Your Guide to Understanding

RESP

REGISTERED EDUCATION SAVINGS PLAN

2019/2020

Table of Contents

What is an RESP

A Registered Education Savings Plan (RESP) is a savings plan for post-secondary education.

A Subscriber and/or joint Subscriber (must be the spouse or common law partner of the Subscriber) make deposits into the RESP on behalf of a Beneficiary for the use by the Beneficiary for post-secondary education.

A Subscriber may also be an agency, institution or department that is responsible for the care of a Beneficiary.

In 1998, the federal government introduced the Canada Education Savings Grant (CESG) which is a grant paid into an RESP. In 2007, the federal government increased the payment of the CESG to 20% on the first $2,500 (from $2,000) in annual contributions up to a maximum of $500 (from $400) per year per Beneficiary.

Effective 2005, there were two income-tested additions to RESPs, the Additional CESG and the Canada Learning Bond (CLB). Children in the care of agencies are eligible for the CLB and for the maximum Additional CESG.

The contributions made to an RESP by the Subscriber belong to the Subscriber. Federal and provincial government grants, CLB, income earned on contributions and income earned on government benefits become available for the Beneficiary as an Educational Assistance Payment (EAP) when the Beneficiary attends post-secondary education.

While contributions are not tax deductible to the Subscriber like an RRSP, the savings accumulate tax-free in the RESP until the Beneficiary is ready to attend post-secondary education.

An RESP can receive contributions for 31 years after the plan is entered into, but must be terminated by the end of the year that includes the 35th anniversary of the plan.

For disabled tax credit students, an RESP can receive contributions for 35 years after the plan is entered into, but must be terminated by the end of the year that includes the 40th anniversary of the plan.

Types of RESPs

There are two main types of RESPs: Family Plans and Single Plans.

There is a third type called a Grandfathered Plan, however, this only pertains to plans that were opened before 1998 and were governed by legislation at that time.

There are also Group Plans, which are usually offered by non-taxable entities like foundations and are administered on an age group concept (i.e. all contracts for Beneficiaries who are 9 years old are administered together). The foundation's actuary calculates contributions to a Group Plan. The amount and frequency of these contributions stay the same as long as the Beneficiary has not attained 18 years of age. Group Plans are not offered by the credit union.

FAMILY PLANS

A Family Plan can have multiple Beneficiaries. All Beneficiaries must be related to the Subscriber by blood or adoption. This means the Beneficiaries must be the children, grandchildren, brother or sister of the Subscriber.

With the introduction of the CLB and the Additional CESG, all new Family Plans, as well as any that will attract the CLB or Additional CESG, must consist of siblings only. Since the added benefits are based on family income, there cannot be multiple families in one RESP.

All Beneficiaries must be 21 years old or younger (or already a Beneficiary under another Family Plan) when named as a Beneficiary. Contributions must end when the Beneficiary turns 31 years old.

If any Beneficiary in a Family Plan does not pursue post-secondary education, the remaining Beneficiaries may use those funds for their educational purposes, except the CLB which is to be used by the specific Beneficiary only.

Therefore, the income and grant for a Beneficiary not attending post-secondary education will not be lost in a Family Plan (the CLB for the Beneficiary not attending school will be returned to the government). This is the major advantage of the Family Plan.

Note: a Beneficiary can only withdraw a maximum of $7,200 in grant as an EAP. Any amount above this must be returned to the federal government.

Example: If the total amount of CESG paid into a Family Plan with two Beneficiaries was $10,000 and only one Beneficiary pursues post-secondary education, only $7,200 of the CESG may be paid to that Beneficiary. The remaining $2,800 would have to be returned to the federal government.

Beneficiaries can be changed at any time. However, if adding a Beneficiary, the new Beneficiary must be: related by blood or adoption to the original Subscriber; a sibling; and under the age of 21 years.

SINGLE PLANS (NON-FAMILY PLANS)

A Single Plan can only have one Beneficiary. Anyone can open a Single Plan for any Beneficiary. The Subscriber can even name themself as the Beneficiary provided they have attained the age of 18. The Beneficiary can be any age when the Single Plan is opened.

Contributions to Single Plans may be made up to 31 years after the year the RESP was opened.

For disabled tax credit eligible students, contributions to a Single Plan may be made up to 35 years after the year the RESP was opened.

The Subscriber of a Single Plan is allowed to replace a Beneficiary without returning the grant if the new Beneficiary is under 21 years of age and a sibling of the original Beneficiary.

Unless the above condition is met, any CESG in the RESP at the time of the replacement is to be returned to the government.

Types of Investments for RESPs

Money contributed to an RESP can be invested in a variety of ways, determined by the Subscriber. The funds can be kept in a variable savings account, GICs can be purchased or (for credit unions with mutual fund licensed staff) mutual funds can be purchased within an RESP.

How Much Can be Contributed to an RESP

The lifetime limit for contributions is $50,000 (up from $42,000) per Beneficiary. Prior to 2007, there was an annual limit, which was eliminated by the federal government.

It is very important to ensure the lifetime contribution limit is never exceeded as Canada Revenue Agency (CRA) charges a penalty of 1% per month on over-contributions.

What is the CESG

Basic CESG

Basic Canada Education Savings Grant (CESG) is a grant paid by the federal government directly into an RESP. Since 1998, contributions made to an RESP are eligible to obtain the CESG subject to a few requirements.

All children under the age of 18 and a resident of Canada began accumulating CESG room of $500 per year since 2007 (20% of the first $2,500 in contributions per year) and $400 per year from 1998 to 2006 (20% of the first $2,000 in contributions per year) whether they were a Beneficiary of an RESP or not. This is not per RESP, but per Beneficiary. The maximum lifetime CESG paid to a Beneficiary for all RESP's is $7,200.

Additional CESG

In 2005, Additional CESG provided additional grant on the first $500 contribution each year.

In order for Beneficiaries to receive the Additional CESG, the PCG must have made a formal application to CRA for the Canada Child Benefit (CCB) and file an income tax return each year.

Effective 2018, Amendments to the *Canada Education Savings Act* allow for the cohabiting spouse or common-law partner of a Primary Caregiver (PCG) to request the Additional CESG and the CLB on behalf of an eligible Beneficiary. Previously, these payments could only be made when requested by the PCG.

The amount of Additional CESG a Beneficiary will receive is dependent on the net family income of the PCG and on when the PCG becomes eligible to receive the CCB (the income level brackets are modified each year).

THE INCOME LEVELS ARE:

Tax Year	The Additional CESG rate is 20% when net family income is...	The Additional CESG rate is 10% when net family income is...
2019	$47,630 or less	$47,630 - $95,259

All deposits would be eligible for the 20% basic CESG.

For example, for a PCG with net family income under $47,630, a contribution of $2,500 would receive a CESG of 20% on the $2,500 and an Additional CESG of 20% on the first $500 of the contribution totaling $600 in grant.

A PCG whose net family income is between $47,630 – $95,259, would receive a CESG of 20% on the $2,500 and an Additional CESG of 10% on the first $500 of the contribution for a total of $550 in grant.

Carry-forward Grant Room

If an RESP contribution of $2,500 (or $2,000 prior to 2007) is not made annually for a Beneficiary, CESG room can be carried forward for future years.

If carry-forward grant room exists, the federal government will pay up to $1,000 in CESG per year. While there is no annual contribution limit, **only the first $5,000 in contributions will be eligible for CESG.**

Eligible Additional CESG room does not carry-forward. Therefore, a contribution attracting grant using carry-forward room will only be entitled to 20% CESG. Additional CESG is only applied to the first $500 in contributions for the current year.

For example, a $5,000 contribution made for a Beneficiary of a family with income less than $47,630 with grant carry-forward room would attract a maximum total grant of $1,100. This would be 20% CESG for $2,500 using grant carry-forward, 20% CESG for $2,500 for the current year and 20% Additional CESG on the first $500 of the current year's contribution.

THE FOLLOWING TABLE ILLUSTRATES THIS EXAMPLE:

Contributions from previous year carry-forward $2,500 @ 20%	$500
Contributions from this year $2,500 @ 20%	$500
Additional grant on first $500 for this year @ 20%	$100
Total Grant	**$1,100**

How Does a Beneficiary Qualify for the CESG

To qualify for the CESG, the Beneficiary must meet the following requirements:

- Valid Social Insurance Number (SIN)
- Resident of Canada
- 17 years of age or younger
  (see next section for special requirements)

Also required to receive Additional CESG is the PCG's SIN to assess net family income to attract the appropriate grant level. The PCG receives the CCB cheque for the child and is usually the mother. The PCG does not have to be the Subscriber of the RESP.

If the Beneficiary is a child in care under an Agency, the business number of the agency, institution or department is required instead of the PCG's SIN.

SPECIAL REQUIREMENTS FOR BENEFICIARIES AGED 16 AND 17

There are special eligibility requirements to qualify for the CESG when the Beneficiary is 16 or 17.

The Beneficiary will only be eligible for grant if one of the following conditions is met:

- A minimum of $2,000 in contributions were made (and not withdrawn) for the Beneficiary before the year in which the Beneficiary turns 16 (i.e. the deposit must be in the calendar year they are 15 or prior)
- A minimum of $100 in annual RESP contributions were made (and not withdrawn) for the Beneficiary in any four years before the year in which the Beneficiary turns 16 (i.e. the last deposit must be no later than the calendar year they turn 15)

For eligible Beneficiaries who are 17, the deposit must be made in the calendar year that the Beneficiary turns 17. Therefore, if a Beneficiary turns 17 in February 2019, the latest date for a deposit to earn grant would be December 2019.

A Beneficiary is no longer eligible for grant in the calendar year he or she turns 18, even if carry-forward room exists. If a Beneficiary is 17 in February 2019 but turns 18 in March 2019, deposits made during 2019 will not be eligible for grant.

CESG Repayments

The CESG must be returned to the federal government if the Subscriber withdraws contributions before the Beneficiary attends post-secondary education.

The CESG must also be returned under the following circumstances:

- When the plan is terminated or the registration of the RESP is revoked;
- When an Accumulated Income Payment (AIP) is made to the Subscriber;
- When an income payment is made to a Designated Educational Institution;
- When none of the Beneficiaries in the RESP pursue post-secondary education;
- When a Beneficiary is replaced and the replacement Beneficiary is not under 21 years of age and the brother or sister of the former Beneficiary.

Canada Learning Bond

The CLB will be paid into RESPs opened for eligible children born on or after January 1, 2004.

The PCG or cohabiting spouse or common-law partner must give consent to deposit the CLB into the RESP even if they are not the Subscriber of the RESP.

The CLB entitles eligible children to $500 for the first year and $100 for each eligible following year, up to the calendar year that the child turns 15. CLBs are allocated to a specific child; unlike CESGs, they cannot be shared with other Beneficiaries. There is no requirement to make contributions in order to qualify for the CLB.

Beneficiaries themselves will be able to open an RESP in the three years between ages 18 and 21 and apply and receive up to $2,000 of CLB if a plan was never opened on their behalf.

Repayment of Canada Learning Bond

Unlike the CESG, if the Subscriber withdraws contributions before the Beneficiary attends post-secondary education, the CLB is not returned to the government.

However, if all contributions are returned to the Subscriber and the RESP is closed before the Beneficiary attends post-secondary education, the CLB must be repaid to the federal government. The CLB will remain available if a new RESP is opened for the Beneficiary in the future or if the Beneficiary opens their own RESP at the age of 18.

Provincial Grants

British Columbia Training and Education Savings (BCTES) Grant

The BCTES Grant was first introduced in the 2013 BC budget with applications accepted beginning August 15, 2015. The deadline to apply for children born in 2006 has been extended; see your credit union for details.

Grant Details:

- $1,200 one time grant;
- Paid into an RESP upon application between 6th and 9th birthday;
- Child must be born on or after January 1, 2006;
- Child must have an RESP at the time of application;
- Child and a parent/guardian must be residents of BC at the time of grant application;
- Allows for grant sharing among siblings.

Withdrawals from an RESP

The grant paid on contributions, the CLB and any provincial grant plus income earned on the money in an RESP is to be used by the Beneficiary for the funding of post-secondary education. The Subscriber may decide to allow the Beneficiary to use the contributions as well. There are also cases where the Beneficiary does not pursue a post-secondary education and income withdrawals can be made from the plan with certain restrictions.

Withdrawals for Education Purposes

A Beneficiary must be enrolled full-time or part-time in a qualifying educational program at a qualifying post-secondary institution to qualify for an Educational Assistance Payment (EAP) from an RESP. An EAP is composed of federal and provincial grant money, CLB funds and income earned on contributions, grant and CLB.

EAP withdrawals may be taken within a six-month grace period after enrollment in a qualified educational program ceases.

The maximum amount of EAP that can be made to a student once qualified to receive them is:

- <u>For full-time studies</u> $5,000, for the first 13 consecutive weeks of full-time studies in a qualifying educational program. After the student has completed the 13 consecutive weeks, there is an annual threshold limit (indexed annually = $23,976 for 2019) on the amount of EAPs that can be paid if the student continues to qualify to receive them. If there is a 12-month period in which the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the $5,000 maximum applies again; or
- <u>For part-time studies</u> $2,500, for the 13-week period of enrollment in part-time studies in a specified educational program preceding the payment of an EAP.

An EAP is taxable income to the Beneficiary. However, most students have little or no income, so the tax paid will be very minimal, if any.

Contributions in the plan belong to the Subscriber. However, the Subscriber may opt to give the contributions to the Beneficiary to use for post-secondary education as well. This type of payment is called a Post-Secondary Educational (PSE) withdrawal. The only limit to this type of payment is the amount of contributions in the plan.

A PSE is not taxable income since the contributions are made with after-tax dollars.

If the Subscriber wishes to keep the contributions, the Beneficiary could be paid the EAP, the contributions would then be returned to the Subscriber, and the plan would be closed.

What Qualifies as Post-Secondary Education

A post-secondary institution can be any of the following:

- A university, college, or other educational institution in Canada that has been designated for purposes of the *Canada Student Loans Act* or the *Canada Student Financial Assistance Act*, or is recognized for purposes of the *Quebec Student Loans and Scholarships Act*;
- An educational institution in Canada certified by the Minister of Employment and Social Development to be providing courses, other than courses designed for university credit, that give a person occupational skills or improve a person's occupational skills;
- A university, college or other educational institution outside Canada that provides courses at a post-secondary school level provided the Beneficiary is enrolled in a course of at least 13 consecutive weeks.

A qualifying educational program is an education program that requires students to spend 10 hours or more per week on courses or work in the program and that lasts three consecutive weeks or more.

A specified educational program is an education program at a post-secondary school level that lasts three consecutive weeks or more and requires each student to spend at least 12 hours per month on courses in the program.

University Outside Canada

In 2011, a study abroad measure was introduced by the federal government. Since 2011, the 13-consecutive-week requirement for EAP purposes has been reduced to 3 consecutive weeks when the student is enrolled at a university outside Canada in a course on a full-time basis. The 13-consecutive-week requirement remains unchanged for students enrolled in a course at a university outside Canada on a part-time basis or enrolled in a course at other educational institutions outside Canada.

The CRA will accept that an educational institution is a “university outside Canada” for the purposes of these new rules if it meets all of the following conditions:

- It has the authority to confer academic degrees of at least the baccalaureate level (Bachelor’s degree or equivalent); and
- It has an academic entrance requirement of at least secondary school standing; and is organized for higher learning.

Withdrawals If the Beneficiary Does Not Pursue Post-Secondary Education

If the Beneficiary chooses not to pursue post-secondary education, and there are no other Beneficiaries (for a Family Plan), or a replacement Beneficiary is not named (for a Single Plan), the money within the RESP is handled as follows:

The contributions are returned to the Subscriber, the federal grant and CLB are repaid to the federal government and the provincial grant is repaid to the respective provincial government.

There are two options for the income earned within the RESP. An AIP may be paid to the Subscriber or joint Subscriber providing all the following conditions are met:

- The RESP has been in existence for at least 10 years;
- Each individual who is or was a Beneficiary has reached age 21;
- No Beneficiary is attending school; and
- The Subscriber is a resident of Canada.

An AIP may be taken as cash. It is taxable income for the Subscriber (or joint Subscriber) and is subject to 20% tax. The Subscriber may also be subject to additional tax as they must report this as income on their tax return.

If the Subscriber has contribution room in their RRSP, they may elect to make a tax-free transfer of the AIP to their own RRSP or to their spousal RRSP. The transfer is limited to $50,000.

If the above conditions are not met, the Subscriber may not withdraw the income from the RESP for their own use and the income must be paid to a Designated Educational Institution, which is elected on the RESP application form or otherwise indicated by the Subscriber.

The conditions for an AIP may be waived by CRA if it is reasonable to expect the Beneficiary will not pursue post-secondary education due to a severe and prolonged mental impairment or if the Beneficiaries of an RESP are deceased.

Changes to RESPs

It is possible to make changes to an RESP once it is in existence. These changes may be made to either the Subscriber or the Beneficiary.

Changes to Subscriber of an RESP

Once an RESP has been established, changes to the Subscriber can be made. A joint Subscriber may be added or removed, or the primary Subscriber may be changed due to death.

If a primary Subscriber wishes to add a joint Subscriber, he/she can elect to do so as long as the joint Subscriber is the spouse or common law partner of the primary Subscriber.

A joint Subscriber may be removed from an RESP as well, but special requirements are needed if the removal is due to a marriage breakdown.

RESP ESTATES

If the Subscriber of an RESP dies, there are several options for the RESP:

- If the plan is held jointly with his/her spouse or common law partner, the plan will pass directly to the surviving spouse or common law partner.
- Any other person (including the estate of the deceased individual) acquires the individual's rights as a Subscriber under the Plan and makes contributions into the Plan for the beneficiary after the death of a Subscriber under the RESP. (Note: on the death of a Subscriber to an RESP, the terms of the RESP and the relevant provincial law will determine what happens to the RESP).

Appointing a Successor Subscriber in the will of the original Subscriber will likely ensure that the goal of the original Subscriber when the RESP was established will be realized, even after the death of the original Subscriber.

In the case of an RESP with joint Subscribers, each should consider appointing Successor Subscribers in their wills (preferably the same one) as both Subscribers could die in a common accident.

Changes to Beneficiary of RESP

The Beneficiary of an RESP may be altered after opening the plan.

For a Single Plan, the original Beneficiary may be revoked and a new Beneficiary may be named.

According to CRA regulations, the new Beneficiary assumes all previous contributions. If the new Beneficiary already has an RESP, an over contribution circumstance may apply. This rule is not enforced if the new Beneficiary is a brother or sister of the original Beneficiary and is under age 21.

If the plan exceeds $7,200 in grant due to a new Beneficiary, once the original Beneficiary withdraws $7,200 in CESG, the remainder of the grant in the RESP must be returned to the federal government.

For a Family Plan, a Beneficiary can be added or removed; however only Beneficiaries under the age of 21 can be added to a Family Plan. Only siblings may be added to Family Plans.

Transfers of Property Between RESPs

The federal government introduced new rules for transfers of property occurring after 2010. Previously, there were no adverse consequences when the transferring RESP and the receiving RESP have the same Beneficiary. However, tax penalties and grant repayments may apply to transfers between individual plans for different Beneficiaries unless the Beneficiaries are siblings and the Beneficiary of the receiving plan is under 21 years of age.

For transfers of property after 2010, these penalties and repayments will not arise on the transfer of property between RESPs that each have an individual as a Beneficiary, where the Beneficiaries are siblings and the receiving RESP was established before the Beneficiary turned 21 years of age.

Example:

RESPs were opened for Abby, Kate, John and Randy, who are siblings:

Name	Current Age	Age when the RESP was opened
Abby	15	1
Kate	18	3
John	22	5
Randy	23	21

Prior to 2010, property transferred between Abby's and Kate's RESPs and from the RESPs of John and Randy to their sisters' RESPs had no adverse consequences as both John and Randy are over 21 years of age.

After 2010, property can also be transferred between John's and his sisters' RESPs with no adverse consequences, as these RESPs were established when the Beneficiaries were less than 21 years of age. Since Randy's RESP was established after he turned 21 years of age, the new rules do not apply to transfers to his RESP; however, transfers from his RESP to his brother's and sisters' RESPs can be made without adverse consequences, because in each case, the RESP of the receiving Beneficiary was established before they turned 21 years of age.

Rollover of RESP Investment Income into an RDSP

To provide greater flexibility for parents who save in an RESP for a child with a severe disability, investment income earned in an RESP can be transferred on a tax-deferred basis to an RDSP if the plans share a common Beneficiary.

In order to qualify, the Beneficiary must meet the existing age and residency requirements in relation to RDSP contributions.

Also, one of the following conditions must be met:

- The Beneficiary has a severe and prolonged mental impairment that can reasonably be expected to prevent the Beneficiary from pursuing post-secondary education; or
- The RESP has been in existence for at least 10 years and each Beneficiary is at least 21 years of age and is not pursuing post-secondary education or eligible to receive EAPs at the time the transfer is made; or
- The RESP has been in existence for more than 35 years.

When RESP investment income is rolled over to an RDSP, contributions in the RESP will be returned to the RESP Subscriber on a tax-free basis. The Subscriber can contribute these amounts to the RDSP (immediately or over time) if they choose to, potentially attracting grant. In addition, CESG and CLB in the RESP will be required to be repaid to the federal government, Provincial incentives repaid and the RESP terminated by the end of February of the year after the year during which the rollover is made. The rollover amount will not be subject to regular income tax or the additional 20-per-cent tax. The amount of RESP investment income rolled over to an RDSP may not exceed, and will reduce, the Beneficiary's available RDSP contribution room.

Tax Payable

Non-qualified or Prohibited Investments

If a RESP holds a non-qualified investment, carries on a business, or invests in a prohibited investment, the RESP will be subject to the following tax consequences:

The RESP will be taxed on any income earned and capital gains derived from the non-qualified investment or business and is subject to trust reporting requirements to the CRA.

Prohibited investments are subject to a 50% tax on the value of the property at the time it was purchased or became a prohibited investment and subject to a 100% advantage tax on any income or gains derived from the property while it remains in the RESP. The CRA implemented these tax measures to discourage abusive tax-planning arrangement within a RESP.

Account Advantages and Benefits

If the Subscriber of a RESP was provided with an advantage or certain benefit or debt that is conditional on the existence of the account, the RESP may be subject to tax:

- In the case of a benefit, the FMV of the benefit; and
- In the case of a debt or loan, the amount of the debt or loan.

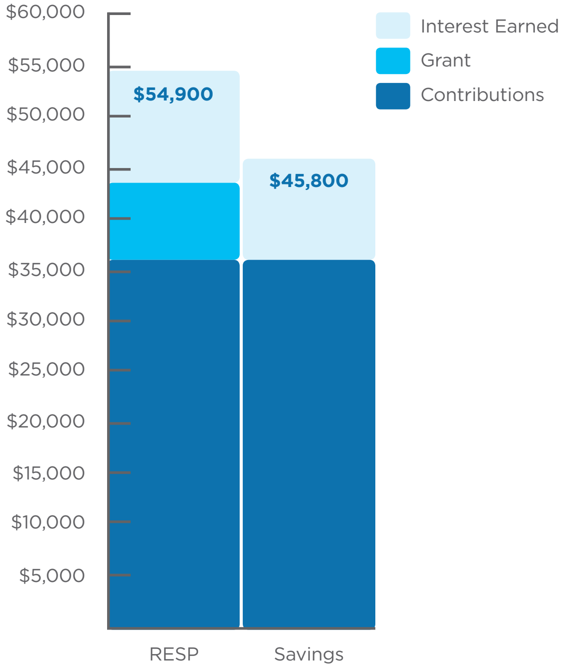
The *Income Tax Act* stipulates that a RESP Issuer cannot provide the Subscriber with any benefits or advantages that are conditional in any way on the existence of the RESP such as merchandise, trips or interest free loans. These types of incentives are taxable to the Subscriber. The CRA has granted exceptions to certain benefits, which will not be taxed to the Subscriber so long as the benefit is credited directly to the RESP and not to the Subscriber.

The Difference in Growth of Savings in RESP vs. Savings Account

If you were to invest $2,000 per year for 18 years in an RESP, you would receive $7,200 in grant and your RESP would grow to approximately $54,900 (assuming 2.5% interest).

If you were to invest $2,000 per year for 18 years in a savings account, you would receive no grant and your RESP would grow to approximately $45,800 (assuming 2.5% interest).

By depositing the same amount of money into an RESP instead of into regular savings, your money would be worth $9,100 or more!



Where Do You Go From Here

Credit union staff are ready to discuss any aspects of an RESP which may not have been fully discussed in this brochure or which may need further clarification. Before investing in any RESP, ask about deposit insurance protection.

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This booklet is provided to you courtesy of your credit union. It is written to be easily understood as a result of requests by many credit union members for clear, up-to-date information on RESPs and post-secondary saving.

This issue of Understanding an RESP is based on the legislation in effect or proposed as of April 2019.

This is intended as an information guide only. If any clarification is required you should refer to the actual legislation provided by Canada Revenue Agency (CRA). Their contact number is 1-800-959-8281 and their website is http://www.cra-arc.gc.ca/. Any clarification you require regarding the Canada Education Savings Grant or Canada Learning Bond should be directed to Employment and Social Development Canada (ESDC). Their contact number is 1-888-276-3624 and their website is http://www.esdc.gc.ca/eng/jobs/student/savings/index.shtml