Randall J. Ladell, MBA
Chartered Accountant
Licensed Public Accountant

1210 Sheppard Avenue East, Suite 405
Toronto, Ontario, M2K 1E3
Email: randall@rjladell.ca
Website: www.rjladell.ca

Business: (647) 436-8782
Mobile: (647) 280-4248
Fax: (647) 436-8742

Registered Education Savings Plan (RESP) Basics

This seminar is presented as a source of general information only and has been prepared based on information from various sources. Every effort has been made to ensure the accuracy of the information but this seminar is not intended as a substitute for competent professional advice tailored to the individual's particular circumstance.

This seminar is excerpted from a seminar on Investment and retirement basics. Part 1 can be found under Investment Basics and Part 2 of the original seminar can be found under Retirement Basics

UPDATE – Canada Learning Bond

The Canada Learning Bond program can provide a tax free grant of $500 per annum to a maximum of $2,000 toward your child's education.

To be eligible:

1. **Your child must be born after December 31, 2003; and**
2. **You must receive the National Child Tax Benefit Supplement as part of your Canada Child Tax Benefit. (The supplement is granted to low income families, i.e., families whose net income is less than approximately $36,000 per annum. The threshold level is updated for inflation each year.)**

In order to receive the benefit you must open an RESP account for the child but you do not need to have made any contributions to the account, i.e., if you cannot afford to contribute to an RESP for your child you still may be eligible for the grant.

For more information contact your bank or other financial institution or a financial adviser.

Registered Education Savings Plans (RESP)

<u>A Registered Education Savings Plan</u> – is a formal government subsidized plan that is designed to help taxpayers build an education fund to finance a child's education by:

▪ Allowing a taxpayer to contribute up to $4,000 per year (standard if no catch up $2,000 per year) to a maximum of $42,000 for each child to a savings account dedicated to the child's education

▪ Providing Canada Education Savings Grants of 20% of the amount contributed up to $800 ($400.00 standard – see above) – lifetime maximum $7,200

▪Allowing income to be accumulated in the plan tax free until the funds are withdrawn for the child's education

▪ Allowing the income & CESG grant are taxed in the child's hands if the withdrawal is for a qualifying post secondary education program.

<u>If the child does not go to school income withdrawals are taxed as the contributor's income and the grants must be repaid</u>

RESP
Types of plans

<u>Scholarship funds</u> **GROUP PLAN**

▪ Contributor buys units and commits to fixed payment plan

▪ Funds held in trust

▪ Invested in bonds or other interest bearing security (By law)

▪ All income is pooled and split among the participants

▪ If a child does not take a post secondary education:
- **➢the income is forfeited to the pool**
- **➢the contributor does get his or her contributions back.**
- **➢CESG must be repaid**

<u>Educational trust</u> **– INDIVIDUAL PLAN**

▪ Same as Scholarship funds

▪ <u>The income earned is not forfeited</u> if the child does not pursue a post secondary education.

RESP
Types of plans

Self-directed trust – INDIVIDUAL or FAMILY PLAN

- Very similar to an RRSP – any FP or fund company can create
- Individual makes all investment decisions
- Contributor has full right to all income regardless (CESG still repaid)

Personal preference - Self-directed trust

- Trusts limited to bonds and similar – Self directed allowed to invest in virtually same types of investments as RRSP.
- Not "Not for profit" – High set up fees and pay management fee
- Flexibility – you choose when to make contributions
- Easier to change beneficiaries
- Can set up family plans

RESP
Miscellaneous

- If child does not pursue education:
  - Repay CESG
  - Penalty tax 20% on Accumulated Income Payments – Income to contributor
  - Contributor may transfer up to $50,000 in income to RRSP – IF YOU HAVE THE CONTRIBUTION ROOM
- Plan can be set up by anyone – parent, grandparent or even friend
- General limit for contributions is 21 years or $42,000 but a family plan may go longer
- CESG only until child is 18
- Income may be sheltered for maximum of 25 years – may be longer in family plan
- Education trusts may return all or part of the "set-up" fee if certain conditions met. (Education trusts & scholarship plans have higher set up fees but may have lower year to year management fees)