Longview
Asset Management Ltd.

REGISTERED EDUCATION SAVINGS PLAN (RESP) PRIMER

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- A Registered Education Savings Plan (RESP) is a registered investment account used to save for a child's post-secondary education, including tuition and education-related expenses. While capital is in the RESP, it grows tax-free.

- A lifetime maximum of $50,000 per Beneficiary can be contributed to an RESP. Contributions are not tax-deductible.

- Up to and including the year that the Beneficiary turns 17, the federal government matches a portion of annual contributions in the form for a grant. The grant is known as the Canada Education Savings Grant (CESG) and is equal to 20% of the contributions up to a maximum of $500 each calendar year and a maximum lifetime CESG per Beneficiary of $7,200. Annual contributions of $2,500 per Beneficiary are required to receive the maximum CESG amount each year (20% of $2,500).

- Withdrawals up to the amount of capital contributed to an RESP are tax-free. Withdrawals beyond the contributed capital amount are included in the Beneficiary's income.

- RESPs need to be closed when the Beneficiary turns 36, although may remain open until age 40 if the Beneficiary is eligible for the disability tax credit. When an RESP is closed, any unused CESG in the RESP is returned to the government.

- Anyone can open an RESP for a child, including grandparents, parents, aunts, uncles and friends.

Contributions

- Contributions can begin in the first year that the child is born.

- Unlike a TFSA or RRSP, there is no annual contribution limit. However, contributions can only be made up to and including the year a Beneficiary turns 17 and there is a lifetime contribution limit of $50,000 per Beneficiary.

Withdrawals

- Withdrawals from an RESP are categorized as one of two types:

    1. Post-Secondary Education (PSE) – this is a withdrawal of the capital contributed to the RESP. There is no annual limit on how much PSE can be withdrawn and the withdrawals are tax-free.

    2. Education Assistance Payment (EAP) – this is a withdrawal of the tax-free income (e.g. interest, dividends, capital gains) and CESG accumulated in the RESP. After the first 13 weeks of the Beneficiary's post-secondary education, any amount of EAP can be withdrawn. The withdrawals are taxable in the hands of the Beneficiary. However, because most Beneficiaries are students earning little income, the tax consequence are usually minimal.

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FREQUENTLY ASKED QUESTIONS (FAQs)

Who are the Subscribers, Beneficiaries and Promoters of an RESP?

- The person (people) opening the RESP and contributing to it is known as the Subscriber(s).
- The child (children) who is benefiting from the proceeds of the RESP is known as the Beneficiary (Beneficiaries).
- The organization that is opening the plan is known as the Promoter.

What is needed to open an RESP?

- The Social Insurance Numbers (SINs) of the Subscriber(s) and each Beneficiary are required when opening an RESP.

What is the difference between an Individual and Family RESP?

- An Individual RESP can be opened for a single Beneficiary by anyone.
- A Family RESP can be opened for one or more Beneficiaries. However, the Beneficiaries must be related to the Subscriber by blood or adoption and under the age of 21 when named.
- The benefit of a Family RESP is that any one of the Beneficiaries can use the RESP. Therefore, if one of the Beneficiaries does not continue with their education after high school, or go to post-secondary education for as many years, the other Beneficiaries can use the funds in the RESP.
- When contributing to a Family RESP with multiple Beneficiaries, it is important to allocate the contributions specifically to each Beneficiary. If allocations are not specified, over-contributions may be deemed to have been made to older Beneficiaries.

Is there an over-contribution penalty?

- Yes. Each Beneficiary is liable to pay a 1% per month tax on their share of the excess contribution and the penalty is payable within 90 days after the end of the year in which there is an excess contribution.

Can I open a joint RESP?

- Yes, joint accounts are permissible. If both Subscribers have signing authority, deposit, investment and withdrawal instructions can be taken from either Subscriber.

Can multiple RESPs be opened for the same Beneficiary?

- Yes. If, for example, parents and grandparents want to open an RESP for the same Beneficiary, this is permissible. However, the overall lifetime limits per Beneficiary continue to apply.

How will I receive the CESG?

- The CESG is directly deposited to the RESP following each contribution. Follow-up with the Canadian government is not required.

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PRO TIPS

Think Early, Think Long-Term

- If, for each Beneficiary, you contribute $2,500 annually, you will receive the maximum allowable CESG of $500 each year (20% of $2,500). Receiving the maximum lifetime CESG per Beneficiary of $7,200 requires contributing into the Beneficiary's 15th year ($7,200 / $500 = 14.4 years).

- While the CESG is a welcome benefit, for those with the financial flexibility to do so, contributing the $50,000 of capital available per Beneficiary earlier will likely result in building more capital in the RESP – i.e., the advantage of compounding more capital for longer will be worth more than receiving the full $7,200 of CESG.

    - Example: If left uninterrupted, $50,000 contributed at the beginning of year 1, plus one $500 CESG, all growing at 8% will be worth more than $160,000 by the end of year 15. Contributing $16,500 in Year 1, and the remaining $33,500 ($50,000 - $16,500) over 14 years, in order to receive the full $7,200 CESG, all growing at 8%, will be worth just over $100,000 at the end of year 15.

Contribution Room Catch-Up

- If an RESP contribution is missed in any given year, you can make them up two years at a time.

    - Example: If one year is missed, in the following year contribute $5,000 ($2,500 x 2) and receive $1,000 in CESG for the two years ($5,000 x 20%).

Use a Family RESP

- If you would like to have an RESP for more than one Beneficiary, use a Family RESP rather than individual RESPs for each Beneficiary. Doing so will maximize your ability to make use of the funds in the RESP in the likely event that the Beneficiaries ultimately require different amounts of financial support.

Make PSE Withdrawals First

- Because PSE withdrawals (i.e., the withdrawal of contributed capital) are tax-free, whereas EAP withdrawals (i.e., the withdrawal of earned income and CESG) are treated as income to the Beneficiary, it usually makes sense to make PSE withdrawals first, thereby deferring any potential income tax on the EAP withdrawals.

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