The Stan Clark Financial Team's

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Financial Planning

RESPs: What to do when funds-withdrawal time comes

By Sylvia Ellis, Senior Estate Planning Advisor

Registered Education Savings Plans (RESPs) have long been (27 years in fact!) a great government registered-savings vehicle for a child's postsecondary education.

If you have one for your child or children, you're probably aware of all of the key features, i.e., single or family beneficiary, tax-deferred growth, lifetime contribution of $50,000 per beneficiary and the Canada Education Savings Grants (CESGs) that are offered. In this article, we'll focus more on the withdrawal aspect of RESPs.

In order to make a withdrawal, the plan beneficiary must be either a full-time or part-time student enrolled in a Canadian or foreign postsecondary institution. This includes students enrolled in distance education courses, such as correspondence courses.

Qualifying postsecondary programs include academic and occupational skills programs at institutions certified by the Employment and Social Development Canada (ESCD). To give you an idea of how many there are to choose from, the ESDC has a current list of 247 designated educational institutions in BC and a similar number in other provinces.

So, what's the best way to start withdrawing? Any contributions you made to the plan were not tax-deductible and can generally be withdrawn at any time, tax-free. Any other funds coming out of the plan for postsecondary education are referred to as *educational assistance payments* (EAPs). EAPs include the income, gains and CESGs in the RESP.

It usually makes more sense to withdraw the EAPs first, thus ensuring your beneficiary receives 100% of the grant money received on their behalf.

The money withdrawn will be taxed as income in your child's hands. Because their income is likely to fall under the basic personal exemption limit, an EAP equates to a tax-free withdrawal. If they're working and their income exceeds the personal limit, they can claim several tax credits for tuition fees, textbooks, transit passes, the education amount, even school-related moving expenses. These credits should eliminate, or at least minimize, any tax owed. All of this needs to be taken into account to determine the optimal amount to withdraw.

Note that there is a $5,000 maximum withdrawal for full-time enrollment during the first 13 weeks of schooling for any EAPs; and $2,500 for part-time enrollment. Once that timeline has passed, you can request additional funds with no limit, unless the student takes a break from their studies and does not re-enroll at a qualifying postsecondary program for 12 months.

After EAPs have been paid, then start withdrawing the contributions you made.

Let's face it. though: Things change. Maybe your child will decide to delay continuing their education and want to travel or work; or not continue their education at all. Any of these situations can have an effect on the RESP.

RESPs have expiry dates, which means they can remain open for 40 years from when they're created, while family plans remain open for 35 years. This provides plenty of time for your child to decide what to do!

If they do decide against continuing with their education, and there is no sibling to transfer the RESP funds to, the last resort is to close it. Any grants and bonds from the government will need to be returned. Again, your contributions are tax-free. You can also withdraw some of your investment earnings if the RESP has been open for at least 10 years, and each beneficiary is at least 21 years of age. However, your earnings will be taxed at your regular income tax level, plus an additional 20%, which is known as the Accumulated Income Payment (AIP). Or, you can roll up to $50,000 in AIP money over into an RRSP if you have unused contribution room.

When the time comes, we recommend you talk to us to help determine the best strategy for you and your child/ren. ■

Sylvia Ellis is the Senior Estate Planning Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. Sylvia provides support to the team in projecting and planning client financial affairs.

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Phone: (604) 641-4361 Toll free: 1 (800) 661-9442 Fax: (604) 608-5211 Email: StanClarkFinancialTeam@cibc.ca www.stanclark.ca