

Registered Education Savings Plan (RESP)

Saving for your child's education may not be at the top of mind when they are young, but when put to the test, starting to plan early will get you and your child at the top of your (financial) class. Crowe MacKay's trusted advisors review what a Registered Education Savings Plan (RESP) is, who is eligible, and how to best plan so you get the most out of your savings.

**In this article a subscriber is referred to as the individual(s) who set-up the RESP*

Who is eligible for an RESP?

To be eligible for an RESP the following requirements must be met:

- The beneficiary must have a valid Social Insurance Number (SIN)
- The beneficiary is a resident of Canada
- The beneficiary under a family plan must be less than 21 years of age at the time they are named as a beneficiary

Note: When an RESP is set-up as a family plan it allows for multiple beneficiaries to be named as long as all designated beneficiaries are connected by blood relationship or adoption to each living subscriber.

How to open an RESP

- The subscriber chooses a qualified promoter
- Contributions are made in trust to the promoter and will be invested, used, or applied by the promoter to make funds available for use by the beneficiary

Qualified promoters consist of financial and investment institutions who will then provide the subscriber with all the required information to setting up the plan.

What to know about funds contributed to an RESP

- Contributions are not tax deductible to the subscriber or beneficiary
- There are no annual contribution limits, but the total amount of all contributions made into an RESP for the beneficiary must not exceed the lifetime limit of \$50,000
- Investments held within an RESP must be qualified investments as per the Income Tax Act



Canada Education Savings Grant (CESG)

The Canada Education Savings Grant (CESG) is a federal program where funds are given to eligible RESP accounts based on contributions and the net income of the subscriber(s).

The CESG is granted on the first \$2,500 in annual contributions to the RESP. Grants are issued to eligible beneficiaries on an annual basis on or before December 31 of the year the beneficiary turns 17. Contributions must be made before the end of the calendar year in which your child turns 15 years of age in order for your child to receive the CESG.

An RESP may receive up to a maximum of \$600 in grants per year based on the subscriber(s) net income, with a lifetime maximum of \$7,200.

The family net income thresholds are adjusted annually and the following chart reflects the income threshold for 2020:

	Net income of \$48,535 or less	Net income over \$48,535 but less than \$97,069	Net income over \$97,069
CESG on first \$500 of annual RESP contributions	20% = \$100	10% = \$50	Beneficiary is not eligible
CESG on first \$2,500 of annual RESP contributions	20% = \$500	20% = \$500	20% = \$500
Max annual CESG contribution	\$600	\$550	\$500
Lifetime max CESG	\$7,200	\$7,200	\$7,200

Payments from an RESP

The following are ways in how the RESP contributions can be disbursed:

- Refund of contributions: a promoter can pay the funds back to the subscriber(s) or beneficiary once the contract ends, or any time before. A refund is tax free.
- Educational assistance payments (EAP): EAP's are payments made to beneficiaries for assisting in educational costs, and consist of the taxable portion of the RESP balance.
- Accumulated income payment (AIP): AIP's are amounts, usually paid to the subscriber(s), of the income earned from an RESP. Generally, to receive an AIP the beneficiary of the RESP has not met the qualifications for the payment of an EAP by not attending a designated educational institution.
- Contributions can be transferred to another RESP or Registered Disability Savings Plan (RDSP). *if eligibility conditions are met
- The promoter can make a payment directly to a designated educational institution.

Taxation of Contributions

- Contributions are not tax deductible when made into an RESP
- Investment income earned inside of the RESP accrues tax free within the plan
- Grants, bonds, and payments from designated provincial programs and investment income earned within the plan are included for tax purposes in the beneficiary's income in the year in which a payment is made and are issued by the promoter on a T4A slip.
- Grants, bonds, and payments from designated provincial programs and investment income earned within the plan become taxable to the subscriber in the event the beneficiary exceeds the age limit of the RESP and does not attend a designated educational institution by that time.

There are several formulas to calculate the taxable and non-taxable portion of payments as they are made.

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