the child isn't a beneficiary of an RESP. Unused basic CESG amounts for the current year are carried forward. If you have available carry forward grant room, the CESG is available on up to $5,000 in contributions per year (to a maximum of $1,000).

Eligibility

All children resident in Canada (up to the end of the calendar year in which they turn 17) are eligible to receive money from the federal government for their post-secondary education as long as an RESP has been opened for them. Adults aren't eligible for these grants.

However, to receive the CESG after age 15, one of the following contributions must have been made to the RESP (and not withdrawn) by December 31 of the calendar year in which the child turns 15:

- Total contributions of at least $2,000
- Contributions of at least $100 a year or more in any four previous years

If the child turns 15 this year, by December 31 of this year, you must have either contributed at least $2,000 in total to the child's RESPs, or you must have put in at least $100 annually in any of four previous years (they don't have to be consecutive years).

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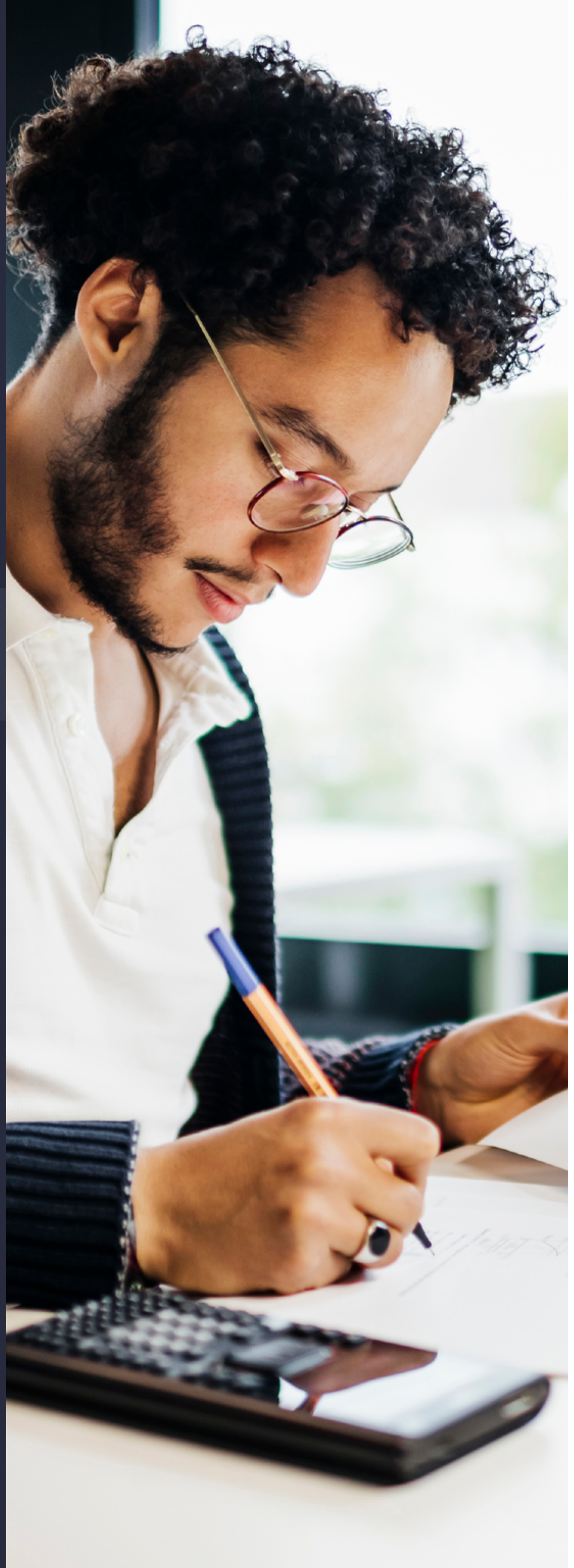

Canada Learning Bond (CLB)

The CLB is an additional federal government incentive of up to $2,000 lifetime administered by Employment and Social Development Canada (ESDC), to help modest-income families set up RESPs and save for children born after 2003. The CLB money will be deposited directly into the child's RESP; no contributions need to be made.

The initial grant is $500 plus an additional $25 to cover the administrative cost of opening an RESP. Thereafter, for each year of eligibility, the grant is $100 per year until the child reaches age 15.

If the beneficiary doesn't pursue post-secondary education, the CLB is returned to the government.

Eligibility

Available to individual, sibling, or family plans.

Beneficiary(ies) must meet the following conditions:

- born January 1, 2004 or later
- have a birth certificate
- have a SIN
- be a Canadian resident
- be a beneficiary under an RESP

Primary caregiver's annual net family income must fall under the income threshold set by the government, which is indexed annually.

Provincial education savings incentives

Some provinces have also introduced incentive programs to assist families in saving for their children's post-secondary education.

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An RESP may invest in a wide range of qualified investments such as stocks, bonds, and other popular portfolios—including mutual funds, segregated fund contracts, and guaranteed investment certificates (GICs). In general, the types of property that qualify for an RESP are similar to those that qualify for an RRSP. The availability of some or all of these investment options will depend on your plan.

Type of plan	RESP providers	Investment options	Investment decisions
Individual and family plans	Banks and credit unions	Savings accounts GICs Mutual funds	You and your advisor choose an appropriate mix of investments.
	Mutual fund companies	Mutual funds	
	Insurance companies	Segregated funds	
	Investment dealers	T-bills Bonds Stocks Funds	
Individual, family plans, and group plans	Scholarship plan dealers	In general, a plan must invest in fixed-income securities, such as T-bills, GICs, and bonds.	All of the investment decisions are made for you.

There's no restriction on foreign content held in an RESP. However, dividends paid on shares listed on a prescribed stock exchange in a foreign country may be subject to foreign withholding tax. Treaty relief for the withholding tax is generally not available.

If a non-qualified investment is acquired by your RESP, a penalty tax is equal to 50% of the fair market value of the investment at the time it was acquired or became non-qualified. The investment income from such investments is subject to an advantage tax equal to 100% of the income if the income isn't withdrawn promptly. In addition, the CRA has the right to revoke any RESP that holds non-qualified investments.

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Payments and withdrawals from an RESP

The promoter can make the following types of payments:

- When the beneficiary is enrolled in a qualifying post-secondary educational program
  - educational assistance payments (EAPs)
  - post-secondary education (PSE) withdrawal
- When the beneficiary doesn't enroll in post-secondary education
  - refund of contributions to the subscriber
  - accumulated income payments (AIPs)
  - repayment of amounts under the *Canada Education Savings Act* or under a designated provincial program
- Transfers
  - transfer from one RESP to another RESP
  - transfer RESP investment income to an RDSP
- Payment to a designated educational institution in Canada

When the beneficiary is enrolled in a qualifying post-secondary educational program

An RESP offers two types of payment options for educational purposes based on the types of monies in the plan.

- Educational Assistance Payment (EAP) consisting of the government incentives as well as earnings on the investments and incentives
- Post-secondary education (PSE) contribution withdrawal

Educational assistance payment (EAP)

An EAP is the amount paid to or for a beneficiary (the student) from an RESP to help finance the cost of post-secondary education.

An EAP consists of government grants, incentives, and the earnings on the investments and incentives.

The student includes EAPs as income on the tax return for the year the student receives them.

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Qualifying for an EAP

The promoter can only pay EAPs to or for a student if one of the following situations applies:

- The student is enrolled in a qualifying educational program. This includes students attending a post-secondary educational institution and those enrolled in distance education courses, such as correspondence courses, provided by such institutions.
- The student has reached the age of 16 years and is enrolled in a specified educational program.

A beneficiary may receive EAPs for up to six months after ceasing enrolment, provided that the payments would have qualified as EAPs if the payments had been made immediately before the student's enrolment ceased.

A **qualifying educational program** is an educational program at a post-secondary school level that lasts at least three consecutive weeks and requires a student to spend no less than 10 hours per week on courses or work in the program.

A **specified educational program** is a program at a post-secondary school level that lasts at least three consecutive weeks and that requires a student to spend not less than 12 hours per month on courses in the program.

A **post-secondary educational institution** includes:

- a university, college, or other designated educational institution in Canada
- an educational institution in Canada certified by ESDC as offering non-credit courses that develop or improve skills in an occupation
- a university, college, or other educational institution outside Canada that has courses at the post-secondary school level at which the beneficiary was enrolled on a full-time basis in a course of not less than three consecutive weeks.

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Limit on EAPs			
Full-time	Qualifying educational program	First 13 consecutive weeks	$8,000 maximum
		After first 13 consecutive weeks	No limit
Part-time	Specified educational program	Each 13-week period	$4,000 maximum

If there's a 12-month period when the student isn't enrolled in a qualifying educational program for 13 consecutive weeks, the $8,000 maximum applies again. For studies in a specified educational program, the limit is $4,000, for the 13-week period, whether or not the student is enrolled in such a program throughout that 13-week period.

ESDC may, on a case-by-case basis, approve an EAP amount of more than the above limit if the cost of tuition plus related expenses for a particular program is substantially higher than the average.

Post-secondary education (PSE) withdrawal

A PSE withdrawal may be made by the subscriber when a beneficiary is eligible for an EAP and may be used for any purpose. This type of withdrawal of the subscriber's contributions while the beneficiary qualifies for an EAP doesn't incur a CESG clawback.

Subject to the terms and conditions of the RESP, a portion of the contributions withdrawn can be paid to the beneficiary to supplement the EAP. There's no limit on the dollar amount for a PSE withdrawal.

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What happens when beneficiary doesn't enroll in post-secondary education?

If the beneficiary doesn't enroll in a post-secondary educational program and if another beneficiary isn't named, the terms of the RESP may offer options to withdraw the RESP property for non-education purposes.

- Contributions can be returned tax-free to the subscriber at any time.
- Accumulated income payments that are taxable payments consisting of investment earnings may be paid, under specified conditions, to the subscriber.
- Amounts received under the *Canada Education Savings Act* or under a designated provincial program may need to be repaid to the applicable government.

Tip: If the beneficiary doesn't enroll in a post-secondary educational program right away, you can also wait before withdrawing funds and terminating the plan. RESPs can remain open for 36 years (40 for a specified plan). The beneficiary may decide to enroll in post-secondary education at a later time.

Refund of contributions to the subscriber

Subject to the terms and conditions of the RESP, the promoter can return contributions to you tax-free when the contract ends or at any time before.

A refund of contributions may trigger repayments of some or all incentives that remain in the RESP. A CESG repayment is a portion of the assisted contributions (those qualifying for the basic and additional grants) up to and including the total CESG balance remaining in the plan; certain conditions may apply.[8] A repayment of provincial incentives that remain in the RESP may also be required.

[8] The withdrawal of assisted contributions from an RESP after March 22, 2004 will result in a beneficiary being ineligible to receive any CESG for the balance of the year and the next two years. A withdrawal of pre-1998 contributions will cause all beneficiaries under the plan to be ineligible for any CESG in the calendar year that the withdrawal was made and for the following two calendar years.

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Accumulated income payment (AIP)

An AIP consists of earnings on contributions to the RESP and earnings on the CESG and other additional government incentives.

It's important to carefully review the terms and conditions of any RESP, as the treatment of accumulated income varies.

AIPs can be made to or for only one subscriber and can't be made as a single joint payment to separate subscribers. When more than one individual is entitled to receive accumulated income payments from the plan, the payments must be made separately to each person.

An RESP may allow for AIPs when the following conditions are met:

- recipient must be a Canadian resident
- recipient must be a subscriber of the RESP
- any one of the following:
  - The RESP must have been in existence for at least 10 years, and the current and former beneficiaries must be at least 21 years of age and not eligible to receive an EAP.
  - Each individual who was a beneficiary is deceased.
  - The RESP is in its final year.

Note: The CRA may waive the conditions in the first bullet if it's reasonable to expect that a beneficiary under the RESP won't be able to pursue post-secondary education because the beneficiary suffers from a severe and prolonged mental impairment. Such requests have to be made by the RESP promoter in writing.

An RESP must be terminated by the end of February of the year after the year that the first AIP is paid.

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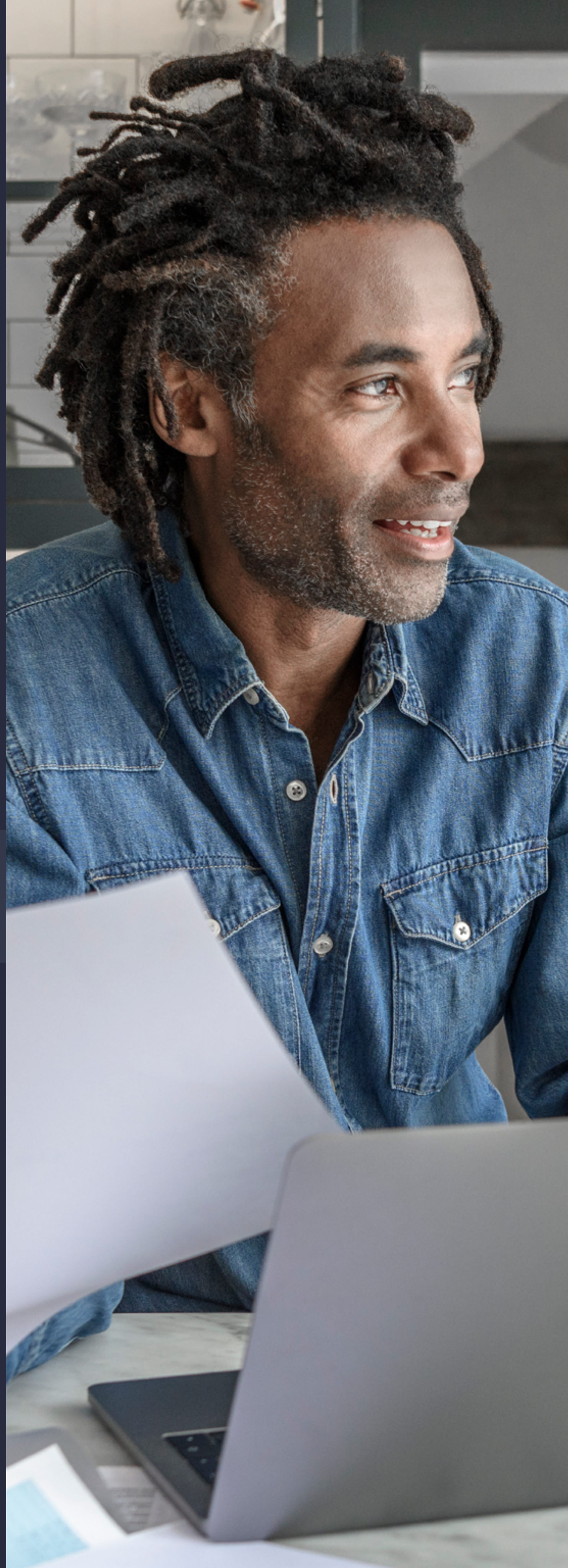

How AIPs are taxed

The recipient has to include the AIP as income on the tax return for the year it's received. An AIP is subject to two different taxes: the regular income tax and an additional tax of 20% (for residents of Quebec, 12% federal plus 8% provincial).

Reducing the amount of AIPs subject to tax

You can reduce the amount of AIPs subject to tax if you're the original subscriber or, where there's no other subscriber, the spouse or common-law partner of a deceased original subscriber and you meet both of the following conditions:

- You contribute an amount not more than the amount of the AIPs (to a lifetime maximum of $50,000 worth of AIPs) to your RRSP, or your spouse's or common-law partner's RRSP, in the year the AIPs are received or in the first 60 days of the following year.
- You have available RRSP contribution room, allowing you to deduct the amount contributed to your or your spouse's or common-law partner's RRSP. The deduction must be claimed in the calendar year that any payments are made.

You can't reduce the AIPs subject to tax if you became a subscriber because of the death of the original subscriber.

Tip: Promoters usually have to withhold regular and additional taxes on AIPs unless the AIPs are transferred directly to your or your spouse's or common-law partner's RRSP, and your RRSP deduction limit allows you to deduct the contribution in the calendar year it's made.

Complete Form T1171, Tax Withholding Waiver on Accumulated Income Payments from RESPs, to ask the promoter to transfer the payment directly to your or your spouse's or common-law partner's RRSP without withholding tax.

Repayment of government grants

Federal and provincial government grants can only be used to pay for post-secondary education. If they can't be used for educational purposes, they must be returned to the government.

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Transfers

Transfers between RESPs

Transfers of property between RESPs are generally not restricted.

Reducing the amount of AIPs subject to tax:

- An individual plan can be transferred to any other individual plan.
- An RESP can be transferred to a plan with a different subscriber but the same beneficiary.
- A family plan can be split into individual plans or individual plans can be combined into a family plan.

A direct transfer can't be made from an RESP that has made an AIP.

Tip: The receiving plan must be registered with CRA before the funds are transferred. If not, the transferring plan will be considered as having been paid to the subscriber as an AIP.

Note: Transfers can result in an excess contribution. This is because the contribution history from the transferring plan is also transferred to the receiving plan. Each contribution is treated as if it had been made into the receiving RESP; therefore, the contribution history is added to the receiving plan beneficiary's contribution history. If this combined contribution history exceeds the receiving plan beneficiary's lifetime limit, there could be an excess contribution. In addition, each subscriber under the transferring RESP is treated as a subscriber under the receiving RESP. This means that the subscriber is liable for any tax on excess contributions.

Transfers from one RESP to another RESP can be made without resulting in any tax penalties in the following cases:

- There's a common beneficiary under the transferring plan and the plan receiving the transfer.
- A beneficiary under the transferring plan is a sibling of a beneficiary under the receiving plan and one of these situations applies:
  - the receiving plan allows more than one beneficiary under the plan
  - the beneficiary under the receiving plan was under 21 years of age at the time the receiving plan was entered.

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Transferring RESP investment income to an RDSP

A subscriber of an RESP that allows AIPs and a holder of an RDSP may jointly elect in **form RC435 Rollover from a Registered Education Savings Plan to a Registered Disability Savings Plan** to transfer an AIP under the RESP to the RDSP if, at the time of the election, the RESP beneficiary is also the beneficiary under the RDSP.

To qualify for an RESP rollover, the beneficiary must meet the existing age and residency requirements in relation to RDSP contributions. Also, one of the following conditions must be met:

- the beneficiary is, or will be, unable to pursue post-secondary education because of a severe and prolonged mental impairment
- the RESP has been in existence for more than 35 years; or the RESP has been in existence for at least 10 years, and each beneficiary under the RESP has attained 21 years of age and isn't eligible to receive educational assistance payments.

The accumulated income payment rollover to an RDSP won't be subject to regular income tax or the additional 20% tax.

When an RESP rollover occurs, contributions in the RESP will be returned to the RESP subscriber on a tax-free basis. Also, grants and incentives must be repaid to the applicable government and the RESP terminated by the end of February of the following year.

The investment income rolled over to an RDSP:

- will be considered a private contribution for the purpose of determining whether the RDSP is a primarily government-assisted plan (PGAP) but won't attract Canada disability savings grants (CDSGs)
- will be included in the taxable portion of RDSP withdrawals made to the beneficiary
- may not exceed and will reduce the RDSP contribution lifetime limit.

An investment income rollover can't be made if the beneficiary:

- isn't eligible for the disability tax credit (DTC)
- is deceased
- is over 59 years of age in the year of the contribution
- isn't a resident of Canada.

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Payment to a designated educational institution

An RESP may provide for payments to be made to a Canadian designated educational institution or to a trust for such an institution at any time.

For example, payments could occur when the plan is left with only a small amount of cash after the subscriber withdraws the contributions as a refund of contributions and one or more of the requirements for AIPs aren't met.

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When does an RESP have to terminate?

An RESP must be terminated on or before the last day of the 35th year following the year that the plan was entered.

For a specified plan, if the beneficiary may claim the disability tax credit for the 31st year following the year that the plan was opened and the beneficiary is in an individual plan, the maximum period that the RESP may be in existence can be extended to 40 years following the year the plan was entered, if your existing plan provides for it.

What happens to the assets following termination of a plan?

The assets of an RESP can be paid out in the following manner:

- Contributions are returned tax-free to the subscriber.
- Federal and provincial government grants are returned to the government, as this money can only be used to pay for post-secondary education.
- Investment earnings:
  - For a family or individual RESP, investment earnings can be paid to the subscriber as an AIP. If the criteria for an AIP isn't met, the earnings can be paid to a designated educational institution.
  - The subscriber has to pay tax on any AIP received from the plan plus a 20% additional tax.
  - The regular tax can be deferred and the additional tax can be avoided where up to $50,000 is transferred as a contribution to the RRSP of the subscriber or a spousal RRSP, provided contribution room is available.
  - For a group RESP, if the subscriber drops out or cancels the plan before it matures, the investment earnings stay in the plan and are shared with the remaining beneficiaries of the group when the plan matures. Depending on the terms of the plan, it may be possible to transfer the RESP savings to an individual plan.

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Estate planning

The RESP rules provide for a transfer of the subscriber's rights on the subscriber's death. An individual, including the estate of the subscriber, can become a subscriber if they've acquired the subscriber's rights under the RESP or if they continue to make contributions into the RESP for the beneficiary after the death of the original subscriber.

- A joint or successor subscriber, other than the estate, can be named to take over for the subscriber on death and thus avoid the RESP becoming part of the subscriber's estate. The named person becomes the new subscriber.
- If the estate of a deceased subscriber continues to make contributions into an RESP, the estate is considered to be the replacement subscriber. The subscriber is responsible for making sure that the contribution limits aren't exceeded.

Note: On the death of the subscriber, or the last of the joint or successor subscribers, an RESP becomes an asset of the deceased subscriber's estate and is subject to the terms of the will. When no successor subscriber is appointed in the will, it may be difficult to arrange for the preservation and continuance of the RESP.

Tip: The decision on who should be the successor subscriber is very important. A joint or successor subscriber is considered to have made all contributions to the plan. As a result, the successor subscriber can collapse the RESP and/or access the plan assets at any time.[9]

[9] Fees may apply.

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Creditor protection

Money held in an RESP is **generally not protected** against creditors of the subscriber.

An RESP is an investment of capital made by the subscriber and remains under the control of the subscriber with the intent that it goes to the beneficiary if and when the beneficiary attends a post-secondary educational program. The RESP can be collapsed by the subscriber at any time prior to that. This means that a creditor of the subscriber can have access to all assets of the RESP, other than government subsidies, that belong to the subscriber.

Creditor protection for an RESP is generally not available, even for an RESP with an insurance company. This is because the *Income Tax Act* (Canada) requires that the RESP trust be the contract beneficiary, and therefore, creditor protection under the provincial insurance legislation isn't available. However, Alberta legislation provides protection for assets held in an RESP when used for post-secondary education purposes.

Non-residents and RESPs

If an RESP subscriber or beneficiary is (or will become) a non-resident, there may be some Canadian tax consequences, as well as tax consequences in the foreign jurisdiction.

Note: Tax advice should be obtained in the foreign jurisdiction.

Non-resident Subscriber

A non-resident can set up and contribute to an RESP; however, the subscriber must have a Canadian SIN when opening an RESP.

A return of contributions may be made to a non-resident subscriber with no Canadian tax consequences. However, AIPs can't be made to a non-resident.

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Non-resident beneficiary

A beneficiary must be a resident in Canada when designated as a beneficiary and when contributions are made on the beneficiary's behalf. Non-residents don't accumulate CESG room.

Beneficiaries who are non-residents when they start their post-secondary education are eligible to receive EAPs, but when paid to a non-resident, EAPs can't include accumulated CESGs and CLBs. Also, when EAPs are made to a non-resident, a repayment of government grants will be made to the applicable federal or provincial government.

EAPs paid to non-residents are subject to 25% Canadian withholding tax (may be reduced by a treaty), unless the payments are otherwise subject to regular Canadian income tax.

U.S. citizens resident in Canada

RESPs may not be desirable if the subscriber is a Canadian resident who's a U.S. citizen or a U.S. green card holder who files U.S. resident tax returns. The main concern is that the taxation of income earned in an RESP isn't deferred for U.S. tax purposes.

While a non-resident can continue to be a subscriber of a Canadian RESP and the funds in the plan will be exempt from Canadian tax, under U.S. tax rules, the annual income earned, as well as any grant and incentive money received in the year, is considered taxable income to the subscriber. Because there's no Canadian tax payable on the RESP, there's no offsetting foreign tax credit.

When the beneficiary draws on the RESP for post-secondary education, the accumulated income, grants, and bonds are taxed to the student, resulting in double taxation. This can be avoided by having a Canadian resident who's not required to file a U.S. tax return as the RESP subscriber.

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Accumulated income payment (AIP): Payment to the subscriber out of the plan consisting of the investment earnings on contributions and government grants

Beneficiary: Individuals named by the subscriber and to whom, or on whose behalf, the promoter agrees to make educational assistance payments when they qualify for these payments under the terms of the plan

Educational assistance payment (EAP): Amount paid or payable under an RESP to or for an individual (the beneficiary) to assist with the individual's post-secondary education. These amounts consist of the grants and the earnings on the grants and contributions.

Family plan: A type of RESP established for more than one beneficiary. All beneficiaries must be related to the original subscriber by blood or adoption.

Group plan: Group plans, also referred to as **education funds or scholarship funds**, are a set of individual plans that are administered on an age group concept by scholarship or group plan dealers.

Individual plan: A type of RESP that's established for only one beneficiary. The beneficiary doesn't have to be related to the subscriber.

Post-secondary education (PSE) withdrawal: Payment of RESP contributions to or on behalf of a beneficiary to help finance the beneficiary's post-secondary education

Promoter: The promoter is the person or organization that offers an education savings plan (ESP) and applies to the Canada Revenue Agency (CRA) for registration as an RESP. The promoter administers all amounts paid into the RESP to pay EAPs to or for one or more plan beneficiaries.

Subscriber: The subscriber (or a person acting for the subscriber) is the individual who sets up an RESP, names one or more beneficiaries, and makes contributions to it. A subscriber must be an individual(s); corporations and trusts aren't allowed to be a subscriber (unless the trust is the estate of a deceased subscriber).

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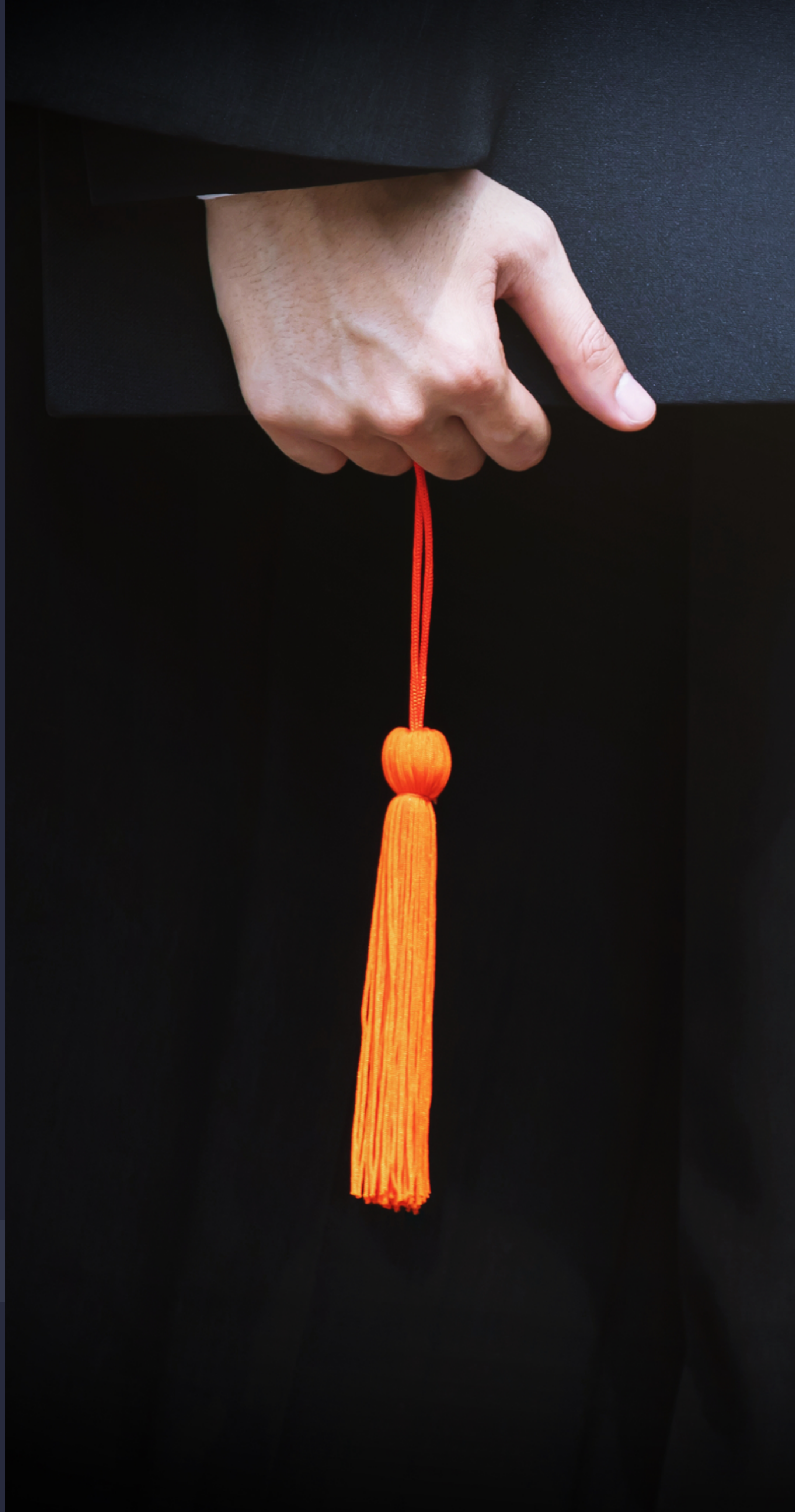

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