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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



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Lifelong Learning Plan

A way to withdraw from your RRSP for post-secondary education or training

The Lifelong Learning Plan (LLP) allows you to borrow up to \$10,000 in a calendar year (to a total of \$20,000) from your Registered Retirement Savings Plan (RRSP) to fund post-secondary education or training for you or your spouse. The withdrawal will not trigger immediate tax consequences and you will generally have up to 10 years to repay the withdrawn amount to your RRSP.

This article provides some of the basic rules and conditions of which you should be aware if you are interested in participating in the LLP. Any reference to a spouse in this article also includes a common-law partner.

Participating in the LLP

All of the following conditions must be met in order to participate in the LLP (the “LLP Conditions”):

- You must have an RRSP. (You cannot make an LLP withdrawal from or repayment to a RRIF or locked-in plan.)
- You must be a resident of Canada.
- You or your spouse (the “LLP Student”) is enrolled, or has received an offer to enroll, on a full-time basis in a qualifying educational program at a designated educational institution before March of the year following the year you withdrew funds from your RRSP under the LLP. (Enrolment on a part-time basis

may be possible. This is discussed later on in the article). You cannot participate in the LLP if the LLP Student has already completed the program and is no longer enrolled at the time of withdrawal.

- If you made an LLP withdrawal in a previous tax year, your repayment period for the LLP program has not begun.

What is a qualifying educational program?

A qualifying educational program is an educational program offered at a designated educational institution. The program must be:

- Of a technical or vocational nature designed to provide a person with skills for, or improve

a person's skills in, an occupation, if the program is at an educational institution certified by Employment and Social Development Canada (ESDC); or

- At a post-secondary school level.

In addition, the program must:

- Last three consecutive months or more; and
- Require a student to spend 10 hours or more per week on courses or work in the program. Courses or work includes lectures, practical training, laboratory work, and research time spent on a post-graduate thesis. It does not include study time.

What is a designated educational institution?

A designated educational institution includes:

- A Canadian university, college or other educational institution;
- A Canadian educational institution that has been certified by Employment and Social Development Canada which provides courses that develop or improve skills in an occupation, other than courses designed for university credit;
- A university outside Canada where the student is enrolled in a course that lasts at least three consecutive weeks and leads to a degree at the bachelor level or higher; and
- A university, college or other educational institution in the United States that gives courses at the post-secondary level if the student is living in Canada throughout the year and commutes to that institution.

Enrolment on a part-time basis

You may still be able to participate in the LLP if the LLP Student is enrolled or has received an offer to enrol on a part-time basis if the

other conditions are met and the LLP Student meets one of the following disability conditions:

- The LLP Student cannot reasonably be expected to be enrolled as a full-time student because of a mental or physical impairment. The LLP Student needs to submit a signed letter from a doctor, optometrist, speech-language pathologist, audiologist, occupational therapist, physiotherapist or a psychologist stating this;
- The LLP Student is entitled to claim the disability amount on their tax return for the year of the LLP withdrawal; or
- The LLP Student or someone else claimed the disability amount for the student on their previous year's

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tax return and the student still meets the eligibility requirements for the disability amount.

Making a withdrawal under the LLP

Under the LLP, you may withdraw up to \$10,000 in a calendar year from your RRSP without triggering immediate tax consequences. This is your annual LLP limit. The amount you withdraw is not limited to the amount of tuition or other education expenses. As long as you meet all the LLP Conditions, you can use the funds you withdraw for any purpose. You can withdraw a maximum of \$20,000 from your RRSP each time you participate in the LLP. This is your total LLP limit.

If you withdraw more than the annual LLP limit of \$10,000, you'll have to include the excess in your income for the year you made the withdrawal. The excess amount, however, won't reduce your total LLP limit of \$20,000. If you withdraw more than the total LLP limit, similarly, you will have to include the excess in your income for the year you made the withdrawal.

When can I make an LLP withdrawal?

If you meet the LLP Conditions, you can continue to withdraw amounts from your RRSP (up to the annual and total limits) until January of the fourth calendar year after the year you made your first LLP withdrawal, provided you continue to meet the LLP conditions and the repayment period has not begun.

How do I make a withdrawal?

LLP withdrawals are made by using Canada Revenue Agency (CRA) Form RC96, Lifelong Learning Plan (LLP) – Request to Withdraw Funds from an RRSP. The financial institution administering the RRSP should not withhold tax from your withdrawal if you meet the LLP Conditions and the amount withdrawn is under the \$10,000 annual limit.

After making a LLP withdrawal, you must file an annual income tax return until you have repaid the full amount or included the amount in your income for tax purposes.

Repayment under the LLP

You have up to 10 years to repay the amount you withdrew under the LLP to your RRSP from the start of your repayment period. Typically, you would have to repay 1/10 of the total amount you withdrew per year until you have

repaid the full amount. You do not have to pay any interest on the amount you withdrew.

The start of your repayment period depends on whether the LLP Student is considered to be a qualifying student for at least three months during the year. If the LLP Student does not meet this condition two years in a row, your repayment period will begin in the second of those two years. If the LLP Student continues to meet this condition for four consecutive years, then the repayment period will start in the fifth year after you make your first LLP withdrawal.

It is possible that an LLP Student may not be a qualifying student for at least three months in a calendar year. This may occur if the LLP Student starts the program near the end of the year and it is a short program. In such a case, your first repayment year is the second year after the year of your LLP withdrawal.

Process for LLP repayments

You make repayments to the LLP by contributing to your RRSP in the repayment year or in the first 60 days of the following year. You can make the repayments to any of your RRSPs or you can open a new RRSP. Note that if you make a contribution to your spouse's RRSP, or your spouse makes a contribution to your RRSP, you cannot designate that contribution as a repayment under the LLP. Your financial institution will issue you an RRSP contribution receipt for the amount of your contribution. The contribution receipt will not indicate whether any or all of the amount contributed is a repayment of an LLP withdrawal.

When you file your annual tax return, you can designate some or all of your RRSP contribution as a repayment under the LLP. The amount that you designate as an LLP repayment cannot be deducted on your income tax return, nor does it affect your RRSP deduction limit. You can still make an LLP repayment even if your RRSP deduction limit for the year is zero.

For every year you have LLP amounts outstanding, the CRA will send you an LLP Statement of Account with your Notice of Assessment confirming the amount you must repay in the following year. The Statement of Account will also detail your total LLP withdrawals, the amount you have already repaid (including the amounts you included in your income if you did not make a payment) and your outstanding LLP balance.

Repaying more or less than your annual repayment

If you repay more than the annual required repayment to your RRSP for a year, your LLP balance will be reduced and consequently your repayment amounts in future years will also be reduced. To calculate the amount

If you have an LLP balance outstanding when you die, your legal representative will have to include this balance in your income on your final tax return.

you have to repay in future years, divide your revised outstanding LLP balance by the number of years left in your repayment period.

Any payments you make before your first repayment year are treated differently. These payments just reduce your first required repayment. For example, assume your first repayment year is 2019 and \$1,500 is your required repayment. If you make an early repayment of \$500 in 2018, your required repayment for 2019 will be \$1,000.

If you fail to make the annual required payment or if the amount you repay and designate on your tax return as an LLP payment is less than the required payment, you will have to include any unpaid amount in your income for that year. The amount of the repayment shortfall is treated as a partial deregistration of the RRSP and it can never be repaid or contributed to your RRSP. Your LLP balance will be reduced by the amount of your repayment plus the amount that is included in your income.

Early repayment situations

In some situations, you may be required to make earlier LLP repayments.

If you die

If you have an LLP balance outstanding when you die, your legal representative will have to include this balance in your income on your final tax return. If you made any contributions to your RRSP in the year you die, your legal representative can designate these payments as LLP repayments. This will reduce or eliminate the LLP balance included in your income for that year.

If you have a surviving spouse who is a resident of Canada, your spouse and your legal representative may jointly elect to continue making LLP repayments to your spouse's RRSP for the remaining repayment period, as if your spouse had made the original LLP withdrawal. Your surviving spouse effectively assumes responsibility for the remaining period of participation in the LLP. In such a case, the LLP balance is not included in your final tax return.

If you become a non-resident

If you become a non-resident of Canada after the year you made an LLP withdrawal, you must repay the LLP balance to your RRSP by the earlier of the following dates:

- before the time you file your tax return for the year in which you become a non-resident; or
- 60 days after you become a non-resident.

Any amounts you do not repay by the due date must be included in your income for the year you become a non-resident of Canada.

If you become a non-resident in the year you make an LLP withdrawal, you will have to cancel your participation in the LLP by repaying the withdrawn amounts to your RRSP.

If you are over the age of 71

You cannot contribute to your own RRSP after the end of the year in which you turn 71, so it is not possible to make LLP repayments to your RRSP after that time. In the year you turn 71, you can either:

- Repay your outstanding LLP balance to your RRSP;
- Make a partial repayment to your RRSP. The remaining LLP balance at the beginning of the year you turn 72 will be divided by the number of years remaining in your repayment period and that amount will be included in your income when you file your tax return for each year in the remaining repayment period; or
- Make no repayment to your RRSP. Your LLP balance at the beginning of the year you turn 72 will be divided by the number of years remaining in your repayment period and that amount will be included in your income when you file your income tax return for each year in the remaining repayment period.

LLP Student leaves the program

The LLP Student must continue to be enrolled in an educational program at the end of March of the year following year of the LLP withdrawal (unless they have completed the program before this time) to be eligible to repay the withdrawals over the usual 10-year period. If the LLP Student leaves the program before this time and 75% or more of the tuition paid is refundable, then the LLP Student must cancel participation in the LLP. If less than 75% of the tuition paid is refundable, then the LLP Student can make repayments over the usual 10-year period.

LLP Student does not enrol in program in time

If the LLP Student is not already enrolled in a qualifying educational program at the time you make an LLP withdrawal, they must do so before March of the year after the year you made the LLP withdrawal. If the LLP Student does not enrol in the program in time, you have to cancel your LLP withdrawal.

The RRSP contributions that you intend to withdraw under the LLP must have been contributed to your RRSP at least 89 days prior to the day of withdrawal.

Cancelling LLP withdrawals

You can cancel your LLP withdrawal if one of the following situations apply:

- The LLP Student was not enrolled in the qualifying educational program when you made the withdrawal but had received written notification that they were entitled to enrol before March of the following year and did not enrol in time;
- The LLP Student left the program and is no longer enrolled at the end of March of the year following the year of the LLP withdrawal and 75% or more of the student's tuition was refundable; or
- You became a non-resident of Canada before the end of the year in which you made an LLP withdrawal.

To cancel, you must repay the entire LLP withdrawal to your RRSP. If you are a resident of Canada when you file your tax return for the year in which you made the LLP withdrawal, the due date for the cancellation payment is December 31 of the year after the year you made the withdrawal. If you are a non-resident of Canada when you file your tax return for the year in which you made the LLP withdrawal, the cancellation payment is the earlier of the following dates:

- the date you file your tax return for the year you made a withdrawal or
- December 31 of the year after the year of the withdrawal.

You can make the cancellation payment to any of your RRSPs but not to your spouse's RRSP. The financial institution administering your RRSP will issue a receipt for your cancellation payment and you will need to send this receipt to the CRA with a completed cancellation form.

Other considerations

How does an LLP withdrawal impact your RRSP deduction?

The RRSP contributions that you intend to withdraw under the LLP must have been contributed to your RRSP at least 89 days prior to the day of withdrawal. If the RRSP contributions you withdraw under the LLP have not been

in your RRSP for 90 days, you may not be able to deduct those contributions for any tax year.

Can I use the LLP and the Home Buyers' Plan (HBP) at the same time?

You can make withdrawals under both the HBP and the LLP at the same time. You do not have to pay off either plan before starting the other.

What are the participation limits in the LLP?

There is no limit to the number of times you can participate in the LLP over your lifetime. You can participate in the LLP again in the year following the year you bring your LLP balance to zero, and withdraw up to the total limit of \$20,000.

You and your spouse can also both participate in the LLP at the same time. This means you and your spouse have a potential combined annual LLP withdrawal limit of \$20,000 and a combined total LLP limit of \$40,000 that you can use to fund the education of a single LLP student. You can participate in the LLP to fund education for yourself while your spouse is also participating in the LLP for themselves. You can both participate in the LLP to pay for education for one of you, or you can participate in the LLP for each other. Note, however, that if you are already participating in the LLP program and the LLP student has been established as yourself or your spouse, you cannot make a withdrawal for a different student.

Can I use the LLP for my child's education?

You cannot use the LLP to finance your child's education or the education of anyone other than yourself or your spouse. If you are planning for your child or grandchild's education expenses, you may want to consider setting up an RESP or a trust.

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Conclusion

If you or your spouse are interested in enhancing your knowledge or skill-set, you may be able to use the LLP program to borrow up to \$20,000 from your RRSP interest-free to fund eligible education and training. Funds withdrawn under the LLP will generally not be taxable to you, unless you don't make your repayments on time. You will want to consider, however, that you will be losing several years of tax-sheltered growth while you repay the loan. Speak with a qualified tax advisor to see if you can and should take advantage of the LLP to help finance your or your spouse's education.

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