NATIONAL BANK

All of the Benefits of a Registered Education Savings Plan (RESP)

Less than one out of four children benefits from the financial assistance provided by a Registered Education Savings Plan (RESP).

This assistance provides a helping hand to children whose dreams won't be cut short by a mountain of unpaid bills. RESPs also benefit parents, since every dollar they invest in the plan quickly multiplies due to governmental subsidies and tax free accumulation of income. And contrary to popular belief, an RESP investment isn't beyond the reach of families on tight budgets.
Here is what you need to know about RESPS.

Who Can Contribute to an RESP?

To open an RESP, the subscriber must have a social insurance number (SIN). The recipient or recipients must also have a SIN and be Canadian residents.

There are three types of registered education savings plans: the individual RESP, family RESP and group RESP. Rules and restrictions vary according to the plan. Sale fees, file opening fees, and some annual fees or penalties in the event of changes made to the plan can also apply.

What Return Can You Expect?

RESP returns will obviously vary according to several factors linked to financial markets and the types of investments chosen. But as a general rule, the sooner you start saving, the higher the amount will be, thanks to the tax sheltered cumulative earnings.

That said, the main appeal of an RESP in terms of earnings stems from the fact that each contribution is enhanced by a federal government grant, and by a provincial grant in some provinces.

Indeed, the Government of Canada offers grants to encourage Canadians to save for their children's post-secondary education. Two provinces, Quebec and British Columia, also offer grants as additional incentives. These additional amounts are paid directly into the recipient's RESP.

Through the Canada Education Savings Grant (CESG), the federal government awards 20% on each dollar invested in an RESP, up to $500 annually (i.e. 20% of a $2,500 contribution) and up to a lifetime grant of $7,200).

This federal initiative is bolstered, for Quebec residents, by the Quebec Education Savings Incentive (QESI), which pays an additional amount equal to 10% of the contribution, up to a maximum of $250 per year (or a lifetime grant of $3,600).

For residents of British Columbia, the BC Training and Education Savings Grant provides a one-time payment of $1,200 per beneficiary for children born in 2006 or later. The request must be made between the 6th and 9th birthday of the child.

On top of the general grant, eligible low-income families may receive the Canada Learning Bond (CLB), which consists in an initial one-time payment of $500, followed by annual payments of $100, for a maximum of 15 years. To benefit from the CLB, one only needs to open an RESP account, since no contribution is required.

Eligible low- and medium-income families who are able to contribute to the plan may also qualify to receive an extra 10% to 20% on every dollar of the first $500 saved annually through the Additional Canada Education Savings Grant (A-CESG). And, since the QESI is equal to 50% of the federal assistance, eligible low- and medium income families residing in Quebec can receive up to an additional $50 on the first $500 contributed.

Unused RESP grants can accumulate until the child turns 17 and can be claimed, through additional contributions, up to a maximum of $1,000 per year at the federal level and $500 per year at the Quebec level.

Thanks to this governmental assistance, regardless of the family’s financial situation, money invested in an RESP earns a one-time initial return of up to 30%, before accumulating in an investment product.

What Are the Tax Benefits of the RESP?

Unlike the Registered Retirement Savings Plan (RRSP), the RESP contributions do not allow the subscriber to reduce his/her taxable income. However, the capital invested in the RESP and admissible grants grow tax-free.

The beneficiary may receive the money from the RESP in the form of Educational Assistance Payments (EAP) when it is time to start his/her post-secondary studies in a Qualifying Educational Program.

The EAPs are taxable income in the hands of the RESP beneficiary. The latter may however be exempt from paying taxes on the amounts received if the EAPs are judiciously planned and if the child has no other significant source of income.

That said, it is important to note that the EAP is exclusively made up of money from grants and investment income. It does not therefore include the amount of contributions made by the RESP subscriber (usually the parents).

From the moment when EAps are paid, the subscriber can recover the RESP contributions without any tax impact, since tax on these invested sums was already paid in the past. The subscriber can use them as they see fit, for example, to make RRSP contributions.

At any time when the amounts are withdrawn from the RESP, only the earnings and gains accumulated on the capital and grants are taxable.

To learn more:

- Canada Revenue Agency – Registered Education Savings Plan (RESP)
- Government of Canada – Education Savings
- Government of Canada – Additional Canada Educations Savings Grant (A-CESG)
- Services Quebec – Quebec Education Savings Incentive
- British Columbia Training and Education Savings Grant Information

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