Registered Education Savings Plans (RESPs)

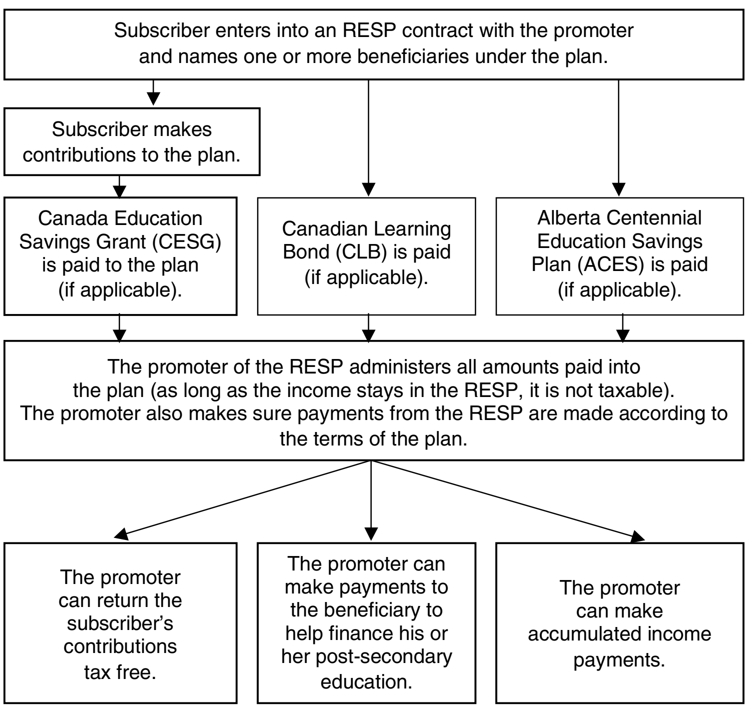
What is an RESP?

An RESP is a contract between an individual (the **subscriber**) and a person or organization (the **promoter**). The subscriber (or a person acting for the subscriber) generally makes contributions to the RESP, which earn income. The subscriber names one or more beneficiaries and agrees to make contributions for them. We register the contract.

The promoter usually pays the contributions to the beneficiaries. Income earned on the contributions is paid to the beneficiaries in the form of educational assistance payments (EAPs). Beneficiaries include the EAPs, but not the contributions, in their income for the year in which they receive them from the RESP.

Subscribers cannot deduct their contributions from their income on their return. If not paid out to the beneficiary, the contributions are usually paid by the promoter to the subscriber at the end of the contract. Subscribers do not usually have to include the contributions in their income when they get them back.

The diagram below gives an overview of how an RESP generally works.



Who can be a subscriber?

Generally, there are no restrictions on who can be the original subscriber under an RESP. You and your spouse or common-law partner, as defined in our guides, can be joint subscribers under an RESP. A public primary caregiver of a beneficiary, under a RESP, who receives a special allowance under the *Children's Special Allowances Act*, may also be an original subscriber. The public primary caregiver is the department, agency or institution that maintains the beneficiary or the public trustee or public curator of the province in which the beneficiary resides.

If you are not the original subscriber, you can only become a subscriber in the following situations:

- you are a spouse or common-law partner, or former spouse or common-law partner, of a subscriber and you get the subscriber's rights under the RESP as a result of a court order or written agreement for dividing property after a breakdown of the relationship;
- you are another individual or another public primary caregiver who has, under a written agreement, acquired a public primary caregiver's rights as a subscriber under the plan;
- the RESP allows you to continue making contributions to the plan after the death of the subscriber. The subscriber's estate can also make contributions to the RESP after the subscriber dies; or
- After the death of a subscriber under the plan, you acquire the subscriber's rights under the plan.

All subscribers under an RESP have to provide their social insurance number (SIN) to the promoter before we can register the plan.

Who can become a beneficiary?

Under proposed changes, you will be able to designate an individual as a beneficiary under the RESP only if:

- the individual's SIN is provided to the promoter before the designation is made; and
- the individual is resident in Canada when the designation is made.

Exception – The residency requirement does not apply when the designation is made in conjunction with a transfer of property from another RESP under which the individual was a beneficiary immediately before the transfer.

Family plans are the only plans that allow the subscriber to name more than one beneficiary. Each beneficiary must be related by blood relationship or adoption to each living subscriber or any deceased original subscriber.

For family plans entered into after 1998, each beneficiary must be less than 21 years of age at the time he or she is named as a beneficiary. When one family plan is transferred to another, a beneficiary who is 21 years of age or older can still be named a beneficiary to the new plan.

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Canada

Canada Learning Bond (CLB)

The Canada Learning Bond will provide an initial $500 to children born on or after January 1, 2004 in families entitled to the National Child Benefit (NCB) supplement for the child, followed by up to 15 annual $100 entitlements for each year the family is entitled to the NCB supplement for the child.

Contributions do not necessarily have to be made to the RESP in order to receive the Canada Learning Bond.

Alberta Centennial Education Savings Plan (ACES)

Alberta children born after December 31, 2004, may be eligible to receive a $500 Alberta grant from the Province of Alberta to be paid to an eligible RESP. Eligible RESP beneficiaries who are resident in Alberta may be eligible to receive later instalments of $100 at ages 8, 11 and 14 to be paid to an eligible RESP. Residents of Alberta can call **310-4455** toll free to learn more about the ACES.

Contributions do not necessarily have to be made to the RESP in order to receive the Alberta Centennial Education Savings Plan.

For more information on a Canadian Education Savings Program, or the Alberta Centennial Education Savings Plan call **1-800-O-CANADA**. **(1-800-622-6232)**.

RESP contributions

Under proposed changes, you will be able to make contributions for a beneficiary only if:

- the individual's SIN is provided to the promoter before the contribution is made and the beneficiary is resident in Canada; or
- the contribution is made by way of a transfer from another RESP under which the individual was a beneficiary immediately before the transfer.

Exception – If the plan was entered into before 1999, the beneficiary's SIN will not be required. However, such contributions will not be eligible for the CESG.

You cannot deduct RESP contributions from your income on your return. In addition, you cannot deduct the interest you paid on money you borrowed to contribute to an RESP.

You can contribute to family plans entered into **after** 1998 only for beneficiaries who are under 21 years of age at the time of the contribution. However, transfers can be made from another family plan even if one or more beneficiary is 21 years of age or older at the time of the transfer.

> **Note**
> The same age restrictions apply to family plans entered into in 1998, except that a contribution can only be made by way of a transfer from another RESP or after such a transfer, if a contribution had already been made for the beneficiary before the transfer.

Canada Education Savings Grant (CESG) – Since 1998, Human Resources and Skills Development Canada pays a 20% Canada Education Savings Grant on the first $2,000 of annual contributions made to all eligible RESPs for a qualifying beneficiary.

Starting in January 2005, the CESG rate increased on the first $500 contributed to an RESP for a beneficiary who is a child under 18 years of age. The CESG rate has increased to:

- 40% if the child's family has qualifying net income for the year of $35,595 or less;
- 30% if the child's family has qualifying net income for the year in excess of $35,595 but not exceeding $71,190.

The qualifying net income of the child's family for a year will generally be the same as the one used to determine eligibility for the Canada Child Tax Benefit.

All other RESP contributions eligible for the CESG will continue to qualify at the rate of 20%.

Beneficiaries qualify for a grant on the contributions made on their behalf before the end of the calendar year in which they turn 17 years of age. However, special conditions must be met by the end of the calendar year in which the beneficiary turns 15. All CESGs are paid to the trustee of the RESP. The grants and accumulated earnings will be part of the educational assistance payments paid out of the plan to the beneficiary. The maximum CESG amount that a beneficiary can receive is $7,200.

RESP contribution limits

There is an annual limit and a lifetime limit on the amounts that can be contributed to RESPs. For each beneficiary, the annual limit for contributions to all RESPs is $4,000 and the lifetime limit is $42,000.

We do not include payments made to an RESP under the Canada Education Savings Program or the Alberta Centennial Education Savings Plan when determining if the annual or lifetime limits have been exceeded.

Tax on overcontributions

An overcontribution occurs at the end of a month when the total of all contributions made by all subscribers to all RESPs for a beneficiary is more than the annual or lifetime limit for that beneficiary. We do not include payments made to an RESP under the Canada Education Savings Program or the Alberta Centennial Education Savings Plan when determining whether a beneficiary has an overcontribution.

Each subscriber for that beneficiary is liable to pay a 1%-per-month tax on his or her share of the overcontribution that is not withdrawn at the end of the month. The tax is payable within 90 days of the end of the year in which there is an overcontribution. An overcontribution exists until it is withdrawn.

You have to inform us of your share of the overcontributions to all RESPs for a beneficiary. To calculate the amount of tax you have to pay on your share of the overcontributions for a year, complete Form T1E-OVP, *Individual Tax Return for RESP Overcontributions for 1996 and Future Years*. For 1995 and earlier years, use Form T1E-OVP (93), *Individual Income Tax Return for Registered Education Savings Plans Over-Payments*. You can get these forms by visiting our Web site at **www.cra.gc.ca** or by calling us at **1-800-959-2221**.

You can reduce the amount subject to tax by withdrawing the overcontributions. However, in determining whether the lifetime limit has been exceeded, we include these amounts as contributions for the beneficiary even if they have been withdrawn.

Example
In January 2005, Hugh established an RESP for his son Allan and contributed $1,500. At the same time, Allan's grandmother, Cathy, established another RESP for him and she contributed $1,000. In July, Hugh contributed $1,500 to Allan's RESP and Cathy contributed $1,000. In December, Hugh withdrew $500 to reduce his share of the overcontributions.

Hugh's share of the overcontributions for 2005		
Hugh's contributions to an RESP for Allan		$ 3,000
Cathy's contributions to an RESP for Allan	+	2,000
Total contributions to an RESP for Allan	=	$ 5,000
Maximum allowable for 2005....................................	–	4,000
Overcontributions...	=	$ 1,000
Hugh's share of the overcontributions ($3,000 ÷ $5,000) × $1,000......................................		$ 600

Hugh's tax payable for 2005

Tax is calculated for the months the overcontributions stay in the RESP.

For July to November: $600 × 1% × 5 months		$ 30
For December: ($600 – $500) = $100 × 1%	+	1
Hugh's tax payable on the overcontributions (the tax has to be paid by March 31, 2006)	=	$ 31

The overcontribution amount is shared by each contributor based on his or her percentage of contributions to the RESP less any amounts withdrawn. Cathy calculates her share of the overcontributions and tax payable in the same way as Hugh, based on her total of $2,000 in contributions.

Unless Hugh and Cathy withdraw all of their overcontributions, they will continue to have to pay the 1%-per-month tax on their respective part of the overcontribution that stays in the plan. In future years, when determining whether Allan's lifetime contribution limit has been exceeded, Hugh and Cathy have to include the withdrawals as part of the total contributions they made for Allan.

Special rules

Changing the beneficiary – Generally, when you replace one RESP beneficiary with a new beneficiary, we treat the contributions for the former beneficiary as if they had been made for the new beneficiary on the date they were made originally. If the new beneficiary already has an RESP, this may create an overcontribution.

This rule **does not** apply in the following situations:

- The new beneficiary is a brother or sister of the former beneficiary and is under 21 years of age.
- Both beneficiaries are connected by blood relationship or adoption to an original subscriber of the RESP, and both are under 21 years of age.

In these situations, we do not include the contributions made for the former beneficiary when we determine whether the new beneficiary's annual or lifetime contribution limit has been exceeded.

Transferring RESP property to another RESP – Most transfers from one RESP to another RESP will have no tax implications. This is the case when the transferring RESP and the receiving RESP have the same beneficiary. There are also no tax implications when a beneficiary under the transferring RESP has a brother or sister (under 21 years of age before the transfer is made) who is a beneficiary under the receiving RESP.

In any other case, transfers can result in an overcontribution. This is because the RESP contribution history for each beneficiary under the transferring RESP is assumed by each beneficiary under the receiving RESP. We treat each contribution as if it had been made into the receiving RESP. In addition, we treat each subscriber under the transferring RESP as a subscriber under the receiving RESP. This means that he or she is liable for any tax on overcontributions.

Payments from an RESP

The promoter can make four different types of payments:

- payment to a designated educational institution in Canada (for more information, refer to Information Circular 93-3, *Registered Education Savings Plans*);
- payment of contributions to the subscriber or beneficiary;
- educational assistance payments; and
- accumulated income payments.

Payment of contributions to the subscriber or the beneficiary

Subject to the terms and conditions of the RESP, the promoter can return your contributions to you when the contract ends or at any time before. Promoters do not issue T4A, *Statement of pension, Retirement, Annuity and Other Income* slips to report these payments. Do not include these payments as income on your return.

The promoter can also pay the contributions to the beneficiary with no tax implications. This is in addition to any educational assistance payments, as described in the next section.

Educational assistance payments (EAPs)

An EAP is the amount paid to a beneficiary (a student) from an RESP, or under a Canada Education Savings Program or any provincial program, to help finance the cost of post-secondary education. The promoter reports EAPs in box 42 on a T4A slip and sends a copy to the student. The student includes the EAPs as income on his or her return for the year the student receives them.

The promoter can pay EAPs if **one** of the following situations applies:

- The student is enrolled as a full-time or part-time student in a qualifying educational program at a post-secondary educational institution (this includes students attending an institution and those enrolled in distance education courses, such as correspondence courses).
- The student cannot reasonably be expected to be enrolled as a full-time student because of a mental or physical impairment, as certified in writing by a medical doctor, an optometrist, a speech-language pathologist, an audiologist, an occupational therapist, or a psychologist.

A **qualifying educational program** is an educational program that lasts at least three consecutive weeks, and that requires a student to spend no less than 10 hours per week on courses or work in the program. For an EAP to be paid to a student in a program at a university, college, or other designated educational institution in Canada, the program has to be at the post-secondary school level. The program will **not** qualify if it is taken at a time during which the student is receiving employment income (excluding part-time or temporary employment to finance studies) and the program is taken in connection with, or as part of the student's employment.

A **post-secondary educational institution** includes:

- a university, college, or other designated educational institution in Canada;
- an educational institution in Canada certified by Human Resources and Skills Development Canada as offering non-credit courses that develop or improve skills in an occupation; and
- a university, college, or other educational institution outside Canada that has courses at the post-secondary school level, as long as the student is enrolled in a course that lasts at least 13 consecutive weeks.

Limit on EAPs – For RESPs entered into after 1998, the maximum amount of EAPs that can be made to a student as soon as he or she qualifies to receive them, is $5,000. After the student has completed 13 consecutive weeks in the qualifying educational program, there is no limit on the amount of EAPs that can be paid if the student continues to qualify to receive them. 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.

Human Resources and Skills Development Canada may, on a case-by-case basis, approve an EAP amount of more than the above limit if the cost of tuition **plus** related expenses for a particular program is substantially higher than the average. For information on how to request approval of an EAP of more than $5,000, promoters should call **1-888-276-3624**.

Accumulated income payments (AIPs)

An AIP is an amount, usually paid to the subscriber, of the income earned from an RESP. It does not include the payment of educational assistance payments, payments to a designated educational institution in Canada, transfers to another RESP, or repayments under a Canada Education Savings Program or any provincial program. AIPs cannot be made as a single joint payment to separate subscribers.

An RESP may allow for AIPs when the following conditions are met:

- the payment is made to, or for, a subscriber under the plan who is resident in Canada;
- the payment is made to, or for, only one subscriber of the RESP; and

Any one of the following three conditions must also apply:

- the plan has existed for 10 years and each individual (other than a deceased individual) who is or was a beneficiary has reached 21 years of age and is not currently eligible to receive an educational assistance payment; (see Note 1)
- the plan has existed for 26 years, unless the plan is a specified plan (in general a non-family plan where the beneficiary is entitled to the disability tax credit for the beneficiary's tax year ending in the 22nd year of existence of the plan) in which case the plan has existed for 31 years; (see Note 1)
- all the beneficiaries under the plan are deceased

Note 1
We may waive these two conditions if it is reasonable to expect that a beneficiary under the plan will not be able to pursue post-secondary education because he or she suffers from a severe and prolonged mental impairment. Such requests have to be made by the RESP promoter in writing to the following address:

Registered Plans Directorate
Canada Revenue Agency
Ottawa, ON K1A 0L5

An RESP must be terminated by the end of February of the year after the year in which the first AIP is paid.

How AIPs are taxed

Promoters report AIPs in box 40 of T4A, *Statement of pension, Retirement, Annuity and Other Income* slips and send a copy to the recipient of the AIP. You have to include the AIP as income on your return for the year you receive it. An AIP is subject to two different taxes: the regular income tax and an additional 20% tax (12% for residents of Quebec).

Regular tax – This is the tax you calculate when you complete your return. It is based on your total taxable income.

Additional tax – You calculate this tax separately, using Form T1172, *Additional Tax on Accumulated Income Payments From RESPs*. Include a completed copy of Form T1172 with your return for the year you receive the AIP. You have to pay the additional tax by the balance due date for your regular tax, usually April 30 of the year that follows the year in which you received the AIP.

Reducing the amount of AIPs subject to tax – You can reduce the amount of AIPs subject to tax if you are the original subscriber or the spouse or common-law partner of a deceased original subscriber (if there is no other subscriber) and you meet **both** of the following conditions:

- You contribute an amount not more than the amount of the AIPs (to a lifetime maximum of $50,000 worth of AIPs) to your registered retirement savings plan (RRSP), or to your spousal or common-law partner RRSP, in the year the AIPs are received or in the first 60 days of the following year.
- Your RRSP deduction limit allows you to deduct the amount contributed to your or your spousal or common-law partner RRSP on line 208 of your return. (Claim the deduction for the year in which any payments are made.)

You cannot reduce the AIPs subject to tax if you became a subscriber because of the death of the original subscriber.

By claiming an RRSP deduction, you reduce your taxable income, which reduces your regular tax. The RRSP deduction also reduces the amount of additional tax payable by reducing the amount of AIPs subject to tax (see Form T1172). If the amount of the RRSP deduction equals the amount of the AIPs, the taxes on the AIPs are zero.

Promoters usually have to withhold regular and additional taxes on AIPs. However, they do not have to withhold tax if **both** of the following apply:

- The AIPs are transferred directly to your or your spouse's or common-law partner's RRSP.
- Your RRSP deduction limit allows you to deduct the contribution in the year it is made.

Complete Form T1171, *Tax Withholding Waiver on Accumulated Income Payments From RESPs*, to ask the promoter to transfer the payment directly to your or your spouse's or common-law partner's RRSP without withholding tax.

Example
The RESP under which Mary is an original subscriber allows AIPs. In July 2005, Mary received an AIP of $16,000. She completed Form T1171 to have $14,000 transferred directly by the promoter to her RRSP. Mary's RRSP deduction limit for 2005 is $14,000. She did not make any other RRSP contributions during the year. She was a resident of Manitoba on December 31.

Mary completes Form T1172 to determine the amount of additional tax she has to pay for 2005 as follows:

AIP for 2005		$ 16,000
Amount Mary deducts for 2005 for RRSP contributions from an AIP (this amount cannot be more than $50,000 for all years)	–	14,000
Amount subject to the additional tax	=	$ 2,000
Rate	×	20%
Additional tax payable	=	$ **400**

Mary reports the AIP of $16,000 on line 130 and the additional tax on line 418 of her 2005 return. She also claims the RRSP deduction of $14,000 on line 208 and attaches a copy of Form T1172 to her return.

Note
If Mary had received the amount in January 2005 and transferred it to an RRSP, provided her RRSP deduction limit was sufficient, she could have decided to claim all or part of the deduction for the 2004 tax year. This would have been possible because the amount would have been transferred in the first 60 days of 2005. However, had she done so, she would not have been allowed to reduce the additional tax because the amount transferred to her RRSP has to be deducted on the tax return for the year in which the amount is received. That is, on her 2005 tax return, Mary would determine the additional tax payable based on the full $16,000 of the AIP. The additional tax is $3,200 ($16,000 × 20%).