

BRENDAN BZDEL

Investment Focus

Back to School: Funding an RESP for Grandchildren?

With kids now back in school, and with the rising costs of education, many grandparents have been asking about funding a Registered Education Savings Plan (RESP) for a grandchild's post-secondary education.

While it is possible for grandparents to open an RESP for grandchildren, it is important to exercise caution for two reasons. First, if multiple RESPs exist for the same child, total contributions need to be carefully monitored so they don't exceed the maximum of \$50,000 per beneficiary, as penalties will apply.

Second, if the beneficiary doesn't pursue post-secondary education, under certain circumstances RESP funds may be transferred back to a contributor's Registered Retirement Savings Plan (RRSP). However, grandparents beyond the RRSP age cannot transfer funds to a Registered Retirement Income Fund (RRIF). As such, taxes and penalty taxes would apply to earned amounts. Thus, if parents have already opened an RESP, it may be better to gift funds to parents and have them make the RESP contribution.

Are there other funding alternatives?

Setting up a trust* may be an alternate solution. There are no contribution limits, but unlike an RESP there are no tax deferral or CESG benefits. If set up correctly, it may be possible to have withdrawals taxed in the hands of a beneficiary, which may be beneficial if (s)he has a lower tax rate. However, keep in mind that once a child gains control, usually at age of majority, the funds can be used for any purpose, not just education.

To discuss more about these or other options, please call.

*Note: Setting up a trust may be a complicated legal arrangement and a tax expert should be consulted to ensure it is carried out in the way intended.

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