1. INTRODUCTION....3

2. REGISTERED EDUCATION SAVINGS PLANS....4
2.1 THE PARTIES TO AN RESP....4
2.1.1 The subscriber....4
2.1.2 The RESP promoter....5
2.1.3 The RESP beneficiary....5
2.2 TYPES OF RESPS....6
2.2.1 Individual RESP....6
2.2.2 Family RESP....6
2.2.3 Group RESP....7
2.3 CONTRIBUTIONS....7
2.3.1 Annual limit....7
2.3.2 Lifetime limit....7
2.3.3 Penalty on overcontributions....8
2.3.4 Duration limit for contributions....8
2.3.5 Duration limit for existence....8
2.3.6 Duration limits for the disabled....8
2.3.7 Changing the RESP beneficiary....9
2.3.8 Selling of RESP interests....9
2.4 QUALIFIED INVESTMENTS....9
2.4.1 Further Information....10
2.4.2 Revocation of RESP....10
2.5 QUALIFYING EDUCATIONAL PROGRAMS....10
2.6 ACCUMULATED INCOME PAYMENT (AIP)....11
2.6.1 Rollover to Registered Retirement Savings Plan....12
2.6.2 Rollover to Registered Disability Savings Plan....12
2.6.3 Payment to subscriber....13
2.6.4 Partial payment to subscriber....13
2.7 DEATH OF A SUBSCRIBER....14
2.7.1 Joint tenancy....14
2.7.2 Estate of the deceased....14
2.7.3 Parent of beneficiaries....15
2.7.4 Grandparent of beneficiaries....15
2.7.5 Succeeding subscriber....15
2.8 TRANSFERS OF PROPERTY BETWEEN RESPS....15
2.8.1 Individual non-family plan....16
2.8.2 Change of subscriber....16
2.9 PROVINCIAL PAYMENTS INTO RESPS....16
2.9.1 Quebec Education Savings Incentive....16
2.10 MORE INFORMATION....17

3. CANADA EDUCATION SAVINGS GRANTS....17
3.1 GRANT PAYMENTS TO THE RESP....17
3.2 CONTRIBUTION ROOM....18
3.2.1 RESP lifetime limit....19
3.2.2 Assisted contributions....19
3.2.3 Beneficiaries over 17 years of age....20
3.2.4 Beneficiaries 16 or 17 years of age....20
3.2.5 Age limit....21
3.3 ENHANCED CANADA EDUCATION SAVINGS GRANT....21
3.4 CANADA LEARNING BOND....22
3.5 WITHDRAWAL OF ASSISTED CONTRIBUTIONS....23

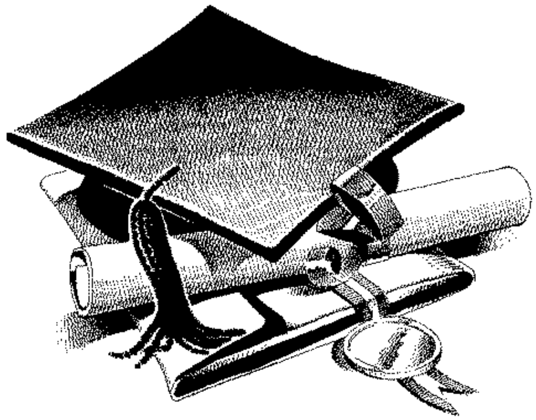
3.5.1 Repayment of CESGs 23
3.5.2 Penalty period for CESGs 24

4. EDUCATIONAL ASSISTANCE PAYMENTS 25
4.1 Withdrawing Funds for Education 25
4.2 Grace Period for Receiving EAPs 25
4.3 Taxation of EAPs 25
4.4 Full-Time Studies 26
4.5 Part-Time Studies 26
4.6 Study Abroad 27
4.7 Family RESPs 27
4.8 Sharing Among Siblings 27
4.9 RESP Accounts 28
4.10 CESG Lifetime Limit 28
4.11 Repayment of CESG 29

5. ACCUMULATION PLANNING 30

6. TAX STRATEGIES 30
6.1 Deferral on Capital 31
6.2 Deferral on Income 31
6.3 Nature of Deferral with RESP 31
6.4 Use of RESPs and the CESG 31
6.5 Income Splitting with an RESP 32
6.6 Only Assisted Contributions 32
6.7 Inter Vivos Trust 32
6.8 Timing 32
6.9 Registration 33

7. CONCLUSION 33



REGISTERED EDUCATION SAVINGS PLANS

The main incentive of an RESP is the Canada Education Savings Grant.

1. INTRODUCTION

The government first introduced Registered Education Savings Plans (RESPs) in 1964 as an incentive to increase savings for post-secondary education.

Although contributions are not tax deductible, earnings accumulate in the plan on a tax-deferred basis. Once paid out, the earnings are taxed in the hands of the beneficiary.

The ***main disadvantages of an RESP are*** that:

- the accumulated income must be used for educational purposes at a designated educational institution; and
- under some plans, the accumulated income is forfeited if the beneficiary does not attend a qualifying post-secondary institution.

Depending on how restrictive an RESP fund is on substitute beneficiaries, an RESP may therefore effectively amount to a “gamble” on the part of the parent that the child will attend university. However, in all cases, capital contributions are returned.

To increase the attractiveness of RESPs, Canadian Education Savings Grants (CESGs) give an RESP beneficiary under the age of 18 a grant based upon a percentage of the money contributed for the year. This is opportunity for a student to receive up to $7,200.

Upon completion of the Chapter, you should understand:

- the roles of the parties involved in an RESP;
- the types of RESPs;
- the contribution and duration limits;
- the permitted investments;
- the alternatives for distributing accumulated income payments;
- the consequences of the death of a subscriber;
- the requirements to receive the Canada Education Savings Grants and Canada Learning Bonds;
- the restrictions on receiving educational assistance payments; and
- the tax advantages of RESPs.

2. REGISTERED EDUCATION SAVINGS PLANS

A ***Registered Education Savings Plan*** (***RESP***) is an education savings trust that permits savings to grow on a tax-deferred basis until the beneficiary is ready to attend college, university or any other eligible post-secondary institution on a full-time basis (ITA 146.1(1) and 146.1(5), *education savings plan*, *registered education savings plan*).

To be eligible for this tax treatment, the trustee of the plan must register the plan under the Income Tax Act with Canada Revenue Agency (CRA).

When the student begins to use the RESP for education, the accumulated investment income, but not any principal payments, becomes taxable to the student when received as an educational assistance payment. However, because the student typically has little other income, she usually pays little or no tax on RESP income.

With the rapid increase in education expenses over the past decade, it is more important than ever for Canadians to plan to meet the cost of their children's post-secondary education. The RESP has been available to parents for some time.

When RESPs were first introduced, they were contracts and they were quite rigid and inflexible, with significant drawbacks for contributors whose children did not choose to pursue post-secondary education.

Over the years, the plans evolved and the Income Tax Act changed to make these plans into trusts and to make them more flexible and appealing, but they were still shunned by most parents. However, this changed with the introduction of the Canada Education Savings Grant (CESG) in 1998.

2.1 The Parties to an RESP

The parties to an RESP are the subscriber, the promoter and the beneficiary.

2.1.1 The subscriber

An ***RESP subscriber*** is the party who contributes to the RESP and names one or more beneficiaries for whom he will contribute (ITA 146.1(1), "subscriber").

The ***RESP contributor*** is another name for an RESP subscriber.

A subscriber includes an individual who has a subscriber's rights pursuant to a decree, order or judgment of a competent tribunal, or under a written agreement, relating to a division of property between the individual and a subscriber under the plan in settlement of rights arising out of, or on the breakdown of, their marriage or common-law partnership (ITA 146.1(1); subscriber).

After the death of a subscriber, a subscriber includes any other person, including the estate of the deceased individual, who acquires the individual's rights as a subscriber under the plan or who makes contributions into the plan in respect of a beneficiary (ITA 146.1(1); subscriber).

The contributions to the RESP earn income on a tax-deferred basis as long as they are kept in the plan (ITA 146.1(5)).

Only spouses and common-law partners can be joint subscribers under an RESP.

A spouse/common-law partner can be added as the subscriber to an RESP that permits joint subscribers at any time prior to termination.

> Dahlia decided to establish an RESP for her daughter, Penny, by opening an RESP account with the Bank of Nova Scotia.
>
> Dahlia is the subscriber, the Bank of Nova Scotia is the promoter, and Penny is the beneficiary. Dahlia's husband, Bennett, can become a subscriber at a later date, as long as the bank permits this.

A subscriber does not need to be a resident of Canada. There is no residency requirement under the ITA for RESP subscribers. However, a subscriber needs to provide a social insurance number (SIN) when the promoter applies to have the RESP registered.

For RESPs established after 1997, a person other than the original subscriber, or his spouse/common-law partner, can become a subscriber of an existing RESP only if the following conditions apply:

- that person is a spouse/common-law partner or former spouse/common-law partner of the original subscriber, and he gets subscriber's rights as a result of a court order or a written agreement for dividing property after a marriage breakdown; or
- after the death of an RESP subscriber, the RESP allows a person, including the estate of the subscriber, to continue contributing to the plan.

> Dahlia's mother, Darlene, wanted to contribute to the RESP that Dahlia had established, but she is not permitted to do so because she is not Dahlia's spouse/common-law partner.
>
> However, Darlene could set up a separate RESP naming Penny as the beneficiary.

The subscriber has the right to:

- invest in RESPs with any individual or organization that is resident in Canada and that is authorized by the Canada Revenue Agency (CRA) to act as a trustee;
- name the beneficiary or beneficiaries (some plans allow the subscriber to change the beneficiary);
- withdraw his capital (the accumulated contributions) from the RESP at any time, tax-free.

Control of the subscriber's contributions remains with the subscriber, and he has the right to withdraw his capital from the RESP at any time.

However, he can also choose to have capital paid to the beneficiary along with the accumulated income. However, he cannot assign RESP contributions, or use them as collateral for a loan.

There is no minimum age for the subscriber, and it is theoretically possible for a minor to establish an RESP as the subscriber, with himself or even his parents as the RESP beneficiary.

However, promoters may be reluctant to enter into a contract with a minor due to the provisions of contract law.

2.1.2 The RESP promoter

The ***RESP promoter*** is a trustee who agrees to pay the income as educational assistance payments to the beneficiaries of the plan.

The Income Tax Act requires RESP funds to be held by a corporation licensed to be a trustee. The trustee is engaged by the promoter and can be the promoter itself. The promoter manages and invests the capital in the trust fund to earn investment income.

2.1.3 The RESP beneficiary

An ***RESP beneficiary*** is a person to whom a promoter agrees to pay educational assistance payments when the beneficiary is qualified to receive them (ITA 146.1(1), "beneficiary").

The promoter may also direct the payments to someone else, such as an education provider, on the beneficiary's behalf.

Generally, there are no restrictions as to who can become a beneficiary.

A subscriber must provide a social insurance number (SIN) for the child in order for an RESP to be accepted for registration (ITA 146.1(2)(g.3)).

If a plan allows for more than one beneficiary, commonly called a family plan, each beneficiary must meet the following conditions:

1. he must be connected to each living subscriber under the plan, or to have been connected to a deceased original subscriber under the plan, by blood relationship or adoption (ITA 146.1(2)(j)(i)); and

2. that an individual is permitted to become a beneficiary under the plan at any particular time only if:
   a) he had not attained 21 years of age before the particular time; or
   b) he was, immediately before the particular time, a beneficiary under another registered education savings plan that allows more than one beneficiary at any one time (ITA 146.1(2)(j)(iii)).

Otherwise, the Income Tax Act does not define a minimum or a maximum age requirement for a beneficiary. However, some promoters impose a maximum age for new beneficiaries, often 13 years. Other promoters will establish plans for beneficiaries of any age.

If you were an adult subscriber, you could name yourself as the beneficiary if you were looking for a way to fund your future, full- time or part-time studies. This would allow you to shelter funds in addition to your RRSP contributions if you believed that he might want to attend school full-time in the future, such as during retirement.

2.2 Types of RESPs

There are three types of RESPs:

- individual plans;
- family plans; and
- group RESPs.

2.2.1 Individual RESP

An ***individual RESP*** is an RESP that can have only one beneficiary at any time.

The beneficiary does not have to be related to the subscriber and can be over 21 years of age when named.

The subscriber of an individual, non-family RESP is free to decide when and how much to contribute to the plan, and when to direct the promoter to pay educational assistance payments.

> Joe Black is 59 years of age and has always contributed the maximum to his RRSP.
>
> Joe can establish an RESP with himself as the subscriber and beneficiary.
>
> He will be able to defer tax on the income earned by the RESP. He will not be eligible for the Canada Education Savings Grant. He will be taxable when he withdraws the accumulated income, but not his contributions.

2.2.2 Family RESP

A ***family RESP*** is an RESP that has more than one beneficiary.

To have more than one beneficiary:

1. each beneficiary must be connected to each living subscriber under the plan, or have been connected to a deceased original subscriber under the plan, by blood relationship or adoption (ITA 146.1(2)(j)(i)); and
2. an individual is permitted to become a beneficiary under a family RESP at any particular time only if:
   a) the individual had not attained 21 years of age before the particular time; or
   b) the individual was, immediately before the particular time, a beneficiary under another registered education savings plan that allows more than one beneficiary at any one time (ITA 146.1(2)(j)(iii)).

The ***individuals who are related to the subscriber by blood or adoption*** are parents, siblings, children or grandchildren, but the list does not include nieces, nephews or foster children (ITA 251(6)).

> Margo wants to establish a family RESP for her three sons and her niece. Margo can establish a family plan for her three sons, but would have to establish an individual, non-family RESP for her niece.

As with the individual plans, the subscriber can choose:

- when and how much to contribute to the plan; and
- when to direct the promoter to pay educational assistance payments to one or more of the beneficiaries.

Contributions to a family RESP in respect of any one beneficiary are only allowed if the beneficiary has not yet reached 31 years of age at the time of the contribution (ITA 146.1(2)(j)(ii)(A)).

A subscriber would usually establish a family plans for all siblings who have not yet attained 18 years of age. A family plan is subject to the same contribution limits per beneficiary that we will describe shortly.

However, family plans provide additional flexibility for the contributor because educational assistance payments need not be limited to the proportion of each child's share of the contributions.

> John Louis, an RESP contributor, has named his three children as beneficiaries.
>
> John can direct the total of all accumulated income to his two children pursuing post-secondary education if the third child is not eligible.

2.2.3 Group RESP

A ***group RESP*** is an RESP that operates on a pooling principle, where the beneficiary named by a subscriber will only receive educational assistance payments if he enrolls in a qualifying program.

A Group RESP is also called a ***pooled RESP***, ***education trust*** or ***scholarship trust***.

> When Marcel was 5 years of age, Marcel's father enrolled him in the Canadian Scholarship Trust.
>
> Marcel has just received $7,200 from the Trust for his first year of university.
>
> Marcel is benefiting from his father's contributions, the accumulated income on his father's contributions, and a share of the accumulated income on the contributions for students who did not pursue post-secondary education.

Group plans, which have been in existence much longer than individual plans, are much less flexible than the newer individual family plans.

The subscriber of a group plan must agree to a fixed savings plan and has no choice of investments.

Furthermore, if the beneficiary of a group RESP fails to qualify for educational assistance payments, the accumulated investment income is distributed among other beneficiaries of the same age who do qualify.

While the subscriber can get his contributions back, he will receive nothing in the form of an accumulated income payment.

2.3 Contributions

Any number of plans can be set up for any one beneficiary. Several different individuals could set up RESPs on behalf of a single beneficiary.

However, there are limits to how much can be contributed to RESPs on behalf of any one beneficiary.

Overcontributions are subject to a penalty, so if there are multiple plans, it is important that the various subscribers know the amounts of the others' contributions.

2.3.1 Annual limit

Prior to January 1, 2007, contributions to all RESPs on behalf of any one beneficiary could not exceed an ***RESP annual limit*** of $4,000 (ITA 146.1(1), "*RESP annual limit*").

As of January 1, 2007, the government passed Bill C-52 into law and eliminated the RESP annual limit.

2.3.2 Lifetime limit

The ***RESP lifetime limit*** is the maximum amount of contributions permitted to all RESPs on behalf of any one beneficiary (ITA 204.9(1)," RESP lifetime limit").

As of January 1, 2007, the government passed Bill C-52 into law and increased the RESP lifetime limit to $50,000 from $42,000.

2.3.3 Penalty on overcontributions

For years after 2006, an ***RESP excess amount*** is an amount of contributions to an RESP in excess of the RESP lifetime limit (ITA 204.9(1),” excess amount”).

There is a penalty tax of 1% per month on any cumulative excess amount (ITA 204.91(1)).

Part X.4 is the Section of the Income Tax Act that levies the penalty tax of 1% per month on any cumulative excess amount.

2.3.4 Duration limit for contributions

The ***RESP duration limit for contributions*** is the end of the 31st year after the year in which they make the first contribution (ITA 146.1(2)(j)(ii)(A)).

This means that subscribers could contribute to an RESP until the end of the 31st year after the year in which they make the first contribution and they can make contributions for a total of 32 years.

However, no contributions may be made to a family plan for a beneficiary who is 21 years of age or older (ITA 146.1(2)(j)(ii)(A)).

In 2012, Nancy opened an RESP for her son, Garth and made the first contribution.

Nancy can make the last contribution in 2043, calculated as:

- (year of first contribution + 31 years); or
- (2012 + 31).

Nancy can make contributions for a total of 32 years, calculated as:

- ((year of last contribution - year of first contribution) + 1); or
- ((2043 – 2012) +1).

2.3.5 Duration limit for existence

The ***RESP duration limit for existence*** is the end of the 35th year after the year in which the RESP was opened (ITA 146.1(2)).

The subscriber must terminate an RESP by the end of the 35th year after the year in which the subscriber opened the RESP. If a subscriber established an RESP on January 1, it could be open for a total of 36 years.

When setting up RESPs for very young children or babies, keep in mind that RESPs will terminate, even if there are still funds in the trust and the beneficiary is still eligible for payments.

Nancy must wind up the RESP for Garth by the end of 2047, calculated as:

- (year of first contribution + 35 years); or
- (2012 + 35).

2.3.6 Duration limits for the disabled

Students with disabilities often have special needs that must be accommodated in order to pursue post-secondary education, in particular with regard to the time required to begin or complete a post-secondary education program.

A ***DTC-eligible individual*** is an individual who has a severe and prolonged physical or mental impairment in respect of which the individual, or another person, is entitled to the disability tax credit in computing tax payable for the year (ITA 118.3), or would be so entitled if the restriction for attendant care (ITA 118.3(1)(c)) were disregarded (ITA 146.4(1)).

A ***specified education savings plan*** is an education savings plan:

a) that does not allow more than one beneficiary under the plan at any one time;
b) under which the beneficiary is a DTC-eligible individual for the beneficiary’s taxation year that ends in the 31st year following the year in which the plan was entered into; and
c) that provides that, at all times after the end of the 35th year following the year in which the plan was entered into, no other individual may be designated as a beneficiary under the plan (ITA 146.1(1) “specified plan”).

If a DTC-eligible individual is a beneficiary under a family plan, the subscriber could transfer that individual’s share of the family plan into a single beneficiary RESP to gain access to the extended limits.

For a specified education savings plan, the RESP duration limit for contributions is the end of the 35th year after the year in which the RESP was opened (ITA 146.1(2)(j)(ii)(A)). The subscribers could contribute for 36 years.

For an eligible RESP beneficiary for the extended duration limits, the RESP duration limit for existence is the end of the 40th year after the year in which the RESP was opened (ITA 146.1(2)(i)) and (ii)).

An RESP established on January 1 could be open for 41 years.

2.3.7 Changing the RESP beneficiary

When a subscriber replaces a beneficiary under an RESP with a new beneficiary, the Income Tax Act considers that the contributions made for the former beneficiary have been made for the new beneficiary.

If the new beneficiary already has an RESP, the additional contribution history may create an overcontribution situation for the new beneficiary and this could lead to an overcontribution penalty.

This overcontribution penalty will not apply in the following situations:

1) the replacement beneficiary is a brother or sister of the former beneficiary, and is under 21 years of age; or
2) both beneficiaries are connected by blood relationship or adoption to an original subscriber under the RESP, and neither is yet 21 years of age.

In both these situations, the contributions made for the former beneficiary will not be included in determining the lifetime contribution limit for the new beneficiary.

2.3.8 Selling of RESP interests

As the subscriber, you are permitted to change the beneficiary of an RESP. If it is an individual plan, there is an incentive to sell the plan to your neighbour whose children will be attending post-secondary education. You could be selling your contributions, CESGs and accumulated income.

In order to discourage you from selling your interest in an RESP as a subscriber, any amounts that you were to receive for the full or partial disposition of your interest in an RESP are included in your income for the year.

Such taxable amount do not include any amounts that you receive relating to a division of property between you and your spouse/common-law partner in settlement of rights arising on the breakdown of your marriage/common-law partnership.

> Arnold established an RESP for his son, James, and over the years the RESP accumulated funds of $15,000.
>
> When it became apparent that James would never attended post-secondary education, Arnold mentioned the situation to his brother, Fred, who had three children attending post-secondary education.
>
> Fred asked if he could buy the RESP and use it for his children.
>
> If Arnold sold the RESP to Fred, Arnold would have to include any proceeds in his income for the year despite the fact that the contributions were tax-paid capital.
>
> Fred's children would have to report any educational assistance payments as income, but not the contributions by Arnold.
>
> This could result in double taxation of the accumulated income and CESGs, although Fred's children might not actually have to pay any income tax due to the various tax credits they would have.
>
> However, there does not seem to be anything to prevent Arnold from gifting the RESP to his brother.

2.4 Qualified Investments

The Income Tax Act imposes restrictions on the types of property that an RESP trust can hold.

With the exception of certain annuity contracts, the types of property that qualify for an RESP are the same as those that qualify for an RRSP (ITA 146.1(1), “qualified investment”, and ITR 4900(9)(a)).

The ***qualified investments for an RESP trust*** include:

- money deposits;
- guaranteed investment certificates;
- bonds of a Canadian government;
- any security, other than a futures contract, that is listed on a designated stock exchange;
- bonds of a corporation whose shares are listed on a prescribed stock exchange;
- mutual funds;
- segregated funds; and
- prescribed investments.

A ***non-qualified investment for an RESP trust*** is simply property that is not a qualified investment for the trust.

The Income Tax Act levies a 1% penalty tax on the fair market value of all RESP non-qualified investments held by the RESP trust at the end of each month (ITA 207.13).

There is no limit on the amount of foreign property that can be held through an RESP.

2.4.1 Further Information

For further information, you can refer to the 3 Income Tax Folios that address investments for registered plans:

- S3-F10-C1, Qualified Investments – RRSPs, RESPs, RRIFs, RDSPs and TFSAs;
- S3-F10-C2, Prohibited Investments – RRSPs, RESPs, RRIFs, RDSPs and TFSAs; and
- S3-F10-C3, Advantages – RRSPs, RESPs, RRIFs, RDSPs and TFSAs.

2.4.2 Revocation of RESP

An RESP is revocable at any time at which:

a) a trust governed by the plan acquires property that is not a qualified investment for the trust;
b) property held by a trust governed by the plan ceases to be a qualified investment for the trust and the property is not disposed of by the trust within 60 days after that time;
c) a trust governed by the plan begins carrying on a business; or
d) a trustee that holds property in connection with the plan borrows money for the purposes of the plan, except where:
   1) the money is borrowed for a term not exceeding 90 days;
   2) the money is not borrowed as part of a series of loans or other transactions and repayments; and
   3) none of the property of the trust is used as security for the borrowed money (ITA 146.1(2.1)).

2.5 Qualifying Educational Programs

In order to withdraw funds from an RESP as an educational assistance payment (EAP), the beneficiary must enroll in a qualifying educational program at an eligible post-secondary institution (ITA 146.1(1)).

A ***qualifying educational program*** is a program that:

- runs for at least 3 or more consecutive weeks; and
- requires the student to spend 10 or more hours per week on courses or work in the program (ITA 146.1(1), “qualifying educational program”).

As of January 1, 2007, the government passed Bill C-52 into law and permitted an RESP to make an educational assistance payment to a beneficiary for a program that involves at least 12 hours per month on courses, if:

a) the RESP would have been permitted to make the payment as an educational assistance payment to the beneficiary for the program if it had involved at least 10 hours per week on courses or work;
b) the total of the payment and all other educational assistance payments made in the preceding 13-week period to the beneficiary under the RESP and all other RESPs administered by the same promoter does not exceed $2,500 or such greater amount as is approved in writing with respect to the beneficiary by the Minister designated for the

purpose of the Canada Education Savings Act; and

c) the beneficiary has attained at least 16 years of age at the time of the payment.

Courses or work includes lectures, practical training, laboratory work, or research time spent on a post-graduate thesis. It does not include study time.

An ***eligible post-secondary institution*** is any of the following:

- a university, college or other educational institution that has been designated for purposes of the Canada Students Loans Act or the Canada Student Financial Assistance Act, or is recognized for purposes of the Quebec Student Loans and Scholarship Act;
- an educational institution in Canada that is certified by the Minister of Human Resources and Social Development Canada to be providing courses, other than courses designed for university credit, that give a person occupational skills or that improve a person's occupational skills; or
- a university, college or other educational institution outside Canada that provides courses at a post-secondary school level, provided that the beneficiary is enrolled in a course that runs at least 13 weeks (ITA 146.1(1), "post-secondary educational institution").

Full-time students enrolled in a qualifying educational program at an eligible institution are eligible for EAPs, even if that program is via correspondence.

For beneficiaries who plan to attend an educational institution outside of Canada, the program must be at least 13 weeks in duration, instead of just 3 weeks, and proof of full-time enrolment will be required.

If the beneficiary is deemed to be a non-resident beneficiary, the trustee must deduct Canadian withholding tax from the educational assistance payments.

> Pierre and Jeannette were thinking about using their RESPs to fund their retirement holidays by taking a 3-week art course in Paris, France.
>
> The program must be at least 13 weeks in duration. Proof of full-time enrollment will be required. The trustee may have to deduct Canadian withholding tax.
>
> These requirements put a stop to their plans.

You can refer to IC 77-16, *Non-resident Income Tax*, if you need more information on this withholding tax.

2.6 Accumulated Income Payment (AIP)

If the beneficiary of a group or pooled RESP does not pursue a post-secondary education and it is too late to change the beneficiary, the subscriber essentially forfeits the accumulated income because the sponsor allocates it to the beneficiaries who continue their studies.

If the beneficiary of an individual, non-family or family plan does not pursue a post-secondary education, it may be possible to substitute another beneficiary, subject to the terms of the plan.

An ***accumulated income payment*** (***AIP***) is a payment of the investment earnings from an RESP, including earnings on the Canada Education Savings Grant (ITA 146.1(1), "accumulated income payments").

If it is not possible or desirable to substitute a beneficiary, the Income Tax Act permits the payment of accumulated income payments to the subscriber.

The trustee may only make a payment of accumulated income payments to the subscriber if:

- the plan has been in existence for 10 years;
- all beneficiaries have reached 21 years of age;
- no beneficiary is attending school; and
- the subscriber is a resident of Canada.

The Minister of Finance can waive these conditions under certain circumstances (e.g., the beneficiary is deceased or mentally impaired).

Once the trustee makes an AIP from an RESP, the trustee must close the RESP by the end of

February of the year after the year in which the trustee made the first payment.

2.6.1 Rollover to Registered Retirement Savings Plan

The ***rollover of an accumulated income payment (AIP) to a subscriber's RRSP*** is a provision of the Income Tax Act that allows an RESP subscriber to rollover the accumulated income of the RESP to an RRSP under which the subscriber or his spouse is the annuitant, provided that the subscriber has available RRSP contribution room.

The ***lifetime limit for rollovers of an accumulated income payment (AIP) to an RRSP*** is $50,000 per subscriber.

The amount that is rolled over to the RRSP is a contribution and is eligible for a deduction. The annuitant of the RRSP must claim the deduction for the RRSP contribution for the year in which the amount is rolled over.

To qualify for the rollover and to avoid a 20% penalty tax, the trustee would have to send the assets directly to the financial institution administering the RRSP.

However, the subscriber would still have to report the transferred amounts as income and then deduct the same amounts as a contribution to his or a spousal RRSP.

> Twelve years ago, Mike set up a self-directed RESP and named his three sons as the beneficiaries. However, when each of his sons attained the age of 18, they chose not to pursue post-secondary education.
>
> Mike's eldest son joined the navy at age 18, his second son joined the National Hockey League, and his third son died in an expedition to the Antarctic. Mike's surviving sons are now aged 25 and 23.
>
> Provide that he has available RRSP room, Mike can rollover the accumulated investment income into an RRSP, up to a lifetime limit of $50,000.

2.6.2 Rollover to Registered Disability Savings Plan

To provide greater flexibility for parents who save in a Registered Education Savings Plan (RESP) for a child with a severe disability, you may be able to transfer investment income earned in an RESP on a tax-free or rollover basis to an RDSP if the plans share a common beneficiary (ITA 146.1 (1.1)&(1.2)).

In order to qualify for this measure, the beneficiary must meet the age and residency requirements in relation to RDSP contributions.

As well, one of the following conditions must be met:

- the beneficiary has a severe and prolonged mental impairment that can reasonably be expected to prevent the beneficiary from pursuing post-secondary education;
- the RESP has been in existence for at least 10 years and each beneficiary is at least 21 years of age and is not pursuing post-secondary education; or
- the RESP has been in existence for more than 35 years.

These are the same conditions for receiving an accumulated income payment (AIP) from an RESP.

An ***accumulated income payment (AIP)*** is a lump-sum distribution of investment income earned in an RESP to the RESP subscriber, generally made in circumstances where the RESP beneficiary does not pursue post-secondary education and the RESP is being terminated.

An accumulated income payment is included in the income of the RESP subscriber for regular income tax purposes and is also subject to an additional 20% tax.

An RESP subscriber may reduce the amount of the accumulated income payment subject to tax by contributing a portion of the accumulated income payment to a Registered Retirement Savings Plan under specified conditions.

When RESP investment income is rolled over to an RDSP, contributions in the RESP will be returned to the RESP subscriber on a tax-free basis.

The subscriber can contribute these contributions returned from the RESP to the RDSP, immediately or over time, possibly attracting Canada Disability Savings Grants (CDSGs).

The carryforward of RDSP grants and bonds allows RDSP beneficiaries to claim unused entitlements for Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) for the preceding 10 years starting from 2008, the year RDSPs became available.

In addition, the trustee of the RESP must repay Canada Education Savings Grants and Canada Learning Bonds in the RESP to the Government and must terminated the RESP by the end of February of the year after the year during which the rollover is made.

As in the case of a contribution of an accumulated income payment to a Registered Retirement Savings Plan, the rollover amount will not be subject to regular income tax or the additional 20% tax.

The amount of RESP investment income rolled over to an RDSP may not exceed, and will reduce, the beneficiary's available RDSP contribution room.

The rollover amount will be considered a private contribution for the purpose of determining whether the RDSP is a primarily government-assisted plan (PGAP), but will not attract Canada Disability Savings Grants (CDSGs). The rollover amount will be included in the taxable portion of RDSP withdrawals.

A ***primarily government-assisted plan (PGAP)*** is an RDSP where Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs) paid into the plan exceed private contributions made to the plan. Specific rules limit the maximum amount that may be withdrawn annually from a primarily government-assisted plan.

These measures apply to rollovers of RESP investment income made after 2013.

2.6.3 Payment to subscriber

The ***payment of an accumulated income payment (AIP) to an RESP subscriber*** is a provision of the Income Tax Act that allows the trustee to pay the accumulated income directly to the subscriber.

To the extent that AIP cannot rollover into the subscriber's RRSP as a contribution, the trustee can pay the accumulated income directly to the subscriber.

However, the AIP will be taxable to the subscriber as income, and a federal penalty tax will apply in addition to the regular federal income taxes.

For ***residents of Quebec, the federal penalty tax*** is 12%. For ***residents of other provinces, the federal penalty tax*** is 20%.

The penalty tax ensures that people cannot abuse RESPs by using them for tax-deferral purposes unrelated to either education or retirement savings (ITA 146.1(7.1) and 204.94(2)).

The trustee can return the capital subscribed to the subscriber without the subscriber having to report it as taxable income because it represents the cumulative contributions that the subscriber made with after-tax dollars and these contributions were not eligible for a tax deduction.

> David established an individual RESP for his only daughter who joined a cult and does not qualify for educational assistance payments.
>
> David can withdraw his contributions without being liable for any income tax. David can change the beneficiary.
>
> If David does not change the beneficiary, he could:
>
> - rollover an AIP to his RRSP; or
> - receive an AIP and pay the income and penalty taxes on the AIP.

2.6.4 Partial payment to subscriber

If, as a subscriber, you were entitled to an accumulated income payment (AIP) under a plan set up for your child, you could not receive part of the AIP and transfer the balance in the plan to another plan set up for your child.

Providing the plan set up for your child allows for the payment of an AIP and that you have met the required conditions for an AIP to be paid to you, it is possible to receive the AIP. However, a plan cannot allow for the receipt of property by way of direct transfer from another plan that has made an AIP.

Consequently, it would not be possible to transfer the balance of the assets remaining in your child's plan to the plan set up for another of your children. The trustee would have to terminate the plan set up for your child before March of the year following the year that the trustee makes the first AIP.

> John Smith, a subscriber, is entitled to an accumulated income payment (AIP) under the plan set up for his son, Luke.
>
> John cannot receive part of the AIP and transfer the balance in the plan to a plan set up for another child.

2.7 Death of a Subscriber

The capital contributed to an RESP, which is the accumulated contributions, is the property of the subscriber.

Each province has legislation as to which prescribed plans can have a named beneficiary and pass outside of a deceased's estate. While the prescribed plans include Registered Retirement Savings Plan, they do not include Registered Education Savings Plans.

Upon the death of a subscriber, what happens to the contributions, which are the property of the contributor? Would the RESP remain in existence or will it be wound up with repayment of the grants to the government?

There are two ways to deal with the subscriber's contributions upon death:

- if the contributions are owned as a joint tenancy, they will pass to the surviving joint tenant;
- if the contributions are owned as a sole ownership, they will become part of the estate of the deceased subscriber.

2.7.1 Joint tenancy

If you and your spouse/common-law partner were joint subscribers and owned the RESP contributions as a joint tenancy, they would pass to the survivor under the right of survivorship.

Only spouses/common-law partners can be joint subscribers of an RESP.

2.7.2 Estate of the deceased

Each province has legislation that would allow you to name a beneficiary for property held in certain prescribed plans and that would allow you to pass that property or plan to a beneficiary outside of a your estate. However, the prescribed plans do not include a Registered Education Savings Plan.

After the death of a subscriber, a subscriber includes any other person, including the estate of the deceased individual, who acquires the deceased's rights as a subscriber under the plan (ITA 146.1(1); subscriber). So, your estate can acquire your interest in the contributions and continue as a subscriber.

In your Will, you would name beneficiaries for your estate. If you wanted to continue the RESP, you would need to leave the RESP to a beneficiary who would be prepared to continue its existence, rather than withdrawing the contributions and winding it up.

You could name a testamentary trust for the children who are the income beneficiaries of the RESP as the successor subscriber. A testamentary trust would qualify as a subscriber provided the trust acquires the deceased's rights to the RESP (CRA technical interpretation 2005-0118891E5).

2.7.3 Parent of beneficiaries

If you and your spouse/common-law partner are the parents of the children who are the beneficiaries of the RESP, in your Will as the beneficiary of your interest in the RESP, you should name:

- your surviving spouse/common-law partner; and
- if your spouse/common-law partner does not survive you, a testamentary trust for the children.

If you were to leave additional assets to the testamentary trust, the trust could continue to contribute to the RESP after your death.

2.7.4 Grandparent of beneficiaries

If you are a grandparent of the children who are the beneficiaries of the RESP, in your Will as the beneficiary of your interest in the RESP, you should name:

- your son or daughter who is the parent of the beneficiaries; and
- if your son or daughter does not survive you, a testamentary trust for the children.

If you were to leave additional assets to the testamentary trust, the trust could continue to contribute to the RESP after your death.

2.7.5 Succeeding subscriber

A ***succeeding subscriber*** is an individual who becomes a subscriber upon the death of the original subscriber.

The terms of an RESP may provide that a new subscriber may continue to make contributions to the RESP after the death of the original subscriber.

After the death of a subscriber, a subscriber includes any other person, including the estate of the deceased individual, who acquires the individual's rights as a subscriber under the plan or who makes contributions into the plan in respect of a beneficiary (ITA 146.1(1); subscriber).

Subject to the contractual terms of the RESP, any person, including the personal representatives of the deceased subscriber, who makes a contribution to the RESP in respect of a beneficiary, can become a succeeding subscriber of the RESP after the death of the subscriber.

2.8 Transfers of property between RESPs

Transfers of property between registered education savings plans (RESPs) are generally not restricted.

The ***effective date of the plan where the trustee has received funds from another plan, whether it is a partial or total transfer,*** will be determined as the earlier of:

- the effective date of the plan from which the funds came; and
- the effective date of the plan to which the funds were transferred.

The effective date is relevant in determining when contributions and transfers to an RESP must end, when accumulated income payments can start and when the trustee must terminate the plan.

A trustee can transfer funds between plans without resulting in any penalty tax in two cases:

1. there is a common beneficiary under the transferring plan and the plan receiving the transfer; or
2. a beneficiary under the transferring plan is a sibling of a beneficiary under the receiving plan, provided that the beneficiary under the receiving plan is under 21 years of age.

In any other case, a transfer can result in an overcontribution.

Each beneficiary under the receiving RESP assumes the RESP contribution history for each beneficiary under the transferring RESP.

Each contribution is considered to have been made into the receiving RESP. Each subscriber under the transferring RESP is considered to have been a subscriber under the receiving

RESP. The subscriber is liable for any tax on overcontributions.

2.8.1 Individual non-family plan

A subscriber can transfer an individual non-family plan to any other individual non-family plan.

There are no requirements concerning the relationship between subscriber and beneficiary in a non-family plan.

So, the relationship between the different subscribers and/or beneficiaries is not important in such transfer.

Because non-family plans can have only one beneficiary, the transfer may be the occasion for the subscriber to change the beneficiary.

The Income Tax Act deems that the subscriber contributed the amounts transferred to the receiving plan at their original date unless:

- the same individual was beneficiary under the two plans; or
- the beneficiary under the receiving plan was under 21 years of age and a sibling of the beneficiary under the transferring plan.

As described above and for the application of certain rules, the Income Tax Act could deem the effective date of the receiving plan to be different.

Even if the amounts transferred were well under the applicable limit, it could be possible to have excess contributions where the trustee transfers the contributions to a much younger beneficiary who might not have been alive at the time the subscriber originally contributed.

2.8.2 Change of subscriber

A trustee can transfer the funds in an RESP to a plan with a different subscriber, but the same beneficiary.

The rules also specify that if the beneficiary under the receiving plan were, immediately before the transfer, a beneficiary under the transferring plan, the contribution history would not apply to the receiving plan for excess contributions purposes. This would apply for family and non-family plans.

> Shelley's grandmother who has an RESP for her granddaughter transferred the plan to her daughter's plan for Shelley.

A family plan can be split into single plans and single plans combined into a family plan. Single plans can effectively be set up to receive amounts transferred from a family plan, as well as the reverse.

In both cases, the promoter of the receiving plan would have to apply the rules concerning the effective date of the new plan. In each situation, rules concerning the beneficiaries of a family plan could apply.

If the beneficiary is the same individual under both plans, or the beneficiary under the originating plan is a sibling of a beneficiary under the receiving plan, no excess contributions tax would apply after the transfer.

2.9 Provincial Payments into RESPs

Provincial and territorial governments may also support the efforts of parents to save by making payments into Registered Education Savings Plans.

All payments made to a Registered Education Savings Plan through a program funded, directly or indirectly, by a province or administered by a province are treated the same way as federal grants and bonds, do not use up a beneficiary's Registered Education Savings Plan contribution room and do not attract or reduce federal grants and bonds (ITA 146.1 "contribution", 146.4).

2.9.1 Quebec Education Savings Incentive

The ***Québec education savings incentive (QESI)*** is a program that encourages Québec families to start saving early for the education of their children and grandchildren.

The incentive consists of a refundable tax credit that is paid directly into an RESP opened with an RESP provider that offers the QESI.

To be entitled to the Québec education savings incentive, the child beneficiary must meet all of the following conditions:

- be less than 18 years of age,
- have a social insurance number (SIN);
- be resident in Québec on December 31 of the taxation year; and
- be the designated beneficiary of the concerned registered education savings plan (RESP).

Each year, a registered education savings plan (RESP) account can receive an amount equal to 10% of the net contributions paid into it over the course of a year, up to a maximum of $250.

Since 2008, any benefits accrued during previous years can be added to the basic amount, up to a maximum of $250 per year.

> In 2017, Ms. Stone opens an RESP account for Matthew, her grandson, to save money for his education. She does not make any contributions in 2017 or in 2018.
>
> In 2019, however, she contributes $5,000, which gives entitlement to the basic amount of $250.
>
> In 2020, Revenu Québec will take into account the accumulated rights and pay $500 into the RESP.

To help low-income families, an increase of up to $50 per year, calculated on the basis of family income, may be added to the basic amount.

A beneficiary cannot be granted a cumulative amount of more than $3,600 for all of the RESP of which he or she is the beneficiary.

2.10 More Information

You can refer to the following publications and web pages if you want more information:

- Registered Education Savings Plan (RC 4092);
- http://www.canlearn.ca/;
- Income Tax Folio S3-F10-C1, Qualified Investments – RRSPs, RESPs, RRIFs, RDSPs and TFSAs; and
- Information Circular IC93-3R2, Registered Education Savings Plans.

3. CANADA EDUCATION SAVINGS GRANTS

Under the *Canada Education Savings Act (CESA)*, a ***Canada Education Savings Grant*** (***CESG***) is a grant that is paid by Human Resources and Social Development Canada (HRSDC) to the trustee of an RESP for deposit on behalf of the beneficiary.

HRSDC will not pay a CESG in respect of an RESP beneficiary who is not a resident in Canada.

3.1 Grant Payments to the RESP

Each RESP trustee asks HRSDC to pay the CESG on behalf of the subscribers on a quarterly basis.

HRSDC processes the transactions on a pre-defined day after the end of each quarter, so HRSDC pays the grant quarterly if the subscriber is contributing throughout the year.

If one individual is the named beneficiary under two different RESPs and subscribers contribute to both plans, HRSDC pays the CESG on a first-come, first-serve basis, subject to the lifetime limit.

In the event that two subscribers contribute in the same quarter to two separate RESPs, the subscriber's contribution that is dated earliest in the quarter will receive the grant first.

The later contribution will only receive the grant to the extent that CESG contribution room is remaining. In the event that contributors contribute on the same day, the grant will be pro-rated between the RESPs.

3.2 Contribution Room

Beginning with 1998, each child under 18 years of age who is resident in Canada accumulates CESG contribution room each year, up to and including the year in which the child turns 17 years of age.

A ***child's CESG contribution room*** is the amount of contributions to an RESP on which the RESP can receive Canada Education Savings Grants.

This contribution room accumulates whether or not the child is currently an RESP beneficiary.

The child carries forward any unused contribution room.

The ***annual CESG contribution room*** is the amount by which an eligible child's CESG contribution room increases in the year of birth and on January 1 of each year. CESG annual contribution room always starts in the year of birth.

As of January 1, 2007, the ***annual CESG contribution room*** is $2,500 (CESA 5(2)(*b*)).

For a child born before 2007, the ***child's CESG contribution room*** is the amount calculated as:

- the child's contribution room for years before 2007 when the annual CESG contribution room was $2,000, calculated as: ((the lesser of ((child's age as at December 31, 2006 + 1) and 9 years, which is the number of years that the CESG was available prior to January 1, 2007)) × annual CESG contribution room of $2,000); plus
- the child's contribution room for years after 2006 when the annual CESG contribution room was $2,500, calculated as: ((child's age as at December 31 of current year - child's age as at December 31, 2006) × annual CESG contribution room of $2,500); minus
- assisted contributions.

A ***child's age as at December 31, 2006*** is the number of years of age calculated as:

- (the greater of (0 and (age as at December 31 of last year - (last year - 2006)))).

If a child was 17 years of age or older at the end of the preceding year, the ***child's CESG contribution room*** is nil (CESA 3(a)).

As of January 1, 2020, Caroline and John Mingle have one child, Matthew, 16 years of age, who was born on September 30. They have made assisted contributions for Mathew of $16,000.

As at December 31, 2006, Mathew was 3 years of age, calculated as:

- (the greater of (0 and (age as at December 31 of last year - (last year – 2006)))); or
- (the greater of (0 and (16 years - (2019 - 2006)))).

As at December 31, 2020, Mathew will be 17 years of age, calculated as:

- (age as at December 31 of last year + 1); or
- (16 years + 1).

As of January 1, 2020, Matthew's CESG contribution room was $27,000, calculated as:

- ((((the lesser of ((child's age as at December 31, 2006 + 1) and 9 years)) × annual CESG contribution room of $2,000) + ((child's age as at December 31 of current year - child's age as at December 31, 2006) × annual CESG contribution room of $2,500)) - assisted contributions); or
- ((((the lesser of ((3 years + 1) and 9 years)) × $2,000) + ((17 years – 3 years) × $2,500)) - $16,000).

For a child born after 2006, the ***child's CESG contribution room*** is the amount calculated as:

- ((child's age as at December 31 of current year × annual CESG contribution room of $2,500) - assisted contributions).

3.2.1 RESP lifetime limit

The ***RESP lifetime limit*** is the maximum amount of contributions that subscribers may make to an individual's RESPs over that individual's lifetime.

No CESG is payable if the total of the contribution and all other contributions previously made to RESPs in respect of the beneficiary exceeds the RESP lifetime limit (CESA 4(1)(*d*)).

3.2.2 Assisted contributions

The Canada Education Savings Act provides for a 20% Canada Education Savings Grant (CESG) to be paid on contributions made to a registered education savings plan (RESP) in respect of a beneficiary up to and including the year in which the beneficiary turns 17 years of age (CESA 5(2)).

Contributions made by any subscriber in respect of a beneficiary can qualify for the CESG.

As of January 1, 2007, the ***dollar limit on the maximum annual CESG*** is $1,000 (CESA 5(2)(b)).

When a subscriber contributes to an RESP on behalf of an eligible beneficiary, HRSDC will pay the trustee a grant.

The ***amount of the CESG*** is the amount calculated as:

- (the lesser of ($1,000 and (20% × (the lesser of (that contribution and the beneficiary's unused CESG grant contribution room))))).

The maximum annual RESP contribution qualifying for the 20 per cent CESG is $2,500 and $5,000 if there is unused CESG room (CESA 5(2)(b)).

An ***assisted contribution*** is a contribution to an RESP in respect of which a CESG was paid.

An ***unassisted contribution*** is an RESP contribution that was not eligible for a CESG.

> This year, Jennie plans to contribute $3,000 to an RESP on behalf of her daughter, Amanda.
>
> Amanda had unused CESG room remaining last year of $500, so her total CESG room this year is $3,000, calculated as:
>
> - (new CESG contribution room + carryforward); or
> - ($2,500 + $500).
>
> HRSDC will provide a grant of $600, calculated as:
>
> - (the lesser of ($1,000 and (20% × (the lesser of (that contribution and the beneficiary's unused CESG grant contribution room))))); or
> - (the lesser of ($1,000 and (20% × (the lesser of ($3,000 and $3,000))))).

While unused CESG contribution room will be carried forward for use in future years, contributions made in one year that exceed the amount of available CESG contribution room cannot be carried forward for purposes of attracting a CESG payment in a subsequent year.

The ***maximum total amount of CESGs that HRSDC can pay in respect of any individual*** is $7,200.

> This year, Anne and Robert had a new baby, Johanna. Johanna's CESG contribution room was $2,500. The parents established an RESP for her with an initial contribution of $1,200.
>
> HRSDC contributed a CESG of $240, calculated as:
>
> - (the lesser of ($1,000 and (20% × (the lesser of (that contribution and the beneficiary's unused CESG grant contribution room))))); or
> - (the lesser of ($1,000 and (20% × (the lesser of ($1,200 and $2,500))))).
>
> Johanna will carry forward CESG contribution room of $1,300, calculated as:
>
> - (CESG contribution room – assisted contributions); or

- ($2,500 - $1,200).

Next year, Johanna's CESG contribution room will be $3,800 calculated as:

- (CESG contribution room carryforward + new contribution room); or
- ($1,300 + $2,500).

Anne and Robert will make a contribution of $2,000, which will result in a CESG of $400, calculated as:

- (the lesser of ($1,000 and (20% × (the lesser of (that contribution and the beneficiary's unused CESG grant contribution room))))); or
- (the lesser of ($1,000 and (20% × (the lesser of ($2,000 and $3,800))))).

Johanna will carry forward CESG contribution room of $1,800, calculated as:

- (CESG contribution room – assisted contribution); or
- ($3,800 - $2,000).

Next month, Johanna's grandmother, Tanya, plans to establish an RESP for Johanna and make a contribution of $2,000.

This contribution would result in a CESG of $360, calculated as:

- (the lesser of ($1,000 and (20% × (the lesser of (that contribution and the beneficiary's unused CESG grant contribution room))))); or
- (the lesser of ($1,000 and (20% × (the lesser of ($2,000 and $1,800))))).

The excess contribution is $200, calculated as:

- (contribution - CESG contribution room); or
- ($2,000 - $1,800).

The excess contribution will not qualify for a CESG in the following year or any other time, so it will be an unassisted contribution.

3.2.3 Beneficiaries over 17 years of age

CESGs will not be paid for years in which the RESP beneficiaries are 18 years of age or older.

At this age, most will be starting their post-secondary education and the family would typically be directing resources to assisting children to meet current needs, not saving for the future.

The Income Tax Act permits subscribers of individual family plans and individual non-family plans to make RESP contributions up to the end of the year that includes the 31st anniversary of the establishment of the plan.

However, contributions are not eligible to receive the CESG for the years in which the child is 18 years of age or older.

3.2.4 Beneficiaries 16 or 17 years of age

To encourage long-term savings for post-secondary education, there are special CESG eligibility rules for RESP beneficiaries in the years that they turn 16 or 17 years of age.

RESP contributions for 16- and 17-year olds will be eligible for the CESG only if the contributions meet at least one of the following conditions:

1. a minimum of $2,000 of RESP contributions has been made to, and not withdrawn from, RESPs in respect of the beneficiary before the year in which the beneficiary attains 16 years of age; or
2. a minimum of $100 in annual RESP contributions has been made to, and not withdrawn from, RESPs in respect of the beneficiary in at least any four years before the year in which the beneficiary turns 16 years of age (CESA Reg. 4(1)(c)).

Carly, Phyllis and Tassia all began making RESP contributions in 2012 when their daughters were 8 years of age. As of 2020, they have contributed as listed below:

Child's Age	Carly	Phyllis	Tassia
8	$1,000	$400	$250
9	1,000	0	250
10	1,000	400	250
11	500	0	250
12	500	0	250
13	0	400	250
14	0	400	250
15	0	0	250
16	2,000	2,000	2,000

Carly's contribution of $2,000 at age 16 will result in a CESG because she made contributions of $4,000 prior to age 16, calculated as:

- ($1,000 + $1,000 + $1,000 + $500 + $500).

Phyllis and Tassia's contributions of $2,000 at age 16 will also result in CESG because there were at least four contributions that exceeded $100 prior to age 16.

3.2.5 Age limit

Contributions made after 1999 to an RESP submitted for registration before 1999 will not qualify for CESG payments unless the issuer and subscriber have amended the plan to restrict new beneficiaries to those less than 21 years of age.

In addition, no portion of an educational assistance payment made to an individual who became a beneficiary of a family RESP after attaining 21 years of age will be attributable to CESG payments made to the plan.

In certain situations, the CESG portion of an EAP is considered to be $nil.

This can occur, for example, when the trustee pays an EAP to an RESP beneficiary who became a beneficiary under the plan after attaining 21 years of age, or when the trustee pays an EAP to an RESP beneficiary who is not resident in Canada.

3.3 Enhanced Canada Education Savings Grant

The ***Enhanced Canada Education Savings Grant*** is a grant for RESP beneficiaries in low-income families. The child's family must receive the National Child Benefit Supplement.

The first $500 of annual contributions to an RESP whose beneficiary is under 18 years of age throughout a year provides an enhanced CESG matching rate of:

- 40% for the child of a family with qualifying net income up to the lower income threshold; and
- 30% for the child of a family with qualifying net income between the lower income threshold and the upper income threshold.

The child's family must be eligible to receive the National Child Benefit Supplement (NCB).

For the 2019/2020 benefit year, the ***family net income at which the National Child Benefit Supplement begins to phase out*** is the ***lower income threshold,*** which is the amount of taxable income at which the second, 20.5%, income tax bracket begins, $47,630; the ***upper income threshold*** is twice that amount or $95,260.

The thresholds are indexed for inflation.

Qualifying net income in respect of the year is generally the family net income used to determine eligibility for the Canada Child Tax Benefit with respect to the child in January of that calendar year. This will be family net income for the second preceding calendar year.

There is no carry-forward of unused access to the Enhanced CESG.

The CESA increased the maximum CESG payable in respect of a year to accommodate the enhanced matching rates.

The Lifetime Cap of $7,200 in CESGs that may be paid in respect of a beneficiary during their lifetime now encompasses both the Basic and Enhanced CESGs (CESA 5(10)).

Jean Marie has a qualifying net income of $23,000.

She contributed $2,000 to an RESP for her daughter and the trustee of the RESP received a CESG of $500, calculated as:

- ((40% × the first $500) + (20% × the amount in excess of $500)); or
- ((40% × $500) + (20% × $2,000 - $500)).

Parents, grandparents and other individuals may each establish an RESP for a child. Their contributions will generally attract the CESG, subject to the child's lifetime RESP contribution limit. Their contributions may also be eligible for the enhanced CESG matching rates.

However, where the RESP subscriber is not the primary caregiver, or his spouse/common-law partner, consent of the primary caregiver will be required before HRSDC will pay the enhanced CESG rate on contributions made by such subscribers. Unless the trustee obtains such consent, the CESG matching rate on eligible contributions will be 20%.

In all cases, the provision that limits the enhanced CESG matching rate to the first $500 contributed each year will apply jointly to all RESPs of which the child is the beneficiary.

It would not be appropriate to allow subscribers to withdraw existing RESP contributions and re-contribute them in order that their beneficiaries obtain a higher CESG matching rate.

Special rules apply to withdrawals after March 22, 2004 for non-educational purposes of contributions that previously qualified for the CESG.

Where such withdrawals occur, a 20% CESG matching rate will apply to all eligible contributions made to any RESP in respect of those beneficiaries until the total level of contributions to RESPs for those beneficiaries returns to the level previously attained.

3.4 Canada Learning Bond

A ***Canada Learning Bond (CLB)*** is a Government of Canada bond that is issued under the Canada Education Savings Act to certain children, that must be held in a Registered Education Savings Plan (RESP), and that must be used for post-secondary education.

A child is eligible for the CLB if they:

- are from a low-income family;
- are born on or after January 1, 2004;
- are a resident of Canada;
- have a valid Social Insurance Number (SIN); and
- are named in an RESP

Eligibility for the CLB is based on the:

- number of qualified children in the family; and
- adjusted income of the primary caregiver, including the income of a cohabiting spouse or common-law partner.

For July 1, 2019 to June 30, 2020, the income eligibility amount for the CLB is based on the following:

Number of Children	Adjusted Net Family Income
1 to 3	$47,630
4	53,740
5	59,876
6	66,011
More than 6	72,146 to 127,362

The primary caregiver or their spouse or common-law partner requests the CLB on behalf of an eligible child.

Each child born on or after January 1, 2004 may be eligible for a Canada Learning Bond, up to and including the year in which the child turns 15 years of age.

A child in a low-income family can receive Canada Learning Bonds totaling up to $2,000.

A Canada Learning Bond of $500 is provided for the first year of entitlement for the NCB supplement, which could be any year from the year of birth up to and including the year in which the child turns 15 years of age.

Any subsequent Canada Learning Bond will be in the amount of $100. There will be only one Canada Learning Bond for a child in any particular benefit year.

The Canada Learning Bond is payable into an RESP of which the child is a beneficiary. An additional $25 is paid with the initial $500 Canada Learning Bond to help families cover the costs of establishing an RESP. The Canada Learning Bond will earn and accumulate investment income in the RESP.

Mathieu was born in 2011. His parents received the NCB supplement for that year.

At birth, Mathieu is entitled to a Canada Learning Bond of $500.

Suppose that his parents continue to receive the NCB supplement for each year up to and including the year in which Mathieu reaches 15 years of age.

This would generate an entitlement to a Canada Learning Bond of $100 for each of those years.

Mathieu's RESP would receive Canada Learning Bonds worth $2,000, calculated as:

- ($500 for year of birth + $100 per year for 15 years).

Suppose that Mathieu's Canada Learning Bonds earn an annual average, real rate of return of 3.5%.

By the time Mathieu is 18 years of age, the Canada Learning Bond would have grown to $3,000.

While any person can subscribe to an RESP for the benefit of a child, only the primary caregiver for a child may authorize the transfer of the Canada Learning Bond into an RESP for the benefit of the child.

The ***primary caregiver in a particular year*** is generally the person receiving the NCB supplement that generated entitlement for the Canada Learning Bond.

A Canada Learning Bond in respect of a child can be transferred to an RESP at the request of a primary caregiver at any time before the child reaches 18 years of age. No interest will be paid on Canada Learning Bond entitlements that have not been transferred to an RESP. Once in the RESP, the deposits will grow in accordance with the plan.

Jennifer was born in 2017. Her parents received the NCB supplement for three years, when Jennifer was 4, 5, and 6 years of age.

She is entitled to a Canada Learning Bond of $500 at age 4, and an additional $100 Canada Learning Bond in each of the following two years.

Jennifer's RESP received $700 of Canada Learning Bonds, calculated as:

- ($500 for year of birth + $100 per year for 2 years).

If a Canada Learning Bond in respect of a child has not been transferred to an RESP by the time the child reaches 18 years of age, the child will have up to three years to open an RESP to hold the bond.

In this case, the child will be both subscriber and beneficiary of the RESP. Once a child turns 21 years of age, any Canada Learning Bond in respect of the child that has not been transferred to an RESP will be forfeited.

The Canada Learning Bond will not be taken into account in calculating lifetime RESP or CESG contribution limits. No CESG will be paid on Canada Learning Bond amounts placed in an RESP.

A specific portion of each Educational Assistance Payment (EAP) will be attributed to the Canada Learning Bond.

The full amount of an EAP is subject to tax in the hands of the student. Conditions governing the use and repayment of the Canada Learning Bond will generally be the same as those applying to the CESG.

However, Canada Learning Bond entitlements are allocated to a specific child and, unlike the CESG, cannot be shared with other beneficiaries in a family plan or group plan.

However, the beneficiaries of the RESP may share the earnings generated on a Canada Learning Bond (CESA Reg. 18(2)).

3.5 Withdrawal of Assisted Contributions

An ***assisted contribution*** is a contribution made to an RESP in respect of which HRSDC has made a CESG (CESA Reg. 1).

3.5.1 Repayment of CESGs

If you were to withdraw assisted contributions, other than by way of transfer to another RESP, when no beneficiary under the RESP is eligible to receive an EAP, the trustee must repay the CESGs on those assisted contributions (CESA Reg. 11(1)).

The ***amount of the CESGs that the trustee must repay*** is the amount calculated as:

- (the lesser of (A and (A × (C ÷ B)))), where:

  A = the balance in the grant account of the RESP immediately before the withdrawal;
  B = the balance of the total assisted contributions in the RESP immediately before the withdrawal; and
  C = the amount of assisted contributions withdrawn.

The CESGs have always been 20% of the assisted contributions. So, usually, the ***amount of the CESGs that the trustee must repay*** is the amount calculated as:

- (the amount of assisted contributions withdrawn × 20%).

A trustee under an RESP is not required to repay any amount of a CESG paid in respect of a beneficiary if:

- the withdrawal of contributions is all or part of an excess amount of contributions to reduce the amount of tax payable under Part X.4 of the Income Tax Act; and
- at the time of the withdrawal, the excess amount for the year is not greater than $4,000 (CESA Reg. 11(2)).

If you have made both assisted and unassisted contributions to an RESP, the regulations consider the assisted contributions to be withdrawn before unassisted contributions (CESA Reg. 2).

> Several years ago, Alice Munroe established an RESP for her daughter, Sharon. Due to financial difficulties, Sharon withdrew $10,000 of assisted contributions.
>
> A, the balance in the grant account of the RESP immediately before the withdrawal, was $8,000.
>
> B, the balance of the total assisted contributions in the RESP immediately before the withdrawal, was $40,000.
>
> The amount of the CESGs that the trustee must repay is $2,000, calculated as:
>
> - (the lesser of (A and (A × (C ÷ B)))); or
> - (the lesser of ($8,000 and ($8,000 × ($10,000 ÷ $40,000)))).

3.5.2 Penalty period for CESGs

The Income Tax Act permits subscribers to withdraw their capital contributions from an RESP at any time, without being liable for any income tax.

If a contributor withdraws assisted contributions, HRSDC will not pay a CESG in respect of an individual who was a beneficiary under the RESP at the time of the withdrawal throughout the period that begins on the day of the withdrawal and ends on the last day of the second year following the year in which subscriber made the withdrawal (CESA Reg. 4(3)).

However, this rule will not apply if:

a) the withdrawal is made at a time when at least one beneficiary under the RESP is eligible to receive an EAP under the RESP;
b) the withdrawal is an eligible transfer; or
c) the withdrawal is all or part of an excess amount of contributions to reduce the amount of tax, otherwise payable under Part X.4 of the Income Tax Act, and, at the time of the withdrawal, the excess amount for the year is not greater than $4,000.

Specifically, contributions made to any RESP during the remainder of the year of the withdrawal, or in the following two years, in respect of such beneficiaries will not be eligible for the CESG.

> For several years, Pat has been contributing to an RESP for his son, Peter.
>
> On May 12, 2020, Pat withdrew $8,000 of assisted contributions.
>
> HRSDC will not pay a CESG on any contribution made for Peter from May 12, 2020 to May 11, 2022.

These restrictions prevent assisted RESP contributions from being recycled in order to attract a CESG.

4. EDUCATIONAL ASSISTANCE PAYMENTS

A trustee can pay out the income of an RESP to a beneficiary in the form of educational assistance payments (EAPs) once the beneficiary enrolls as a student in a qualifying educational program at a designated educational institution.

4.1 Withdrawing Funds for Education

You need to obtain a withdrawal form from the issuer of the plan. To complete it, you will need your child's social insurance number, the RESP plan number and information about to the institution that your student will attend.

Your child must ask the school's registrar for a letter confirming admittance and the nature of his studies. You would then mail or fax this letter and the completed withdrawal form to the financial institution that is acting as trustee of the RESP. You would include instructions as to whom to make the cheque payable: the institution, your child or yourself.

A rather arbitrary rule of the Income Tax Act permits your child to use only $5,000 of EAPs in the first 13 weeks of the school term. Unless your child is living at home, your child will probably need more than $5,000 in the first term of the first year.

If your child needs more than $5,000 and you want it to come as an EAP, you must obtain prior approval from Human Resources and Social Development Canada.

If your child needs more than $5,000 and you need to withdraw some of your contributions, you will need to fill out a second form -- educational savings plan withdrawal: refund of principal to subscriber. You do not need the government's approval to take out the extra amount as a refund of contributions.

You do not have to account for how it is all spent. The Income Tax Act requires you to use the funds to further the student's education, which can mean room and board, tuition, school supplies and transportation expenses to get to school, including operating a car.

If you have already paid a deposit to the school or purchased books and supplies, you can reimburse yourself for those expenditures once the RESP money is available.

If your child does not continue his studies, you will want to have withdrawn as much EAPs as possible. This way, relatively more tax-free principal will remain in your hands when the RESP is collapsed.

4.2 Grace Period for Receiving EAPs

RESP beneficiaries are eligible to receive Educational Assistance Payments (EAPs) from the plan if, at the time of the payment, they are enrolled as a student in a qualifying post-secondary program.

To provide more flexibility for a beneficiary to access RESP savings, The Act allows a six-month grace period for receiving EAPs (ITA 146.1 (2.2)).

An RESP beneficiary would be eligible to receive EAPs for up to six months after ceasing to be enrolled in a qualifying program, provided that the payment would have qualified under the rules for EAPs if the trustee had made it immediately before the student's enrolment ceased.

4.3 Taxation of EAPs

An ***educational assistance payment*** (***EAP***) is any amount that a trustee pays from an RESP to, or on behalf of, a beneficiary to assist her education at the post-secondary school level (ITA 146.1(1), *educational assistance payment*).

An EAP does not include refunds of contributions made by the subscriber to the plan.

EAPs are taxable to the beneficiary in the year received (ITA 146.1(7)). However, any capital that the trustee distributes to the beneficiary is not subject to tax because it represents a refund of the subscriber's tax-paid capital.

A beneficiary can use EAPs towards any aspect of cost related to education; including tuition, books, and travel to school, accommodation, and general living expenses.

4.4 Full-Time Studies

A ***qualifying educational program*** is a program at a post-secondary school level of not less than three consecutive weeks duration that requires that each student taking the program spend not less than ten hours per week on courses or work in the program (ITA 146.1(1); *qualifying educational program*).

The trustee of an RESP may make an EAP to an individual who is enrolled as a student in a qualifying educational program provided the total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 12-month period that ends at that time does not exceed $5,000 or any greater amount that the Minister designated for the purpose of the Canada Education Savings Act approves in writing with respect to the individual (ITA 146.1(2)(g.1)(i) and (ii)).

After the student has completed the 13 consecutive weeks, there is no limit on the amount of EAPs that a trustee can pay if the student continues to qualify to receive them.

If there is a 12-month period in which the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the $5,000 maximum applies again.

Martin who is 18 years of age is the beneficiary of an RESP with funds of $20,000. He is completing a program of studies at Confederation College. There are 15 hours per week of lectures.

The total of the payment and all other educational assistance payments made under a registered education savings plan of the promoter to or for the individual in the 12-month period that ends at that time cannot exceed $5,000 or any greater amount that the Minister designated for the purpose of the Canada Education Savings Act approves in writing with respect to the individual.

So, Martin is eligible to receive at least $5,000 of EAPs for each 12-month period.

4.5 Part-Time Studies

A ***specified educational program*** is a program at a post-secondary school level of not less than three consecutive weeks of duration that requires each student taking the program to spend not less than 12 hours per month on courses in the program (ITA 146.1(1); *specified educational program*).

The trustee of an RESP may make an EAP to an individual who is enrolled as a student in a specified educational program provided two conditions are met:

1. the beneficiary has have attained at least 16 years of age at the time of the payment; and
2. the total of the payment and all other educational assistance payments made in the preceding 13-week period to the beneficiary under the RESP and all other RESPs administered by the same promoter must not have exceeded $2,500 or such greater amount as is approved in writing with respect to the beneficiary by the Minister designated for the purpose of the Canada Education Savings Act (ITA 146.1(2)(g.1)(i) and (ii)).

Daniel Soma who is 17 years of age is the beneficiary of an RESP with funds of $10,000. Daniel is attending two courses at Confederation College. There are 6 hours of lectures per week. Daniel would like to receive Education Assistance Payments (EAPs).

The total of the educational assistance payment and all other educational assistance payments made in the preceding 13-week period to the beneficiary under the RESP and all other RESPs administered by the same promoter cannot exceed $2,500 or such greater amount as is approved in writing with respect to the beneficiary by the Minister designated for the purpose of the Canada Education Savings Act.

So, Daniel is eligible to receive at least $2,500 of EAPs for each 13-week semester.

4.6 Study Abroad

Prior to 2011, a Canadian student could receive Educational Assistance Payments (EAPs) from a Registered Education Savings Plan for enrolment at an educational institution outside Canada that was a university, college or other educational institution that provides courses at a post-secondary school level and at which the student was enrolled in a course of not less than ***thirteen consecutive weeks***.

Many programs at foreign universities are based on semesters shorter than 13 weeks, with the result that many Canadian students were denied access to EAPs.

The Government recognized the need to improve access to EAPs for Canadian post-secondary students, who study outside Canada,

For EAPs made after 2010, the minimum course-duration requirement that a Canadian student enrolled at a university in a full-time course must meet for EAP purposes is reduced to three consecutive weeks from thirteen consecutive weeks.

4.7 Family RESPs

The Income Tax Act permits a subscriber to set up a family RESP in which each of the beneficiaries is related to the subscriber by blood or adoption.

The subscriber of a family plan has some flexibility in allocating EAPs to the beneficiaries and can decide how to divide the earnings among the beneficiaries if one of the beneficiaries dies or decides not to pursue post-secondary education.

In no circumstance can any beneficiary receive more than $7,200 in CESGs over her lifetime.

HRSDC allocates Canada Learning Bond entitlements to a specific child and, unlike the CESG, other beneficiaries in a family plan or group plan cannot share Canada Learning Bonds.

If there are no remaining beneficiaries, the subscriber must return any Canada Learning Bonds and CESGs to the government, but the subscriber could withdraw the corresponding income on any Canada Learning Bonds and the CESGs as an AIP.

4.8 Sharing Among Siblings

To ensure that family plans do not provide unintended benefits, all beneficiaries of the plan must be connected to the original subscriber by blood or adoption, and each beneficiary must generally be added to the plan before attaining 21 years of age.

Individuals such as aunts or uncles who want to save for a number of children through RESPs, but who are not considered under the Income Tax Act to be connected to the children by blood or adoption, may do so only through separate individual plans.

Tax penalties and the repayment of CESGs currently may apply to transfers of assets between individual plans unless they occur between plans for the same beneficiary or plans under which the beneficiaries are siblings, generally before the beneficiary under the receiving plan attains 21 years of age.

In contrast, in a family plan, a subscriber may allocate plan assets among siblings regardless of their age.

The Government recognized the need to provide subscribers of separate individual plans with the same flexibility to allocate assets among siblings as existed for subscribers of family plans,

As of 2011, you can transfer assets between individual RESPs for siblings, without tax penalties and without triggering the repayment of

Canada Education Savings Grants, provided that the beneficiary of a plan receiving a transfer of assets had not attained 21 years of age when the plan was opened (ITA 204.9(5)(c)(ii)).

4.9 RESP Accounts

The ***RESP accounts*** are a number of notional accounts that the RESP trustee maintains to keep track of the sources and uses of funds in an RESP:

- the contribution account for each subscriber;
- the Canada Learning Bond account for each beneficiary;
- the CESG account for each beneficiary; and
- the accumulated investment income.

The ***amount in the contribution account for each subscriber*** is the amount calculated as:

- (the total of all contributions by the subscriber – all withdrawals of capital).

The ***amount for each beneficiary's Canada Learning Bond (CLB) account*** is the amount calculated as:

- ((the total of all Canada Learning Bonds received on behalf of the beneficiary) - ((the Canada Learning Bonds paid as part of the EAPs) + (any Canada Learning Bonds repaid to the government)))).

The ***amount for each beneficiary's CESG account*** is the amount calculated as:

- ((the total of all CESGs received on behalf of the beneficiary) - ((the CESGs paid as part of the EAPs) + (any CESGs repaid to the government)))).

The trustee must attribute a specific portion of each EAP to Canada Learning Bonds and CESGs paid into the plan.

The ***Canada Learning Bond portion of an EAP*** is the amount calculated as:

- (EAP × (Canada Learning Bond account ÷ (Canada Learning Bond account + CESG account + accumulated investment income))).

The ***CESG portion of an EAP*** is the amount calculated as:

- (EAP × (CESG account ÷ (Canada Learning Bond account + CESG account + accumulated investment income))).

George just received an EAP of $5,000. Prior to the distribution, the RESP had accumulated investment income of $42,000.

The Canada Learning Bond account had a balance of $0 and the CESG account had a balance of $6,000.

The EAP of $5,000 reduces the Canada Learning Bond account by $0, calculated as:

- (EAP × (Canada Learning Bond account ÷ (Canada Learning Bond account + CESG account + accumulated investment income))); or
- ($5,000 × ($0 ÷ ($0 + $6,000 + $42,000))).

The EAP of $5,000 reduces the CESG account by $625, calculated as:

- (EAP × (CESG account ÷ (Canada Learning Bond account + CESG account + accumulated investment income))); or
- ($5,000 × ($6,000 ÷ ($0 + $6,000 + $42,000))).

The EAP of $5,000 reduces the accumulated investment income account by $4,375, calculated as:

- (EAP - reduction of Canada Learning Bond account - reduction of CESG account); or
- ($5,000 - $0 - $625).

4.10 CESG Lifetime Limit

The ***lifetime limit on the amount of CESG money that a student can receive out of RESPs*** is $7,200.

Because the maximum CESGs that HRSDC will pay into RESPs in respect of a single beneficiary is also limited to $7,200, this lifetime limit is relevant only for beneficiaries where other beneficiaries through family plans or group plans share CESG money.

Each RESP is required to limit the total portion of EAPs paid as CESGs to $7,200 per beneficiary.

The Armstrongs established a family plan for Courtice and Marshall. The total amount of CESGs paid into the Armstrongs' family plan with two beneficiaries was $10,000.

Only one beneficiary pursued post-secondary education, and the trustee may pay only $7,200 of the CESGs to that beneficiary.

The trustee has to repay the government the remaining amount in the plan's CESG account of $2,800, calculated as:

- (amount of CESGs - maximum CESG); or
- ($10,000 - $7,200).

However, the trustee can pay the accumulated income on that $2,800 as an EAP to the beneficiary.

If an individual is a beneficiary under more than one RESP, it is possible that the total amount of CESGs paid for the individual will exceed $7,200.

In such a case, the beneficiary is required to repay the excess amount to the government (CESA Reg. 13).

Because EAPs (including the CESG portion) are included in computing the individual's taxable income, the recipient would be entitled to claim an offsetting deduction for the repaid amount.

James was the named beneficiary of two RESPs, one established by his uncle and one by his grandparents. He has now completed his post-secondary education.

From the first RESP, he received EAPs of $38,000, including $4,200 in CESGs.

From the second RESP, he received $46,000, including $4,500 in CESGs.

James will have to repay $1,500, calculated as:

- ((CESGs in EAPs from first RESP + CESGs in EAPs from second RESP) – maximum CESGs in EAPs permitted); or
- (($4,200 + $4,500) - $7,200).

James had to report as taxable income of $84,000, calculated as:

- (EAPs from first RESP + EAPs from second RESP); or
- ($46,000 + $38,000).

James will be able to claim a deduction for the repaid amount of $1,500.

4.11 Repayment of CESG

The purpose of an RESP is to help post-secondary students, and the vast majority of children named as beneficiaries do pursue higher education.

If the beneficiary does not pursue higher education or training, the subscriber is required to repay the CESGs to the government.

However, if the beneficiary named by the subscriber does not pursue higher education and the subscriber has no named a replacement beneficiary, the subscriber may receive the investment income on the CESGs as part of an accumulated income payment, provided he meets the conditions described earlier for AIPs.

5. ACCUMULATION PLANNING

The following factors directly influence how much families should save for their children's education:

- current college costs, which depend on the type of educational institution being considered and assumptions about indirect costs;
- expected rate of increase in costs;
- number of years of education to be funded;
- expected contributions from children's earnings;
- number of years before the education fund will be needed;
- current value of investments earmarked for college; and
- expected after-tax rate of return on investments.

These factors are the major underlying assumptions in any calculations you make in determining the education funding requirements.

It is January 2020. Mark's birth date was August 4, 2014 and he is 5 years of age. His parents have not given much thought to financing Mark's education, but his father wants to make sure that he can help when the time comes.

He would like to accumulate $30,000 in an RESP for Mark by the end of 2031.

Age 17 is the last year that the contributions would be eligible for the CESG. Mark is just 5 years of age, and the 12 contributions will all be eligible for the CESG.

Suppose that his father contributes to the RESP at the end of each year, and that the investments within the RESP earn 8% per annum. How much would His father have to contribute to the RESP each year?

His father would make 12 contributions, calculated as:

- ((2031 - 2020) + 1).

His father's RESP contribution plus the CESG each year would need to be $1,580.85, calculated by:

- entering DISP = decimal places to display = 2, P/YR = payments per year = 1, ×P/YR = number of years = 12 or N = number of periods = 12, I/YR = interest rate per year = 8%, PV = present value = $0, FV = future value = $30,000, MODE = timing of payment = END; and
- solving for PMT.

However, the plan would qualify for the CESG of 20% of contributions. So, each year, his father would have to contribute $1,317.38, calculated as:

- ((RESP contribution + CESG) ÷ (1 + CESG rate)); or
- ($1,580.85 ÷ (1 + 20%)).

6. TAX STRATEGIES

Contributions to an RESP are not tax deductible. However, income earned is not taxable until distributed to the beneficiary.

Accordingly, the major benefit of an RESP is the tax-deferred compounding of the income on the capital contributed, which allows the subscriber to accumulate funds for education more quickly.

RESPs offer a deferral of income tax on the investment income earned.

6.1 Deferral on Capital

Contributions to an RESP do not result in an income tax deduction and offer no deferral of the income tax on the capital contributed. There is no deferral on capital.

So, compared to the amount that you would have outside the RESP, there would be the same amount inside an RESP.

> Samantha has a son, Malcolm, who is seven years of age. Samantha has $1,000 of after-tax savings. She can make a contribution of $1,000 to an RESP for Malcolm or she can invest the $1,000 outside her RESP.

6.2 Deferral on Income

Now we want to compare the investment returns on saving in an RESP and savings as tax-paid capital. The investment return on the RESP is taxable to the beneficiary when the funds are withdrawn. There is a deferral on income.

This means the entire return is subject to tax at the beneficiary's effective tax rate (ETR) at the time of the withdrawal, and the beneficiary retains only (1 – ETR) of the funds.

For 2019, the ***amount for the basic personal tax credit*** is $12,069.

With a beneficiary attending post-secondary education, he would have a tax credit for the personal amount of $12,069 and a tax credit for tuition fees of maybe $6,000.

These tax credits eliminate any taxation of income less than $18,069, calculated as:

- (personal amount + the tuition fees + an education amount); or
- ($12,069 + $6,000).

So, the beneficiary would usually have an effective tax rate of 0%.

The ***after-tax investment return*** ($\boldsymbol{i_{at}}$) on the RESP contribution is the rate calculated as:

- ($i_{bt} \times (1 - ETR_w)$), where:
  - i_{bt} = the before-tax return on the RESP; and
  - ETRw = the effective tax rate upon withdrawing the funds.

> Suppose that the funds remain in Malcolm's RESP for 10 years, the funds earn 8%, and Malcolm's effective tax rate upon withdrawal is 0%.
>
> So, the after-tax investment return is 8%, calculated as:
>
> - (ibt × (1 – ETRw)); or
> - (8% × (1 - 0%)).

6.3 Nature of Deferral with RESP

So, an RESP offers:

- a full deferral on the investment income earned by the RESP; and
- conversion of the contributor's effective tax rate to that of the beneficiary at the time of withdrawal.

However, an RESP:

- offers no deferral on the capital contributed to the RESP; and
- taxes all investment income at full rates and does not allow the investment income to retain its nature as interest, dividends, capital gains, and capital losses.

So, we can describe the deferral characteristics on an RESP as full deferral on income without a flow through of the nature of the investment income and with conversion of the effective tax rate to that of the beneficiary at the time of withdrawal.

6.4 Use of RESPs and the CESG

Ensuring the affordability of post-secondary education for their children is a goal of many parents. Although investment plans tailored for educational savings have been in existence for more than two decades, only in the last few years have they begun to have wide appeal.

With the increasing demand for tax-sheltered savings vehicles and the number and variability of RESP products available, RESPs offer an interesting savings alternative. RESPs are an excellent mechanism for forced savings toward a child's post-secondary education.

The major benefits are the Canada Education Savings Grants and the tax-deferred compounding of the income earned on the original funds contributed. When trustee distributes the income to the post-secondary student, the student will pay income tax on the amount at a lower effective tax rate.

They have a great deal of flexibility because they can be used to shelter tax on investment income as long as the proceeds are used to attend a qualifying educational program at a designated educational institution, (with certain exceptions for the CESG contributions to the plan). The middle manager who wants to take a couple of years to go back to university and obtain an MBA can use an RESP.

There are drawbacks to the Pooled-Fund RESPs. Beneficiaries must attend college or university on a full-time basis and meet academic requirements to continue in the plan. If the beneficiary does not pursue a post-secondary education, the RESP forfeits all investment income.

6.5 Income Splitting with an RESP

When the trustee distributes income to the beneficiary as an educational assistance payment, the student will pay income tax on the amount as ordinary income, usually at a lower tax rate than the subscriber's tax rate.

Because every Canadian can earn at least $12,069 without being liable for any income tax and a summer job is unlikely to yield more than a few thousand dollars, the beneficiary child will probably pay little or no tax on the money. Accordingly, tax on the income earned will not only be deferred, it may be eliminated.

6.6 Only Assisted Contributions

An ***assisted contribution*** is a contribution to an RESP in respect of which a CESG was paid. An ***unassisted contribution*** is an RESP contribution that was not eligible for a CESG. The ***maximum total amount of CESGs that HRSDC can pay in respect of any individual*** is $7,200.

Beyond the Canada Education Savings Grants on assisted contributions to an RESP, there are no advantages to an RESP over an inter vivos trust, and there are disadvantages in terms of access to the accumulated funds.

For example, a rather arbitrary rule of the Income Tax Act permits your child to use only $5,000 of EAPs in the first 13 weeks of the school term.

So, you should only make assisted contributions to an RESP

6.7 Inter Vivos Trust

For additional savings beyond what you can make as assisted contributions, you should consider a loan for value to an inter vivos trust for the child.

A ***loan for value*** is indebtedness on which interest is charged at a rate that is not less than (the lesser of (the prescribed rate and the rate that would be agreed upon between arm's length parties under similar circumstances at the time the indebtedness is incurred)) and all such interest is paid no later than 30 days after the end of each calendar year in which it becomes payable.

The attribution rules for the year of the loan for loaned property would be suspended if the indebtedness were to qualify as a loan for value. As of September 1, 2019, the ***prescribed rate as set by ITR 4301*** was only 2%.

6.8 Timing

To minimize taxes, it is normal for subscriber to spread the educational assistance payments over the period of time that the student is attending university or college.

However, many students do not complete their post-secondary education, so you should also consider taking the EAPs as early as possible without triggering excessive income taxes.

6.9 Registration

The issuer/trustee must register all RESP savings products with the Minister of National Revenue.

The ***RESP duration limit for existence*** is the end of the 35th year after the year in which the RESP was opened (ITA 146.1(2)).

In the event of revocation of registration of a plan, the plan will be subject to tax as an inter vivos trust and educational assistance payments subsequently received by beneficiaries will not be taxable.

7. CONCLUSION

Many people espouse contributing the maximum amount to an RESP as early as possible in order to obtain the deferral of the investment income, even though all of the contributions may not be assisted. This strategy gained traction when the annual contribution limit was eliminated, and the lifetime limit was increased to $50,000.

The advantage that is unique to the RESP is the Canada Education Savings Grant. This Grant is a maximum of $7,200 per beneficiary. To attain the maximum Grant, funds of $36,000 must be contributed when contribution room for the grant is available and the annual contributions cannot exceed $5,000. An ***assisted contribution*** is a contribution to an RESP in respect of which a CESG was paid.

So, to obtain the maximum benefits from the Grant, you would contribute $36,000 as early as possible, but at such time that all contributions would be assisted contributions.

The other advantage that gives rise to tax savings in an RESP is the deferral of the taxation of the investment income earned by the contributions. However, this deferral is not unique to RESPs. It is also available with a trust.

A trust for a related minor would result in income attribution to the settlor on first-generation property income. However, property income does not include capital gains.

The funds could be invested in equities with only income attribution of any first-generation dividend income. If managed properly, little income would be subject to income tax until the capital gains are realized when the shares are sold and then the taxable capital gains are taxable to the child.

A significant disadvantage of the RESP is all of the rules that limit access to the funds. In particular, the student can only access the funds upon engaging in post-secondary education and there are limits on the amounts that can be withdrawn each year.

If the student does not qualify, the grants must all be repaid and the subscriber has to withdraw the funds, contributing them to an RRSP or paying a penalty tax. This disadvantage does not apply to a trust.

This would suggest that funds for a child's education that are in excess of the assisted contributions be saved in a trust for the child with a formal trust agreement.

Having completed this Chapter, you should understand:

- the roles of the parties involved in an RESP;
- the types of RESPs;
- the contribution and duration limits;
- the permitted investments;
- the alternatives for distributing accumulated income payments;
- the consequences of the death of a subscriber;
- the requirements to receive the Canada Education Savings Grants and Canada Learning Bonds;
- the restrictions on receiving educational assistance payments; and
- the tax advantages of RESPs.