

Registered Education Savings Plan (RESP)

What you need to know

An RESP is government-assisted investment vehicle that helps families to save for a child's education. A key incentive of the plan is the federal government's Canada Education Savings Grant (CESG) which is equal to 20% of the annual amount contributed, up to a maximum of \$500 per year (\$1,000 in CESG if there is unused grant room from a previous year) for each child under the age of 18. To get the maximum CESG for a child, \$2,500 would have to be contributed to the RESP each year, though the lifetime maximum CESG amount is capped at \$7,200 per child. There can be additional CESG amounts where child's family net income is less than \$98,040.

Although there is no limit on how much can be contributed to an RESP in one year, there is a lifetime limit of \$50,000 per child. Also the maximum amount of CESG the government will pay in a single year is \$1,000.

Funds within an RESP grow and compound on a tax-free basis until withdrawn, normally when the child is enrolled in a full-time post-secondary program. Withdrawals will be a combination of tax-free and taxable income for the student (see sidebar).

An RESP can be a valuable tool to help mitigate rising post-secondary costs. A recent report by TD Economics estimated that a child born in 2011 can expect to pay \$139,380 for their post-secondary education if they live away from home.

About RESP Withdrawals

Funds withdrawn from an RESP will typically be a combination of both taxable and non-taxable income. Your contributions are received tax-free, while the taxable portion of the withdrawal is included in the student's tax return for that calendar year.

Taxable withdrawals have two components:

1. Educational Assistance Payments (EAPs).
These are essentially the government grants.
2. Accumulated Income Payments (AIPs).
This is the investment income earned in the plan.

You can withdraw any amount of the contributions at any time. However, the maximum EAP amount for a full-time student is limited to \$8,000 during the first 13 consecutive weeks of enrollment (up from \$5,000 as per the 2023 federal budget announcement). After that, you can withdraw any amount that is needed to fund your education at that point in time.

"A Child going to university in 18 years time will face a total outlay for a 4-year degree of \$102,286 for students living at home and \$139,380 for students living away."

"Post-Secondary Education is the Best Investment You Can Make."

Questions?

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