

High school graduation day has come and gone, and your son or daughter is taking the next step in their educational pursuits by starting college or university. Fortunately, you've planned for this day by helping to build your loved one's education fund in a Registered Education Savings Plan (RESP). When you're ready to begin making withdrawals from your RESP, it's important that you meet the payment conditions of the plan.

Withdrawal Requirements

To complete a withdrawal for educational purposes, the plan beneficiary must be either a full-time or part-time student enrolled in either a Canadian or foreign post-secondary institution. This includes students enrolled in distance education courses, such as correspondence courses.

The program must be at a **post-secondary level**. Post-secondary level programs include academic programs and occupational skills programs at educational institutions certified by the Human Resources and Skills Development Canada (HRSDC).

Full-Time Program Eligibility Requirements:

- The program must last at least three consecutive weeks to qualify for the initial \$5,000 Educational Assistance Payment (EAP).
- Beneficiary may withdraw up to \$5,000, for the first 13 consecutive weeks of full-time studies. After the 13 week wait period, up to \$20,000 EAP may be withdrawn without receipts or approval from CRA.
- The course requires a minimum of 10 hours of instruction or work in the program each week (excluding study time). Instruction or work includes lectures, practical training, and laboratory work.

Part-Time Programs Eligibility Requirements:

- The course must last three consecutive weeks to qualify for the initial \$2,500 EAP.
- Students will be required to spend at least 12 hours a month on courses, in a course lasting at least three consecutive weeks.

The following are the Canada Revenue Agency's (CRA) categories of qualifying post-secondary educational institutions:

- Canadian universities, colleges and other educational institutions designated under the Canada Student Loans Act, Canada Student Financial Assistance Act and Québec Act respecting financial assistance for education expenses.
- Canadian educational institutions certified by HRSDC as offering non-university credit courses that develop or improve skills in an occupation.
- Universities, colleges or other educational institutions outside Canada that provide courses at a post-secondary level at which the RESP beneficiary is enrolled in a course that lasts at least 13* consecutive weeks.

* The 2011 Federal Budget has proposed reducing the 13-week minimum course duration period to three weeks for those students attending a foreign university.

There are three types of RESP payments: Educational Assistance Payments (EAPs), Refund of Contributions (ROCs), which can be post-secondary educational (PSE) or non-educational capital withdrawals, and Accumulated Income Payments (AIPs).

RESP Tax Implications

When making a withdrawal from an RESP, the total equity of the plan is divided into three categories:

- **Capital:** The total amount of all contributions made to the plan since its inception. Capital, when withdrawn, is neither taxable to the subscriber nor to the beneficiary, for all types of withdrawals. However, this may require a repayment of any CESG or provincial grants received.
- **Government grants:** Government grants received by the RESP are tracked separately between CESGs, Canada Learning Bonds and, if applicable, provincial grants. Government grants must be withdrawn directly to the beneficiary or may be otherwise refunded to the appropriate government authority. This is considered taxable income to the beneficiary for the year in which it is withdrawn as an EAP.
- **Accumulated earnings (growth):** After accounting for government grants and capital, any remaining amount in an RESP is considered accumulated earnings. Accumulated earnings are taxable to the beneficiary for the year in which it is withdrawn as an EAP.

Educational Assistance Payment (EAP)

What is an EAP?

An EAP is a payment of funds from the RESP to finance the cost of the beneficiary's post-secondary education. The EAP is comprised of the RESP's accumulated earnings and government grants such as the Canada Education Savings Grant (CESG) and any applicable provincial grants. To qualify for an EAP, the beneficiary must be **enrolled** in a **qualifying educational program** at a **post-secondary educational institution**.

Is there a limit on EAPs?

For RESPs opened after 1998, the maximum withdrawal of EAPs that can be made by one RESP promoter for a student as soon as he/she qualifies to receive them is \$5,000; after the student has completed 13 consecutive weeks in a qualifying educational program, the EAP limit increases to \$20,000. Amounts requested above \$20,000 may require receipts and approval.

EAPs must be for the purpose of furthering the post-secondary education of the student. 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. If the beneficiary requires more than this amount, the client may make a written request to HRSDC providing proof of the additional costs to the beneficiary. Part-time students will be allowed to access up to \$2,500 of earnings and grants for each 13-week semester of study. Students will be required to spend at least 12 hours a month on courses, in a course lasting at least three consecutive weeks.

If the beneficiary is part of a family plan, the maximum amount of CESG that can be included in an EAP withdrawn is \$7,200 per beneficiary. The \$7,200 maximum also applies to students who are beneficiaries of multiple plans: the aggregated CESG portion in all EAP withdrawals in multiple RESP accounts must not be more than \$7,200; any amounts taken above the \$7,200 maximum must be repaid to HRSDC.

How is an EAP withdrawal made?

EAP withdrawals are composed of government grants and accumulated earnings categories only. After you determine the total amount of the EAP that you wish to withdraw, a prescribed formula, established and regulated by HRSDC, is used to determine the grant and accumulated earnings portions that make up the EAP.

Proof of enrolment in a qualifying post-secondary program and a completed RESP withdrawal form provided by the RESP promoter are required before an EAP can be made. Proof of enrolment usually consists of one of the following: a Proof of Enrolment letter, a

Proof of Enrolment form, or a tuition invoice from the Office of the Registrar. The proof of enrolment must accompany a completed RESP withdrawal form, authorized by the RESP subscriber/beneficiary as necessary.

The RESP promoter issues a T4A to the beneficiary for the total amount of grant and accumulated earnings withdrawn within any given year.

How are payments from the plan made?

There are a variety of payment methods available. A cheque may be mailed to the beneficiary's mailing address, to the address listed on the account, or directly to the educational institution address that is provided on the RESP withdrawal form. If the cheque is mailed directly to the educational institution, you must ensure that the student ID number is provided in the proof of enrolment.

What authorization is required for an EAP?

The subscriber's authorization is required for all payment types. If the plan has joint subscribers, either subscriber can authorize the payment (i.e., only one signature is required).

An EAP may be paid to the RESP beneficiary or directly to the subscriber. If the EAP is to be paid to the subscriber, the beneficiary must sign the RESP Withdrawal Form to ensure the subscriber and beneficiary acknowledge and understand the tax implications of an EAP. If the beneficiary is under the age of majority, his/her legal guardian or representative must also sign the authorization section.

Can a non-resident complete an EAP redemption?

A non-resident beneficiary can complete an EAP redemption; however, it is important to note the differing rules for grant and accumulated earnings.

- **Accumulated Earnings:** Provided the beneficiary is enrolled in a qualifying post-secondary program, earnings may be included in an EAP withdrawal.
- **CESG:** A beneficiary must be classified by CRA as a Canadian resident to receive any CESG amounts.
- **Provincial Grants:** Please refer to the supplementary special reports for the applicable province.

Refund Of Contributions (ROC)

An ROC is the return of all, or part of, the original contributions made to the plan. Although an ROC is not subject to tax, a refund of "assisted" contributions will trigger a repayment of CESGs to HRSDC, including provincial grants, if received, if none of the plan's beneficiaries are eligible to receive an EAP. Assisted contributions are those that attracted CESGs when the contributions were made. Assisted contributions are considered withdrawn first before unassisted contributions. You may choose to direct an ROC to yourself, or to a beneficiary, for any use and it is not restricted to educational purposes.

In the case of ROCs and AIPs, you may withdraw the funds in cash or in kind.

Accumulated Income Payments (AIP)

What is an AIP?

An AIP is a payment of accumulated earnings in the RESP to a subscriber. Generally, AIPs are used when none of the beneficiaries of an RESP is or will be pursuing post-secondary education.

What conditions must be met to make an AIP withdrawal?

Both of the following conditions must be met:

- The recipient is a resident of Canada
- The payment is made to, or on behalf of, a subscriber of the RESP and **not** jointly to, or on behalf of, more than one subscriber

In addition to the above conditions, **one** or more of the following conditions must be met:

- The payment is made after the ninth year following the year the plan was opened and all living current and former beneficiaries of the RESP have reached 21 years of age and are not currently eligible for EAPs
- The payment is made in the 35th year following the year the plan was opened
- Each individual who was a beneficiary has died

In the case of ROCs and AIPs, you may withdraw the funds in cash or in kind.

Is there tax on AIPs?

Yes. These payments are subject to two different taxes, the subscriber's regular income tax and an additional 20 percent tax. There may be rollover options where the subscriber may roll up to \$50,000 of AIPs to his/her own RRSP or a spousal RRSP to the extent RRSP contribution room is available. The additional 20 percent tax does not apply in the event of a rollover.

The subscriber is required to complete CRA Form T1171, Tax Withholding Waiver On Accumulated Income Payments From RESPs, (AIP RRSP rollover) or Form T1172, Additional Tax On Accumulated Income Payments From RESPs, (AIP withdrawal) and submit a copy with the withdrawal form. These forms calculate the amount of tax paid and are filed along with a T4A that records the amount of income withdrawn. You can find these forms on the CRA website at www.cra-arc.gc.ca. When making a withdrawal, it is suggested that you withdrawal EAP amounts (grant and accumulated earnings) first, to limit the negative tax implications of AIPs.

After an AIP has been completed, the plan must be completely collapsed by the last day of February of the following year. If the plan must be collapsed while residual income remains in the plan, and the plan does not qualify for an AIP, then the remaining income is donated to a designated educational institution chosen by the subscriber(s).

For more information on RESPs, please contact your CIBC Wood Gundy Investment Advisor.

Educational Assistance Payment (EAP) Action Plan Checklist

The following checklist will help you plan your EAP withdrawal. Ensure you allow adequate time for processing your request.

Student Conditions To Qualify For EAP

- Full-time enrolment in a qualifying educational program **OR**
- The student must be at least 16 years of age and enrolled part-time in a specified educational program
- Attending a post-secondary educational institution

Forms Required To Make An EAP Withdrawal

- Proof of enrolment in a qualifying educational program:
 - Proof of Enrolment Letter **OR**
 - Proof of Enrolment Form **OR**
 - Invoice from the Office of the Registrar
- Completed RESP withdrawal form from RESP promoter, authorized by the RESP subscriber/beneficiary, as required

EAP Withdrawal Limits (RESPs opened after 1998)

- \$5,000 maximum as soon as student qualifies
- No limit once student enrolled for 13 consecutive weeks and continues to qualify, but funds must be used to assist the student to further his/her post-secondary education
- \$5,000 maximum after 12-month period student is not enrolled for 13 consecutive weeks
- \$2,500 maximum for part-time students for each 13-week semester
- CESG portion in all EAP withdrawals must be equal to or less than \$7,200*

* Other applicable provincial grants may also have limits

Common EAP Payment Options

A cheque may be mailed to one of the following:

- Beneficiary's mailing address
- Address listed on the RESP
- Educational institution's address as indicated on the RESP withdrawal form

Note: Additional options may be available through your financial institution

Required Authorization For An EAP

- All payments require subscriber's authorization (when there are joint subscribers, only one signature is required).
- An EAP paid directly to the subscriber requires authorization from the beneficiary or the beneficiary's legal guardian or representative, if the beneficiary is under the age of majority

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