

# Registered education savings plans (RESPs)

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

### What is an RESP?

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

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

### Who qualifies as a beneficiary?

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

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

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

### Beneficiary(ies)

A beneficiary is the person who will be attending post-secondary school (or persons, in the case of a family plan) and to whom Invesco agrees to make an Educational Assistance Payment (EAP) if the beneficiary qualifies to receive such payments.

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## Subscriber

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

Only spouses or common-law partners may be joint subscribers to an RESP. Trusts are prohibited from being subscribers to RESPs, subject to the exception below.

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

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

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## RESP contributions

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

Contributions to an RESP are not tax-deductible, which is why contributions may be withdrawn tax-free from the plan at any time (see "Refund of contributions" on page 05). The income or growth in the plan, however, remains tax-sheltered for the life of the plan until it is paid out in the form of EAPs to qualifying beneficiaries, as Accumulated Income Payments (AIPs) to the subscriber, as an accumulated income rollover to a beneficiary's registered disability savings plan (RDSP) or is forfeited to an eligible Canadian post-secondary designated institution.

Contributions can be made each year before the end of the 31st year following the year the plan was entered into. Contributions made on behalf of a beneficiary of a family plan are restricted further as contributions must be made before the beneficiary's 31st birthday. The plan must be collapsed before the end of the 35th year following the year the plan was entered into<sup>1</sup>. This allows the plan to continue to provide tax-deferred growth while the beneficiary is pursuing post-secondary education. When transferring between plans, the receiving plan must adopt the earlier plan inception date.

<sup>1</sup> For individual RESP beneficiaries that qualify for a disability tax credit, the contributory period and the lifespan of the RESP may be extended to 35 and 40 years, respectively. The terms and conditions of the RESP must include this optional provision.

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## RESP transfers

Currently, transferring an RESP to another RESP for the same beneficiary does not result in adverse consequences. In the event that there are different beneficiaries on transfers between individual RESP plans, tax penalties and grant repayments may apply unless the beneficiaries of both plans are siblings and the receiving plan beneficiary was under age 21 at the time the receiving plan was entered into. Family RESPs offer the best grant-sharing possibilities where siblings are designated before they turn 21.

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### Example 1a Overcontributions

Note: For years after 2006, the RESP overcontribution penalty applies to excess contribution amounts made in respect to an RESP for a particular beneficiary that exceeds the lifetime RESP limit.

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

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## Penalty tax on overcontributions

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

Withdrawing an overcontribution will reduce the amount, if any, that is subject to the penalty tax. However, the overcontribution will still be included in the calculation of the \$50,000 lifetime limit for that beneficiary. If the overcontribution amount is over \$4,000 in a given calendar year, a CESG repayment must be calculated and paid to Employment and Social Development Canada (ESDC).

If the overcontribution amount is under \$4,000, a CESG repayment is not required; however, the subscriber must complete an ESDC statement for the exception. Any contribution amount over the beneficiary's \$50,000 lifetime limit is not eligible for the CESG, Quebec Education Savings Incentive or Saskatchewan Advantage Grant for Education Savings.

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## Basic CESG and Additional CESG

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

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

### Example 1b Overcontributions

In January 2018, Bob contributed \$3,000 to an RESP for his son, Jeff. Also, in January, Jeff's uncle (Andy) contributed \$9,000 for an RESP that he set up for Jeff. The total lifetime RESP contributions made into RESPs for Jeff prior to 2018 was \$46,000, which was below the maximum lifetime RESP contribution limit.

As of January 2018, Bob and Andy have overcontributed into Jeff's RESP by \$8,000 with the total lifetime contributions equaling \$58,000. As of February 2019, Andy withdrew \$8,000.

The overcontribution penalty is based on the proportion of contributions per subscriber. Of the \$8,000 overcontribution, Bob contributed \$3,000, so his share of the overcontribution is \$2,000 (calculated as  $\$3,000 \div \$12,000 \times \$8,000$ ). Andy contributed \$9,000, so his share of the overcontribution is \$6,000 (calculated as  $\$9,000 \div \$12,000 \times \$8,000$ ). Since the overcontribution was withdrawn in February of the following year, the overcontribution penalty will apply from January to January (13 months). Bob will be responsible for \$260 in penalties (calculated as  $\$2,000 \times 1\% \text{ per month} \times 13 \text{ months}$ ). Andy will be responsible for \$780 in penalties (calculated as  $\$6,000 \times 1\% \text{ per month} \times 13 \text{ months}$ ). Since Andy withdrew \$8,000 in February, the overcontribution penalty does not apply for the month of February 2019.

### History of RESP contribution limits:

| Year(s)      | Annual  | Lifetime |
|--------------|---------|----------|
| 1990-1995    | \$1,500 | \$31,500 |
| 1996         | \$2,000 | \$42,000 |
| 1997-2006    | \$4,000 | \$42,000 |
| 2007-present | N/A     | \$50,000 |

### Example 2 CESG carryforward

In 2019, Joanne established individual RESPs for her nephew Matthew and niece Jennifer. Matthew was born May 3, 2004, and Jennifer was born June 25, 2007. The children are not beneficiaries of any other RESP other than the ones established by their aunt in 2019. For 2019, Joanne made contributions of \$5,000 in each individual RESP. Due to the CESG carryforward, the \$5,000 contribution in Matthew's plan attracts CESG of \$1,000 (\$500 from 2018 and \$400 from 2004 and \$100 from 2005 carryforward room). Matthew does not earn further CESG entitlement in 2019 because his accumulated CESG entitlement from 2004 to 2018 has reached the lifetime CESG limit per beneficiary of \$7,200. The \$5,000 contribution in Jennifer's plan attracts CESG of \$1,000 (\$500 from 2019 and \$500 carryforward from 2007). The remaining CESG carryforward amounts for Matthew and Jennifer are \$6,200 and \$5,500, respectively, for end of 2019 as per the table below. Note that Matthew is turning 15 in 2019. In order to receive CESG in the calendar years that he turns 16 and 17, he must meet the age 16/17 rule by the end of 2019 (discussed on page 03).

| Period       | Basic CESG annual room | Contribution required for Basic CESG annual room | Basic CESG annual limit | Contribution required for Basic CESG annual limit <sup>†</sup> |
|--------------|------------------------|--|-------------------------|--|
| 1998-2006    | \$400                  | \$2,000  | \$800                   | \$4,000  |
| 2007-onwards | \$500                  | \$2,500  | \$1,000                 | \$5,000  |

<sup>†</sup> When carryforward room is available.

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

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

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

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

## Other government grants

### Additional CESG

An additional amount of CESG is available to assist lower-income families. The first \$500 contributed to the RESP in a calendar year will attract an additional 20% if the child's family has qualifying net income of \$47,630<sup>2</sup> or less, or if a public agency is receiving a Children's Special Allowance on behalf of the child. The Additional CESG is reduced to 10% if the child's family has qualifying net income greater than \$47,630<sup>2</sup> but not exceeding \$95,259<sup>2</sup>. The remaining contribution amounts for the year will remain eligible for the regular CESG up to a maximum limit. Qualifying net income is the same information used to determine eligibility for the Canada Child Benefit (CCB). Unused Additional CESG is not eligible for carryforward to future years.

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

Where contributions are made by others who are not the primary caregiver (the person receiving the CCB), or his/her spouse/common-law-partner, consent must be obtained from the primary caregiver or his/her spouse/common-law-partner in order to apply for the Additional CESG. Limits to the Additional CESG on the first \$500 RESP contribution apply jointly to all RESPs of which the child is a beneficiary.

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

<sup>2</sup> 2019 income levels; subject to annual indexation.

**Cumulative CESG carryforward amounts**  
(Example 2 continued)

| Year                                | Matthew<br>(born in 2004) | Jennifer<br>(born in 2007) |
|-------------------------------------|---------------------------|----------------------------|
| 2004                                | \$400                     | N/A                        |
| 2005                                | \$400                     | N/A                        |
| 2006                                | \$400                     | N/A                        |
| 2007                                | \$500                     | \$500                      |
| 2008                                | \$500                     | \$500                      |
| 2009                                | \$500                     | \$500                      |
| 2010                                | \$500                     | \$500                      |
| 2011                                | \$500                     | \$500                      |
| 2012                                | \$500                     | \$500                      |
| 2013                                | \$500                     | \$500                      |
| 2014                                | \$500                     | \$500                      |
| 2015                                | \$500                     | \$500                      |
| 2016                                | \$500                     | \$500                      |
| 2017                                | \$500                     | \$500                      |
| 2018                                | \$500                     | \$500                      |
| 2019                                | \$0                       | \$500                      |
| <b>Total</b>                        | <b>\$7,200</b>            | <b>\$6,500</b>             |
| <b>Less amount<br/>Paid to RESP</b> | <b>\$1,000</b>            | <b>\$1,000</b>             |
| <b>Remaining<br/>total</b>          | <b>\$6,200</b>            | <b>\$5,500</b>             |

**Example 3 CESG carryforward**

Theresa gave birth to her first son, Noah, in February 2018. Noah will automatically accumulate \$500 of CESG room for 2018. Theresa decided to start saving early for her son's education and therefore opened up an RESP for Noah with a \$1,000 contribution right away. The government deposited a \$200 CESG in Noah's RESP (\$1,000 x 20%). In 2019, Noah had \$800 worth of CESG room available (\$500 created in 2019 + \$300 carryforward from 2018). If Theresa contributes \$5,000 in 2019, the RESP will receive a CESG of \$800 (\$4,000 x 20%) deposited directly into Noah's RESP account, which is limited to the amount of unused CESG room. The extra \$1,000 contribution made by Theresa in 2019 cannot be carried forward to attract a CESG in a future year but remains in the plan earning tax-deferred income.

**Example 4 QESI**

In 2016, Alan (a resident of Quebec) opens an RESP account for his daughter, Sandy, born in 2016, to save money for her education. He does not make any contributions in 2016 or 2017. In 2018, however, he contributes \$5,000. In 2019, Revenu Québec will pay \$500 into the RESP (of which, \$250 relates to the 2017 QESI benefits entitlement and the other \$250 relates to the accrued QESI benefits from previous years. Assuming Alan contributes another \$5,000 in 2019, Revenu Québec will pay \$500 into the RESP in 2020, thereby catching up to all of his accrued QESI benefits from previous years.

**Canada Learning Bond (CLB)**

The CLB is available to children born on or after January 1, 2004. As of July 1, 2016, the eligibility for the CLB was changed following the introduction of the CCB, which replaced, among other benefits, the National Child Benefit Supplement. Eligibility is linked to the CCB, which is subject to adjusted net family income and the number of children the primary caregiver has. No contribution is required to receive CLB. Families of up to three children could be eligible for the CLB if their adjusted net family income is less than or equal to the lowest income tax threshold (\$47,630 in 2019). Families with more than three children could be eligible for the CLB if the adjusted net family income is less than the amount determined by a formula. An initial \$500 is provided when the beneficiary is first eligible; additional annual \$100 payments are made for each eligible year up to the year the child turns 15, for a maximum lifetime total of \$2,000. The CLB amount is paid into an RESP with the authorization of the primary caregiver and does not affect the lifetime RESP contribution limit.

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

As of January 2018, the primary caregiver, or their cohabiting spouse or common-law partner, may request the addition CESG and/or the CLB. The SIN and signature of the primary caregiver, or the cohabiting spouse or common-law partner, is required when making this request on behalf of any eligible child.

**Quebec Education Savings Incentive (QESI)**

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

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

- Be less than 18 years old
- Have a valid SIN
- Be a resident of Quebec on December 31 of the taxation year
- Be the designated beneficiary of the concerned RESP

The lifetime maximum a beneficiary may receive in QESI benefit payments is \$3,600 (one half of the lifetime CESG limit). Also note that beneficiaries who are 16 or 17 years of age would need to meet the CESG age rules (see page 02) in order to qualify for QESI benefit payments during those years.

For lower-income households, additional QESI benefits are available. The rate of financial assistance for a household with a family income of \$43,790 or less (2019) under the QESI is doubled, from 10% to 20% on the first \$500 paid annually into an RESP. The basic QESI benefit may therefore be increased by up to \$50 a year. Accordingly, the maximum allowable QESI benefit for a child from a low-income household is raised from \$250 to \$300 a year on a \$2,500 RESP contribution. For children of households with a family income over \$43,790 but not more than \$87,575 (2019), the basic QESI benefit may increase by up to \$25 a year as the rate applicable on the first \$500 in annual contributions paid into an RESP rises from 10% to 15%. The maximum allowable assistance for a child in a middle-income household is therefore raised from \$250 to \$275 a year on a \$2,500 RESP contribution.

**Saskatchewan Advantage Grant for Education Savings (SAGES)<sup>3</sup>**

As part of its 2013 budget, the Saskatchewan government introduced SAGES. The grant is available on RESP contributions made on or after January 1, 2013 at a rate of 10% on annual contributions up to a maximum of \$250 per year per beneficiary. The lifetime SAGES maximum is \$4,500. To qualify for SAGES, the following conditions must be met:

- Have a valid SIN
- Be a resident of Saskatchewan when the RESP contribution is made
- The child must be named as the RESP beneficiary
- All beneficiaries of a family RESP must be siblings of one another
- RESP contributions must be made on or before December 31 in the year the child turns 17 years of age
- Beneficiaries who are 16 or 17 years of age would need to meet the CESG age rules (see page 02) in order to qualify for SAGES during those years

<sup>3</sup> In the 2017 Saskatchewan Budget, the government announced temporary suspension of SAGES as of December 31, 2017. Subscribers had until the end of December 2017 to make a contribution towards an RESP and be eligible for SAGES.

SAGES may be shared for the purpose of an EAP, and there is no lifetime limit as to the SAGES portion (as mentioned, CESG has a lifetime limit of \$7,200). Unlike CESG, a beneficiary may receive more than the \$4,500 SAGES lifetime maximum as part of an EAP.

#### Example 5 Refund of pre-1998 contributions

Alan is the subscriber of an RESP for his daughter, Sandy (born in 1997), which has \$4,000 of pre-1998 (i.e., unassisted) contributions. In October 2010, Alan contributed a further \$2,000 to the RESP, which attracted a CESG of \$400. The RESP now has \$2,000 of assisted contributions. In March 2011, Alan withdrew \$3,000 of contributions (\$2,000 assisted and \$1,000 of pre-1998 contributions) from the plan, requiring a \$400 CESG repayment. Since assisted contributions have to be withdrawn first, the full amount of CESG is redeemed and repaid to the government. Alan went on to contribute another \$1,000 in October 2011; however, this contribution did not qualify for CESG as a result of his withdrawal of more than \$200 pre-1998 unassisted contributions. Neither will any contributions made in 2012 and 2013 qualify for CESG. Sandy will not earn any CESG room in either 2012 and 2013, so the amount of unused CESG room carried forward to 2014 is \$5,700, representing unused CESG contribution room of \$400 annually from 1998 to 2006 and \$500 annually from 2007 to 2011, less \$400 received by the RESP. The total CESG room in 2014 equals \$6,200 (calculated as \$5,700 carryforward plus \$500 new room for 2014). All of the beneficiaries named on a family RESP at the time of a withdrawal of pre-1998 contributions would be affected in the same way.

#### Example 6 Sharing within a family RESP

Jonathan set up a family plan for his three children: Sarah, Ted and Adam. For the years 2011 through 2018, he contributed \$2,000 per beneficiary, resulting in \$3,200 of CESGs for each child (\$2,000 x 20% x 8 years), for a total of \$9,600 of CESGs in the plan. In 2019, his youngest child, Adam, goes to university. The two older children do not pursue post-secondary studies. Adam may receive all of the growth or income accumulated in the plan; however, he may only receive up to \$7,200 of CESGs. The remaining \$2,400 of CESGs must be repaid to the government.

#### Example 7 Multiple RESPs

Mary opened a family plan for her two children, Eve and Jason. As of August 2018, there are \$25,000 in contributions and \$5,000 in CESGs. Mary's parents had also opened a plan for all four of their grandchildren. As of August 2018, there were contributions of \$40,000 and \$8,000 in CESGs. Jason started university in September 2018, and an EAP was requested from Mary's family plan. Jason received a letter from the promoter indicating the \$5,000 EAP consisted of \$4,000 CESG and \$1,000 earnings. Since the lifetime maximum for the EAP CESG portion is \$7,200, if an EAP is requested from the grandparents' RESP, a copy of the letter must be provided to the second promoter so that the subsequent EAP amount does not contain more than \$3,200 CESG.

#### British Columbia Training and Education Savings Grant (BCTESG)

As part of British Columbia's 2013 budget, the government introduced the BCTESG to assist families saving for their children's education. The BCTESG is a payment of \$1,200 to be deposited on behalf of the child into an RESP where he or she is the beneficiary.

To qualify for the BCTESG, the following conditions must be met:

- All beneficiaries of a family RESP must be siblings of each other
- The custodial parent or legal guardian and the beneficiary are residents in B.C. at the time of the application
- The child must be born on or after January 1, 2006
- The application must be completed and submitted to an authorized BCTESG promoter between the beneficiary's sixth birthday and the day before the beneficiary's ninth birthday
- For beneficiaries with birthdates from January 1, 2006 to August 15, 2009, an extension has been provided:
  - For beneficiaries born from January 1, 2007 to August 15, 2009, the application must be completed and submitted between August 15, 2015 and August 14, 2018
  - If the beneficiary is born in 2006, the first day to apply is August 15, 2016 and must be completed and submitted by August 14, 2019

RESP contributions are not required to receive this one-time BCTESG payment of \$1,200. Unlike CESG, there is no sharing limit for EAPs among family plan RESP beneficiaries.

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#### How are RESPs taxed?

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

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

Note that when income and grants are withdrawn as an EAP, the EAP is considered to be "Other Income" - no breakdown of Canadian dividends, foreign income, interest income or capital gains is made. As a result, the EAP is not eligible for the dividend tax credit or capital gains treatment. The EAP is reported to beneficiaries on a T4A slip (plus a Relevé 1 for Quebec residents). For additional information on withdrawing income and grants for the purpose of an EAP, see the section "EAPs" on page 06.

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

Withdrawals from an RESP can be classified as one of the following: a refund of contributions, EAP, AIP or a payment to a post-secondary Designated Educational Institution. Government grants are only paid out in EAPs; any grant balance remaining will be repaid to the government when the plan is terminated with any other type of payment.

#### Refund of contributions

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

Contributions must be redeemed in the following order:

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

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

If more than \$200 of pre-1998 unassisted contributions are withdrawn from the plan in the same calendar year, all of the beneficiaries of the RESP will not qualify for any CESG for the remainder of

the year in which withdrawal is made or the following two years. Additionally, the beneficiaries will not accumulate any new CESG contribution room for the following two years.

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

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

### **EAPs**

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

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

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

### **Full-time versus part-time educational program**

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

If more than \$5,000 of EAP is required in the first 13 weeks, prior approval must be obtained from ESDC. Alternatively, the subscriber may choose to redeem contributions along with an EAP payment, without subjecting to any grant repayment. Beyond the first 13 weeks, an additional EAP may be requested provided the beneficiary continues to be enrolled in a qualifying program. If there is a 12-month period in which the beneficiary was not enrolled in a qualifying educational program, the \$5,000 limit will apply once again.

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

The above definitions also apply to eligible correspondence courses.

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

### **AIPs**

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

1. The RESP has been in existence for at least 10 years, and all of the beneficiaries, past and present, are over 21 years of age and not eligible for an EAP<sup>4</sup>
  2. All beneficiaries, past and present, are deceased
  3. The payment is made in the 35th year following the year of the plan inception date
- Where a beneficiary with a severe and prolonged mental impairment is not reasonably expected to pursue a full-time or part-time qualifying post-secondary program, the subscriber may be permitted to take an earlier AIP if approval is obtained from the CRA.

<sup>4</sup> Beneficiaries are eligible for an EAP up to six months after their last date of enrolment.

### **Example 8 AIP strategies**

In 1999, Michael established an RESP for his daughter, Carole. The total income in the plan to date is \$10,000. Carole turned 21 on July 25, 2019 and decided not to pursue a post-secondary education. Michael has \$6,000 of unused RRSP contribution room for 2019. If he takes the full \$10,000 as an AIP in 2019, he will have to pay tax of \$1,600 (MTR 40% x \$4,000) plus a penalty tax of \$800 (20% x \$4,000). However, if Michael takes only \$6,000 of an AIP in 2017 and the additional \$4,000 in 2018 (assuming an additional RRSP contribution room of \$4,000 is generated for 2018), he could defer all of the tax on the entire \$10,000.

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

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

The CRA Form T1171, *Tax Withholding Waiver on Accumulated Income Payments from RESPs* and a copy of the subscriber's notice of assessment indicating his or her current year's RRSP contribution limit must be used by the subscriber to request that Invesco not withhold any tax on the direct transfer to an RRSP. Otherwise, the withholding tax rates are 30% for payments of \$5,000 or less, 40% for payments between \$5,001 and \$15,000 and 50% for payments greater than \$15,000 (for Quebec residents the rates are slightly higher, 40%, 50% and 55%, respectively).

Note that these are simply withholding rates used by the CRA to estimate the amount of tax that may be due from the subscriber. The actual tax liability will be calculated by the subscriber when completing his or her tax return. The subscriber will then get credit for the taxes already withheld by Invesco when calculating the amount due to or from the CRA.

Clearly, it is beneficial for the subscriber to attempt to shelter any AIPs from being subject to tax at rates that could be as high as 79% (including the 20% penalty tax). If he or she expects to receive AIPs in the next year or two, the subscriber may wish to avoid making RRSP contributions in those years. This may make it possible to build up the RRSP contribution room necessary to be able to shelter the AIP and thus avoid the additional penalty tax.

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

Note that to avoid the penalty tax on the amount transferred to a pooled registered pension plan (PRPP), RRSP or spousal RRSP, the RRSP contribution must be claimed on the subscriber's tax return for the same taxation year in which the AIP is received. Therefore, if a subscriber received the first AIP in cash in April 2019, the subscriber would have had to contribute that same gross amount to his or her RRSP or to a spousal RRSP by March 1, 2020 and claim the RRSP deduction on the 2019 tax return to offset the 2019 T4A AIP income. If the final AIP is received in February 2020, then this amount must be contributed to his or her RRSP or to a spousal RRSP by March 1, 2021 and deducted on the 2020 tax return to avoid the penalty tax. Form T1172 must be completed and included in the subscriber's tax return.

As discussed above, note that withholding taxes of up to 50% (55% for Quebec residents) will apply on AIPs where the conditions indicated on Form T1171 are not met or confirmed and the funds are not directly transferred to an RRSP.

### **Payment to a Designated Educational Institution**

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

### **Rollover to a registered disability savings plan (RDSP)**

Since January 1, 2014, the option of an RESP AIP rollover to an RDSP has been available.

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



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

- The RDSP specimen plan text has been updated to allow RESP rollovers, and the RDSP requirements are met
- The beneficiary of the RDSP is a beneficiary of the RESP that is rolling over income
- The RESP permits AIPs and one of the following conditions is met:
  - iv. The RESP beneficiary has a severe and prolonged mental impairment that prevents them from enrolling in a qualifying educational program at a post-secondary educational institution
  - v. The RESP has been open for at least 10 years, where each beneficiary in the RESP is at least 21 years of age and is not eligible to receive EAPs at the time the rollover is made
  - vi. The RESP has been open for at least 35 years
- The subscriber of the RESP must, in writing, jointly elect with the RDSP holder to have the rollover take place
- The RESP promoter, the RESP subscriber(s) and the RDSP holder and issuers complete CRA Form RC435, *Rollover from a Registered Education Savings Plan to a Registered Disability Savings Plan* or the RDSP promoter's similar form. Either form will have the prescribed information that must be provided before the rollover can take place.

As with any RESP AIP transaction, all grant balances are returned to the government, and the RESP must be terminated by the end of February of the following year.

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

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

Whether a beneficiary already exists on a plan, is added or is replacing an existing one, the maximum CESG portion paid (in EAPs) to any one beneficiary cannot exceed the CESG maximum of \$7,200 per beneficiary (see "Example 6" on page 05). Any excess CESG received must be repaid.

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

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### **Conclusion**

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

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**For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at [invesco.ca](http://invesco.ca).**

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

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