Setting up an RESP

Establishing an educational path

A Registered Education Savings Plan (RESP) is a savings vehicle primarily designed to assist in saving for a child's post-secondary education. RESPs are an attractive savings option as the Federal government (along with certain provinces) provides grants based on contributions, subject to certain criteria detailed in this article. Contributions to the plan are not tax-deductible, however, investments are not taxed until they are withdrawn.

To open an RESP, both the subscriber and beneficiary must have a valid Social Insurance Number (SIN), and be residents of Canada at the time of account opening. Note: This article is intended for Canadian residents who are not U.S. citizens, green card holders or U.S. residents (collectively referred to as U.S. persons). There may be adverse U.S. tax implications if a U.S. person subscribes or contributes to an RESP or is named a beneficiary of an RESP.

The RESP Subscriber

An RESP is set up by a subscriber. This is an individual, or couple, who enter into a contract with the financial institution or organization that administers the plan, known as the promoter. The subscriber is most often a parent, however other individuals such as a grandparent, guardian, an individual including the estate of the subscriber, or a public primary caregiver can also be subscribers. In the case of a grandparent wishing to provide for future education costs, while it is possible to set up an RESP, it is important to keep in mind that if the beneficiary does not attend a post-secondary educational institution the grandparent will likely not be eligible to rollover funds to their RRSP as they may be over the age of 71.

Generally, a plan subscriber cannot be changed unless::

- The subscriber passes away: The RESP assets will be disposed in accordance with the instructions in the subscriber's Will. If the Will designates a replacement subscriber, for example the spouse of the deceased, the new designate takes on the rights and responsibilities of being the subscriber. This is automatic if the spouses are joint subscribers. The subscriber could also delegate his or her executor to manage the RESP. **It is important to note that if the Will does not provide instructions specific to the continuance of the RESP, the RESP will form part of the estate and be distributed under the terms of the Will. This could trigger the collapse of the account and the repayment of grants.**
- Relationship breakdown: If a marriage or common-law relationship breaks down and the split is recognized by a court order or divorce decree, a former spouse or partner can become the subscriber.

RESP Plan Types

An RESP can be opened in one of 3 different plan types. Generally, financial institutions will offer an individual or family plan, and group plans will be available through companies specializing in group RESPs. When choosing which plan is right for you it is important to consider the criteria for each, how many beneficiaries you intend to have, the direct and indirect costs, and the available grants.

An **individual plan** can have only one beneficiary, who does not have to be related to the subscriber. Contributions to the plan for the beneficiary can be made until the end of the 31st year after the plan was opened.

If you have already opened an individual plan for one of your children, you can proceed with opening additional individual plans for each child. However there may be less flexibility in the future to move funds between the individual plans to be used for another child. Alternatively, a new family plan can be opened and funds from the individual plan may then be transferred to the family plan and the new beneficiary added as well.

In addition, there are no age restrictions for individual plans. While we often think of the subscriber and beneficiary of an RESP as parent and child, you may set up a plan for yourself. If you are considering attending a post-secondary institution in the future (perhaps that culinary arts degree you always wanted to pursue); an RESP may be an additional savings vehicle for tax deferred growth.

A **family plan** can have more than one beneficiary who must be related by blood or adoption to the original subscriber, such as the subscriber's children, siblings, grandchildren and great-grandchildren. If the subscriber is a parent the beneficiaries cannot include their nieces or nephews, however if the subscriber is a grandparent the plan could include all their grandchildren even if those children are cousins rather than siblings. The beneficiaries must be under 21 when named.

With a **group plan**, the named beneficiary will receive funding from the RESP when enrolled in a qualifying post-secondary program. However, if the beneficiary does not attend a post-secondary institution, the funds can be distributed among other beneficiaries who qualify.

It is important to note that group plans have varying rules. If you intend to establish a group plan, you should familiarize yourself with the plan's rules. For example, many group plans do not permit new beneficiaries to be named as substitutes for beneficiaries who did not take advantage of the RESP. In addition, the contract may require the subscriber to follow a contribution schedule which may result in additional costs to the subscriber if the scheduled contributions are not met.

Contributions and Taxation of an RESP

There is a $50,000 lifetime contribution limit for each beneficiary of a plan. Contributions are not tax deductible and are not taxed when withdrawn. On the other hand, grants and income earned within the plan will be subject to tax when withdrawn from the plan (known as Education Assistance Payments (EAPs)). Withdrawals from an RESP are designated as either withdrawals of capital contributions or EAPs.

Contributions can be made over a 31-year period — 35 years if the beneficiary in an individual plan is physically or mentally infirm. Generally, a plan must be terminated by the end of its 35th year, or the 40th year if the beneficiary is physically or mentally infirm and in an individual plan. Enabling the plan to remain open for 35 years allows the beneficiary to continue to pursue post-secondary education while the funds benefit from tax deferral.

It should be noted that, if funds from one RESP are transferred to another RESP for the same beneficiary, the start date for the first plan determines the eventual termination date.

If you transfer RESP funds to another RESP for the same beneficiary, there should be no adverse tax consequences. However, if one beneficiary is replaced by another beneficiary, the Canada Revenue Agency (CRA) considers contributions for the former beneficiary as having been made for the new beneficiary, which may result in over-contributions. If contributions are made in excess of the lifetime limit, the CRA will apply a penalty of 1% of the excess amount per month. While withdrawing the over-contributed amount will stop the penalty from being applied, the withdrawn amount will still count as a contribution in determining the lifetime contribution limit. An over-contribution will not occur if the new beneficiary is a sibling of the former beneficiary and the receiving RESP was established before the replacement beneficiary turned 21.

Canada Education Savings Grant (CESG)

To enhance the benefit of setting up an RESP, the federal government has established the CESG. Since 1998, the CESG is available on contributions made for eligible beneficiaries starting in the year of birth and continues until the child reaches 17 years of age, and is not impacted by the family or individual's income. The CESG grant is $400 per year until 2006 and $500 per year after 2007. CESG payments are based on a maximum of 20% of annual RESP contributions or $2,500, whichever is less. This stipulation encourages contributions to be made over an extended period.

Unused CESG room is carried forward and you have the ability to 'catch-up' on unused grants up to a maximum of $1,000 in grants per year. The total contribution amount could therefore be $5,000 (2 x $2,500) in that year, per beneficiary.

> To determine how much grant room is available it is recommended to reach out directly to the Canada Education Savings Program at 1-888-276-3624.

For example, assume that a child was born in 2014 and his parents do not open or contribute to an RESP until 2016. The following table illustrates the CESG received and the CESG carryforward available based on the assumed annual contributions. It is important to note that in 2019, only the annual maximum of $1,000 ($5,000 x 20%) CESG is received based on the $6,000 contribution. However, the entire $6,000 is counted towards the lifetime contribution limit of $50,000.

Year	Annual CESG amount	Accumulated CESG Amount	Qualifying RESP contributions	Assisted contributions*	Basic CESG paid to RESP	CESG carry forward
2014	$500	$500	$0	$0	$0	$500
2015	$500	$1,000	$0	$0	$0	$1,000
2016	$500	$1,500	$2,500	$2,500	$500	$1,000
2017	$500	$1,500	$1,000	$1,000	$200	$1,300
2018	$500	$1,800	$0	$0	$0	$1,800
2019	$500	$2,300	$6,000	$5,000	$1,000	$1,300
	Sub totals:		**$9,500**	**$8,500**	**$1,700**	

*Once qualifying contributions have attracted CESG they become assisted contributions.

Contributions for beneficiaries who are 16 or 17 will receive CESG if one of the following two conditions are met:

- contributions of at least $2,000 are made before the end of the year that beneficiary turned 15; or,
- there are contributions of at least $100 in at least four years before the end of the year the beneficiary turned 15.

The CESG is available from the federal government up to the end of the year the beneficiary turns 17. The maximum amount of CESG that a beneficiary can receive is $7,200.

As mentioned the lifetime maximum per beneficiary is $50,000, however the maximum assisted contribution (namely, the contributions that will qualify for government grants) is $36,000 (20% x $36,000 = $7,200). Therefore, consider speaking to your TD Advisor to determine if additional contributions should be made to the RESP to benefit from tax deferral, or if an alternative vehicle such as a TFSA should be utilized to benefit from tax-free growth. This decision will be dependent on your overall financial goals and objectives.

Additional CESG may also be available based on the adjusted income and if the beneficiary qualifies, the additional amount will be automatically calculated and deposited on top of the CESG detailed above. The following chart details the income thresholds for the past 3 years:

Year	First threshold (adjusted income bracket) Rate of payment = 20% Additional CESG	Second threshold (adjusted income bracket) Rate of payment = 10% Additional CESG
2019	$0 - $47,630	greater than $47,630 but not than $95,259
2018	$0 - $46,605	greater than $46,605 but not than $93,208
2017	$0 - $45,916	greater than $45,916 but not than $91,831

Source: https://www.canada.ca/en/employment-social-development/services/student-financial-aid/education-savings/resp/resp-promoters/bulletin/notice-2018-798.html

Canada Learning Bond (CLB)

The CLB provides additional funds from the government to the RESP for children from modest-income families. Eligibility is determined by the number of children the primary caregiver has, and their adjusted income. For example, a family with 3 or less children are eligible if they have adjusted net income of less than or equal to $47,630 for 2019.

An initial $500 is provided when the beneficiary becomes eligible, and an additional $100 is made for every year of eligibility until the child turns 15, up to a cumulative maximum of $2,000. The funds are paid into an RESP and do not affect the lifetime contribution limit. The CLB cannot be shared with other beneficiaries but any earnings from the CLB can be shared.

Provincial Government Educational Assistance

Some provincial governments also offer additional educational assistance. However, not every financial institution's RESP includes the ability to add this extra assistance. Before setting up a plan RESP, ensure you know the plan's rules around accepting both federal and provincial assistance.

British-Columbia provides the B.C. Training and Education Savings Grant (BCTESG), a payment of $1,200 that is deposited into an RESP on behalf of the child. The beneficiary must be a resident of B.C. and born in 2006 or later. The parent or guardian must also be a resident of British Columbia. The application must be submitted no earlier than the day the child turns 6 and no later than the day before the child turns 9.

Quebec provides the Quebec Education Savings Initiative (QESI) to encourage saving for children and grandchildren. It is a refundable tax credit, paid directly to an RESP on behalf of the beneficiary, equal to 10% of the annual contributions up to a maximum of $250.

To qualify, the beneficiary must be:

- less than 18 years old;
- have a social insurance number;
- a beneficiary of the RESP; and
- a resident of Quebec on December 31st of the tax year.

The maximum lifetime QESI is $3,600 per beneficiary.

Impact of non-residency

A **beneficiary** must be a Canadian resident for tax purposes when contributions to the plan are made; however, he or she could attend a qualifying institution outside Canada. Non-resident beneficiaries cannot receive the CESG or CLB portions of the RESP. If the plan has received any CESG or CLB and the beneficiary is a non-resident at the time of EAPs, the grant funds must be repaid. Income received from the RESP by a non-resident beneficiary will be subject to withholding tax. The income may also be taxed by the beneficiary's country of residence. A **subscriber** must be a Canadian resident when the RESP is opened. If he or she subsequently becomes a non-resident, the plan can remain open.

Speak to your TD advisor about the post-secondary education costs of your beneficiary and ensure you take advantage of an RESP.