

Budget 1998




*Building Canada
for the 21st Century*

The Canadian Opportunities Strategy

The Canada Education
Savings Grant

February 1998

Canada



“We believe government has a role to play investing alongside those who seek to save for their children’s education.”

*Finance Minister Paul Martin
1998 budget speech*

The best way to help ensure your children’s future is to save for their education today. As part of its *Canadian Opportunities Strategy*, the government is introducing the *Canada Education Savings Grant* to make registered education savings plans (RESPs) even more attractive.

What are RESPs?

They are education savings plans which grow tax free until your child is ready for post-secondary education. Virtually all full-time post-secondary education is eligible for assistance through RESPs. When the student begins to use the RESP for education, the investment income becomes taxable. However, because the student typically has little other income, he or she effectively pays little or no tax on RESP income.

The previous two budgets included measures to make RESPs more attractive by raising the annual contribution limit from \$1,500 to \$4,000 per child and the lifetime limit from \$31,500 to \$42,000. RESPs were also made more flexible by allowing contributors to transfer RESP income into their registered retirement savings plans (RRSPs) if the child does not pursue higher education and no new beneficiary is named.



The Canada Education Savings Grant: A New Reason to Save

Effective January 1, 1998, the government will provide a *Canada Education Savings Grant* that gives parents and others even greater incentive to save through RESPs. The grant will be 20 per cent on the first \$2,000 in annual contributions for children up to age 18. The maximum annual grant will be \$400 per child.


The *Canada Education Savings Grant* will be provided directly to the RESP firm chosen by the contributor, to be invested in the contributor's plan. The grant itself is not counted in calculating the annual and lifetime RESP contribution limits.

With the introduction of the *Canada Education Savings Grant*, RESPs will now be among the most attractive savings vehicles available for your child's education. The government believes RESPs will soon come to be considered as essential for future planning as RRSPs are now. With the new *Canada Education Savings Grant*, RESPs represent one of the best things that parents can do for their children, that uncles and aunts can do for their nephews and nieces, and that grandparents can do for their grandchildren.

How does the new grant work?

If a family contributes \$25 to an RESP every two weeks for their child's education – a total of \$650 a year – their RESP receives a grant of \$130 (20 per cent of their total contributions).

If the family contributes this amount every year over 15 years (assuming a 5-per-cent rate of return on their investment), their child would



have about \$4,700 for each of four years of higher education. Of that amount, almost \$800 a year would be the direct result of the *Canada Education Savings Grant*.

In the same example, if a family saves outside an RESP – assuming the interest is taxable – their child would have only \$3,300 for each of four years of higher education.

Saving for your child's education through RESPs means benefiting from the *Canada Education Savings Grant* and the tax-free growth of investment income, as well as the fact that little or no tax is paid when the RESP income is used by the student.


Who can contribute to RESPs?

Parents, grandparents, aunts and uncles, other family members and anyone else who wants to contribute to a child's education can participate, subject to the annual and lifetime limits.

What happens if I can't take advantage of the full Canada Education Savings Grant in a given year?

Grant contribution room can be carried forward to future years. For example, if parents contribute \$650 in a given year, they can carry forward \$1,350 in grant contribution room to the next year. They could then receive the *Canada Education Savings Grant* based on 20 per cent of \$3,350 in contributions (or \$670 per child).

Grant contribution room can be used up to an annual contribution of \$4,000.



When should I start saving for my children's education?


The effects of compound interest make it much more advantageous to start saving for your child's education when he or she is very young.

For example, if you contribute \$25 to an RESP every two weeks (for a total of \$650 a year) from the time your child is age 3 until age 17 (for a total of 15 years), the investment income (assuming a 5-per-cent rate of return) will be \$7,090. The total value of the education saving fund, which includes the *Canada Education Savings Grants*, will be \$18,790. If you contribute the same amount over half that time period – say, from the time your child is around age 10 to age 17 – the total RESP will only be \$15,240 or about \$3,500 less.

It is important to remember that the *Canada Education Savings Grant* is paid on contributions for children up to age 18. In addition, contributions to RESPs for a child age 16 and 17 will receive a *Canada Education Savings Grant* only if there have already been minimum contributions in respect of that child in previous years.

What happens if my child doesn't pursue higher education?

Most RESPs give you the option of designating another child if you wish. If no other child is named, the *Canada Education Savings Grant* will be returned to the government. You are allowed to transfer RESP income into RRSPs, provided you have the contribution room. You can also receive the investment income directly, subject to a charge of 20 per cent in addition to regular tax. In all cases, the principal is returned to you tax free.



Are contributions to an RESP tax deductible like they are for RRSPs?

No. But the money invested in RESPs earns interest tax free. In addition, when the money is withdrawn for education, tax applies only to the accumulated interest, not the principal contributions. In contrast, the principal in an RRSP is fully taxable when withdrawn.

What types of plans are available?

There is a range of plans with many different features. Plans can be set up for one child or for several children in a family. There are also group plans in which investment income is pooled and shared equally among a number of children. Plans also differ in the range of investments they offer, as well as other features.

Where can I open an RESP or get more information?

A number of firms offer RESPs, including non-profit foundations and other companies that specialize in education savings plans, trust companies, mutual fund companies and other financial institutions.

Is there a deadline for contributions to RESPs?

No. You can set up an RESP and make contributions any time of the year, subject to the annual and lifetime limits.



The Canadian Opportunities Strategy

The *Canadian Opportunities Strategy* contains important measures to enhance affordable access to knowledge and skills.

■ **Canada Millennium Scholarships** will increase access to post-secondary education for over 100,000 students of all ages each year, and will be available for both full- and part-time studies.

■ **Canada Study Grants** of up to \$3,000 a year will help over 25,000 needy students with children or other dependants.

■ For the first time, all students will get tax relief for interest payments on their student loans.


■ Improvements to the **Canada Student Loans Program** will help those facing financial difficulties in repaying their debt.

■ Funding will be increased to the three **granting councils** to support advanced research and graduate students.

■ Tax-free withdrawals from **RRSPs** for lifelong learning will help Canadians upgrade their skills or learn new ones through their working lives.

■ The **education credit** and **child care expense deduction** will be extended to part-time students.

■ A new **Canada Education Savings Grant** will be provided to families who save for their children's education through **registered education savings plans**.



■ To support **youth employment**, funding will be more than doubled for youth at risk who lack basic education and job skills, and employers will be given an employment insurance premium holiday for additional young Canadians hired in 1999 and 2000.

■ Access to the **information highway** will be expanded to more schools and communities.

How can I get more information?

For further information, call 1-888-781-0000 (TDD: 1-800-465-7735) between 8 a.m. and 10 p.m. eastern time Monday to Friday.

Information is also available on the Internet at:
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