6 Frequently Asked Questions about RESP’s

You’ve done well, mom and dad! Little Johnny/Jane is headed off to pursue a bright future at an institution of higher learning, and you’ve diligently put money away in an Registered Education Savings Plan (RESP) in order to support them on their journey.

Now it’s time to make sure you use the money as efficiently as possible. In order to help you, the guide below will answer 6 common questions you might have about withdrawing from the RESP

1. Who’s in Control of the RESP Account?

The money (or assets of any kind) in an RESP account is controlled solely by the subscriber. This means that only the person who sets up the RESP is allowed to request payments from the account – not the student. All withdrawals of original contributions can be sent to either the subscriber or beneficiary (student), while grant, bond and accumulated income (see #4 for more details) can only be sent to the beneficiary.

2. Can I use RESPs towards any School?

With today’s job market becoming more and more diversified, a wide variety of educational institutions including vocational schools and specialty colleges are eligible to receive RESP money as payment. A master list of qualifying education institutions is available at the government of Canada website.

3. What do I Need to Provide in Order to Withdraw from the RESP?

In order to withdraw money from their RESP, the subscriber needs the beneficiary (student) to provide proof of enrollment confirming the beneficiary is enrolled as a full-time or part-time student in a post-secondary program or institution. In most cases this means providing one or more documents demonstrating key elements (student name, program name etc.) for enrollment in the current year.

4. Is There a Difference Between the Money I've Contributed and What the Government has Contributed?

The government looks at the money in your RESP as being made up of two different parts:

Contribution amounts

This is your original payments into an RESP. This is money that you have already paid taxes on, and then put into the RESP as a subscriber. When you withdraw these contribution amounts, they are referred to as Post-Secondary Education Payments (PSE).

Grant, Bond and accumulated income

This includes benefits like the Canada Education Savings Grant (CESG), the Canada Learning Bond (CLB), and provincial incentives (Quebec, Saskatchewan, British Columbia) along with any investment income (dividends, capital gains, interest) that were earned inside of the RESP. When money is taken from this portion and put in the hands of the student, it is called an Education Assistance Payment (EAP).

The difference between the two parts of an RESP is that contribution amounts can be withdrawn at any time – tax-free. Essentially that money belongs to the subscriber(s), and taxes have already been paid on it. The grant, bond and accumulated income (interest) has not yet been taxed and will be taxed in the hands of the student who probably has a low/no income therefore will be taxed at a lower rate than the parents.

5. How is the Money in an RESP Taxed?

Because the money inside an RESP is not treated the same when it leaves the plan, it is important to understand the taxable differences when it comes to withdrawing the PSE and EAP portions (see # 4 for PSE and EAP definitions).

- The subscriber has already paid taxes on the PSE. This money can be withdrawn without any taxes owing.
- No taxes are paid on EAP money until it is taken out of the RESP account. When it is withdrawn, the EAP is looked at as taxable income for the student. The good news is that most students don't earn enough income to pay very much income tax (if any at all).There is a $5,000 limit applied to EAP withdrawals in the first 13 weeks of schooling. There is no rule about withdrawing PSE money.

6. What Happens if My Child Doesn’t Go to School Right Away (Or At All)?

The money in an RESP is not forgone if a child doesn’t go to college or university right away, or at all. Here are a few things to consider if your child isn’t ready to attend school as soon as they graduate:

- RESP accounts can be used to fund a beneficiary’s education for up to 35 years after the year the account was created.
- Family RESP accounts allow money to be shifted from one beneficiary to another quite easily.
- You can withdraw your original contribution amounts tax-free at any time.
- Any federal or provincial incentives (grant/bond) in the plan will be returned to the government if an RESP is collapsed; however, any investment income (up to $50,000) that was made within the RESP can be rolled into your RRSP on a tax-deferred basis provided you have the RRSP contribution room.

Source: RBC Royal Bank – online site