

Registered Education Savings Plan



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Basics

- A tax deferred investment vehicle designed to help families and individuals save for post-secondary education
- RESPs can be open for up to 35 years

Features

- \$50,000 lifetime contribution limit per beneficiary
- Canada Education Savings Grants (CESG): grants paid by the federal government to match contributions to RESPs
 - \$1 in grants for every \$5 in contributions for up to \$500 in grants annually per beneficiary
 - The lifetime grant maximum is \$7,200 per beneficiary
- Canada Learning Bond (CLB): an additional grant offered to children of modest-income families
 - The Government of Canada will make a one-time payment of \$500 into the RESP of children who qualify for the CLB and a \$100 deposit for each subsequent year the child's primary caregiver receive the National Child Benefit Supplement, to a maximum of \$2,000
 - A child qualifies for the CLB if she was born on January 1st, 2004 or after and her family's net income is less than \$35,595

Withdrawals

- Withdrawals of contributions are not taxed in the hands of the beneficiary
- Withdrawals of educational assistance payments (EAPs) which consist of grants, capital gains, interest and dividends, are taxed in the hands of the beneficiary
 - Students have the personal exemption and tuition tax credits so are usually able to avoid high tax rates on these withdrawals
- You may withdraw from either contributions or EAPs to optimize your tax bill in any given year
- You are only allowed to withdraw a maximum of \$5,000 in EAPs in the first 13 weeks of enrollment. There is no limit on EAP withdrawals following the first 13 week period.

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Eligibility

- Children are eligible to receive the CESGs until the year they turn 17 years old
- RESPs can be opened at any age and contributions can be made by anyone but only children 17 and under are eligible to receive the CESGs

Tax Considerations

- As stated in the withdrawals section above, only withdrawals on EAPs are taxed
- Upon an RESP's collapse, either due to the exercise of early collapse due to a child's lack of interest in pursuing post-secondary education or reaching the 35-year time limit, all unused EAPs are taxed in the hands of the plan subscriber. In addition, a 20% tax is charged on all unused EAPs.

Sources

Canada Revenue Agency

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/resp-reee/menu-eng.html>

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