

**An RESP is a government registered savings plan intended for families to set aside savings for their children's post secondary education. Contributions are allowed to grow tax-free and will also be eligible for a 20% grant from the federal government. Any Canadian adult who has a Canadian Social Insurance Number will be able to start up an RESP; the child/student registered must also have a Canadian SIN.**

### ***RESP Contributions***

Changes made in 2007 have eliminated the annual maximum contribution of \$4,000 and replaced it with a lifetime limit of \$50,000 per beneficiary.

Remember, the maximum applies to each beneficiary and not to each subscriber. So, for example, if a parent and a grandparent each wanted to set up an RESP for their child or grandchild, the total combined amount that can be contributed by both subscribers is still \$50,000.

Contributions to an RESP are not tax-deductible, which is why contributions can be withdrawn tax-free from the plan at any time. The income or growth in the plan, however, remains tax-sheltered for the life of the plan until it is paid out in the form of educational assistance payments to qualifying beneficiaries, or as accumulated income payments to the subscriber.

### ***Canada Education Savings Grant***

In order to promote saving for a child's education and to give a boost to RESPs, the government introduced the Canada Education Savings Grant, or CESG. On the first \$500 contributed to the child's RESP, the CESG will contribute:

- Up to \$200 if annual family net income is \$40,970 or less
- Up to \$150 if annual family net income is between \$40,970 & \$81,941
- Up to \$100 if annual family net income is more than \$81,941

The CESG will match up to \$400 on the next \$2,000 contributed to the RESP, for a total annual CESG maximum of \$500-\$600 depending on family income. The total lifetime maximum CESG available per child is \$7,200.

If you opened up an RESP in 1998 or later, and haven't collected any CESG grant money yet, you are eligible to receive \$400 for each year you missed up until 2006, and \$500 per year for grants missed after 2007.

Unused CESG eligibility is automatically carried forward from year to year, however, you can only catch up on one year of missed contributions at a time. This means in a given year, the maximum CESG grant received is \$1,000 (\$500 for the current year, and \$500 for any previous years missed).

CESGs are available up to and including the year in which a beneficiary turns 17.

## ***Frequently Asked Questions***

***Q: What if the beneficiary decides not to pursue a post-secondary education? Will I lose my Money?***

A: Even if your child decides not to pursue a post-secondary education, you will always be entitled to receive your principal back. The growth in your savings can also be transferred to another child, or taken out as cash (but subject to taxes) or can be rolled over to your RRSP.

***Q: Can my child use the RESP funding to attend universities outside of Canada?***

A: Yes, your child is allowed to attend any recognized post-secondary institutions in Canada as well as anywhere in the world.

***Q: My child is only 6 months old, should we start up a plan for him now?***

A: Yes, as soon as you start a plan for your child the growth in your savings and the Government Grant will also start multiplying to your benefit. Our calculations show if you put away \$100 per month for a newborn baby, your education fund can grow to be around \$58,000. If you wait until your child is 6 years old, your \$100 per month contribution will only grow to \$29,500. Almost 50% less!

***Q: Who qualifies as a beneficiary?***

A: This depends on the type of RESP. Qualifications for an RESP set up as an “individual” plan differ from those for a “family” plan. In an individual plan, the beneficiary can be anyone at all, whether related to the subscriber or not.

In a family plan (i.e., an RESP that permits more than one beneficiary), each beneficiary must be connected to the subscriber by blood relationship or adoption. For this purpose, blood relationship includes children, brothers, sisters, grandchildren and great grandchildren. It does not include the subscriber or the subscriber’s spouse, nieces or nephews. In family plans, contributions can only be made for beneficiaries under age 21.

Under both the individual and family plans, a subscriber can change the beneficiary at any time, although certain restrictions may apply.

## ***Conclusion***

RESPs are a tax-effective way to save for a child’s post-secondary education. The introduction of the CESG grant program makes these plans even more attractive as savings and investment vehicles.