The Navigator

Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Establishing a Registered Education Savings Plan (RESP)

With the high cost of post-secondary education, many parents, grandparents and other family members and friends recognize the need to save for education well before the expenses become a reality. That's why the Registered Education Savings Plan (RESP) is such a popular saving vehicle. Not only is the tax on the income accumulating in the plan deferred until funds are paid out, the federal government will also contribute to the plan through providing the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB), which may be available to modest-income families. Some provinces offer additional RESP incentives for their residents. This article discusses setting up an RESP, contribution limits, types of plans, government incentives and RESP saving strategies.

Please contact us for more information about the topics discussed in this article.

What is an RESP?

An RESP is a tax-deferred savings plan designed to allow you (the subscriber or contributor) to save for a beneficiary's post-secondary education. All the interest, dividends, capital gains and government incentives in the plan grow on a tax deferred basis. Depending on the type of plan you choose, you can name one or more beneficiaries on the plan and make contributions for their benefit.

Contributions to an RESP are not tax-deductible. There is a $50,000 lifetime contribution limit per RESP beneficiary but no annual maximum limit. Contributions cannot be made to a plan at any time after the end of the year that includes the 31st anniversary of the plan (35th year for a specified plan).

An RESP has to be closed by December 31st of the year that includes the 35th anniversary of the plan (40th year for a specified plan). A specified plan is a single beneficiary RESP (non-family plan) where the beneficiary is entitled to receive the disability tax credit (DTC). The DTC is a non-refundable federal tax credit for individuals who have a severe and prolonged impairment in physical or mental functions that provides a credit against taxes payable.

In-kind contributions to an RESP trigger a deemed disposition. Capital gains are taxable but capital losses are denied. This is similar to in-kind transfers to a Registered Retirement Savings Plan (RRSP).

For information regarding withdrawing funds from an RESP and non-resident

Parents and grandparents are the most common subscribers to RESPs. There are no restrictions on who can be the original subscriber of an individual RESP but family plans do have some restrictions.

issues, please ask your advisor for our article titled "Registered Education Savings Plans- Withdrawing from the Plan and Non-Resident Issues".

Who can be a subscriber?

Parents and grandparents are the most common subscribers to RESPs. There are no restrictions on who can be the original subscriber of an individual RESP but family plans do have some restrictions. See the section on family plans for more details.

A public primary caregiver of a beneficiary under an RESP may also be an original subscriber. This may include the department, agency or institution that cares for the beneficiary or the public trustee or public curator of the province or territory in which the beneficiary lives.

You and your spouse or common-law partner can be joint subscribers to an RESP. You can also add a spouse as a joint subscriber to an RESP at any time before termination of the plan. You will have to check if the plan provider with which you are establishing the RESP allows for joint subscribers.

The Canada Revenue Agency (CRA) requires that the social insurance number(s) (SIN) of a subscriber(s) be provided when the plan is registered. If you are not the original subscriber, you may become the subscriber if one of the following situations applies:

- On the breakdown of a relationship, you receive subscriber's rights as a result of a court order or written agreement. There is no requirement to separate the RESP assets upon marriage breakdown so former spouses or common-law partners can remain as joint subscribers of a plan after separation or divorce. However, the status of the relationship at the time the RESP was opened is important as individuals who are already divorced cannot enter into a joint contract.
- You are another individual or another public primary caregiver who has, under a written agreement, acquired a public primary caregiver's rights as a subscriber under the RESP.
- After the death of the subscriber, you acquire a subscriber's rights or you continue to make contributions into the RESP for the beneficiary(ies).
- You are the deceased subscriber's estate that acquired the subscriber's rights under the RESP, or that continues to make contributions into the RESP for the beneficiary(ies), after the death of a subscriber under the RESP.

Death of the subscriber

The maximum life span of an RESP is 35 years (40 years for a specified plan). You may therefore be concerned about the RESP if you were to pass away before the RESP funds have been fully utilized by the beneficiary(ies). Here are some ways in which someone can continue to manage the RESP if a subscriber passes away:

- Have both you and your spouse act as joint subscribers of the RESP. If one of you were to pass away, the surviving spouse will become the sole subscriber.
- Designate a successor subscriber in your Will.
- If you do not designate a successor subscriber in your Will, your executor or liquidator may designate someone as a successor subscriber.
- If your executor or liquidator does not name a successor subscriber, a person who makes contributions to the plan after the death of the subscriber for the beneficiary can become a successor subscriber.

Generally, when you replace one RESP beneficiary with a new beneficiary, the CRA treats the contributions for the former beneficiary as if they had been made for the new beneficiary on the date they were originally made.

A successor subscriber will assume responsibility for the management of the RESP and may also continue to make contributions to the plan. The new subscriber can be an individual, an estate or a company.

Your successor subscriber will have the same rights that you have as the original subscriber. However, unless your spouse or common-law partner becomes the successor subscriber, your successor will not be able to transfer up to $50,000 of income from the RESP to their RRSP to reduce the accumulated income payments (AIPs) that are subject to tax. AIPs and educational assistance payments (EAPs) are discussed in the article, "RESP - Withdrawing from the Plan and Non-Resident Issues."

If you pass away there are circumstances in which your executor may be compelled to wind up the RESP. This can happen if you do not have a spouse as a joint subscriber or a Will that names a successor subscriber. The plan may also have to be wound up if your plan does not have a successor subscriber named and your beneficiaries are not able to agree on a successor subscriber. In this case, the value of the RESP becomes part of the estate of a deceased subscriber and will be distributed according to the deceased's Will.

Depending on the situation, an RESP may be subject to probate on the death of a subscriber. The executor or successor subscriber may be asked to provide the death certificate of the original subscriber and inform the financial institution holding the plan of the identity of the new subscriber. It is possible that the market value of the assets in the plan at the time of the subscriber's death will be included for the purpose of calculating probate taxes payable on the death of the original subscriber.

Who can be a beneficiary?

You can name someone as a beneficiary of an RESP if:

- The intended beneficiary's SIN is provided to the RESP provider before the designation is made; and
- The intended beneficiary is a resident of Canada at the time the designation is made.

Replacing a beneficiary?

Generally, when you replace one RESP beneficiary with a new beneficiary, the CRA treats the contributions for the former beneficiary as if they had been made for the new beneficiary on the date they were originally made. If the new beneficiary already has an RESP, this may create an excess contribution. This rule does not apply in the following situations:

- The new beneficiary is a sibling of the former beneficiary and is under 21 years of age;
- Both beneficiaries are connected by a blood relationship or adoption to an original subscriber of the RESP and both are under 21 years of age.

In these situations, the CRA does not include any contributions made for the former beneficiary when they determine whether the new beneficiary's lifetime contribution limit has been exceeded.

Death of a beneficiary

In the unfortunate event that the beneficiary of the RESP account you establish should pass away before depleting all the funds in the account, you may designate a replacement beneficiary.

In a family plan where there are multiple beneficiaries, the RESP assets, including CESG, can be shared between the beneficiaries. So if one of the beneficiaries dies during the lifetime of the plan, their share of the RESP assets may be utilized by other beneficiaries. However, each beneficiary can only receive a lifetime

Family plans are the only plans that allow you to name more than one beneficiary. These multiple beneficiaries must be connected by a blood relationship or adoption to each living subscriber or to a deceased original subscriber.

maximum CESG of $7,200. Any CESG remaining in the RESP after the plan has been wound up must be returned to the government.

If there are no beneficiaries of the plan and you decide to not name a replacement beneficiary, you may choose to withdraw the original contributions and income and growth earned in the RESP. The tax implications of such a withdrawal is discussed in the RESP article, "Withdrawing from the Plan and Non-Resident Issues". The government incentives may need to be repaid to the government on wind-up of the plan.

Types of plans

There are different types of RESPs. An RESP can be a(n):

- Individual RESP;
- Family RESP;
- Group RESP; or
- Grandfathered RESP.

The type of plan is determined according to the arrangement you enter into with the RESP provider; it is not determined by the number of beneficiaries in the plan. For example, you can set up a family plan that only names one beneficiary. An RESP provider may not offer all the different types of RESPs, so it is important to check with the provider to understand your options.

Family plans

Family plans are the only plans that allow you to name more than one beneficiary. These multiple beneficiaries must be connected by a blood relationship or adoption to each living subscriber or to a deceased original subscriber. This means that you can include your children, grandchildren, siblings and adopted children in a single family RESP. Nieces and nephews are specifically excluded as beneficiaries of family plans but you can name them as beneficiaries of individual plans. Adoption includes both legal adoption and adoption in fact. Adoption in fact may exist where the parent of the child is in a common-law relationship and the common-law spouse provides parental care on a continuing basis to the child.

For family plans established after 1998, each beneficiary must be less than 21 years of age at the time they are named as a beneficiary. However, when one family plan is transferred to another, a beneficiary who is 21 years of age or older can still be named as a beneficiary of the new RESP.

You cannot make contributions for a beneficiary who is 31 years of age or older. However, you can transfer funds from another family plan, even if one or more of the beneficiaries are 31 years of age or older at the time of transfer.

Individual plans

An individual plan is established for one beneficiary and has fewer limitations than a family plan. The beneficiary can be the subscriber and may or may not be related to the subscriber. There is no age limit for beneficiaries of individual plans. If you want to establish a plan for yourself, or someone who is not related to you by blood or adoption, or if the beneficiary is 21 years old or older when you establish the plan, you must set up an individual plan.

Group plans

A group RESP may also be known as a pooled RESP or Scholarship Trust Plan. These plans pool together all of the members' contributions and government grants. The plan provider makes investment choices on behalf of the members and determines contribution schedules. Payouts from these plans will depend on investment returns and the number of beneficiaries in the plan that qualifies for post-secondary education in a given year.

Group plans can vary greatly depending on the provider and the arrangement, it is very important to understand all the restrictions and fees associated with a group plan when considering this option.

The plan may stipulate additional requirements regarding how and when payouts can be made.

There may be substantial fees associated with opening up a group RESP. It is therefore, important to understand the provider's fee structure before opening such a plan as these fees may not be refundable. Also, because there is a contribution schedule set by the provider, if you miss payments, your participation in the plan may be terminated and as a result, you may forfeit the growth earned on your contributions.

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Grandfathered plans

Grandfathered plans are RESPs that were opened prior to 1998. No government incentives can be paid into these plans.

Which plan is right for you and your family?

If you have several children, a family plan may be easier to administer. Another advantage of a family RESP is that the funds in the plan do not have to be paid equally to the beneficiaries. This can be useful if one of the named beneficiaries doesn't go on to post-secondary education or if the beneficiaries have different educational costs. For example, if one child stays at home while attending school and another child goes to school out of town, the child living away from home may have significantly higher costs.

In contrast, this flexibility is not available to individual plans. The income earned in an individual plan can only be paid to the named beneficiary of the plan. This could be an issue if the named beneficiary is unable to go or decides not to go to post-secondary school, or does not use all of the funds within the plan.

Families who have children with a significant age difference may want to consider opening individual plans or additional family plans. This is because an RESP has to be wound down by December 31st in the year that includes the 35th (40th for a specified plan) anniversary of the plan. For example, if you established a plan 15 years ago, it will have to be wound down in 20 years from now. If a newborn child is added to this plan, the child will only be 20 when the plan winds down, at which time they may not have completed post-secondary school.

Transfers

You can make the following transfers from one RESP to another without tax implications:

- When the transferring RESP and the receiving RESP have the same beneficiary.
- When a beneficiary of the receiving plan is a sibling of a beneficiary of the transferring plan and the receiving plan is a family plan.
- When a beneficiary of the receiving plan is a sibling of a beneficiary of the transferring plan, the receiving plan is an individual plan and the beneficiary of the receiving plan was under 21 years of age when the receiving plan was opened.

In any other case, transfers can result in an excess contribution. This is because each beneficiary under the receiving RESP assumes the RESP contribution history for each beneficiary under the transferring RESP. CRA treats each contribution as if it had been made into the receiving RESP on the date of the original contribution to the transferring plan. In addition, CRA treats each subscriber under the transferring RESP as a subscriber under the receiving RESP. This means that he or she is liable for any tax on excess contributions.

An overcontribution occurs when the total contributions made for a single beneficiary exceed that beneficiary's lifetime limit.

When a transfer is made to a plan there are very strict conditions that must be met in order to transfer the CESG, CLB and other provincial government incentives to the receiving plan. Speak with your RESP provider for additional information.

Over-contributions

An overcontribution occurs when the total contributions made for a single beneficiary exceed that beneficiary's lifetime limit. The plan subscriber can be liable to pay a penalty of 1% per month on excess contributions to an RESP. The 1% penalty will continue to accrue until you remove the over-contribution. The penalty is not charged for the month in which you make that withdrawal.

Canada education savings grant

For many subscribers, the CESG is the most attractive feature of an RESP. No matter what your family income, the government pays a basic CESG of 20% on the first $2,500 of annual contributions to a maximum annual CESG of $500 for each beneficiary. The lifetime limit is $7,200 per beneficiary. If the beneficiary has unused grant room from a previous year, the annual maximum of CESG that can be received is $1,000.

Lower income families may be eligible for an additional grant (10% or 20%) on the first $500 of annual RESP contributions. If your net family income based on the adjusted family net income of the beneficiary's primary caregiver (PCG) is $45,916 (2017) or less, the first $500 of annual RESP contributions will receive an additional CESG of $100, providing a maximum CESG of $600 on a $2,500 contribution. For families with income above that level but not more than $91,831 (2017) the first $500 of annual RESP contributions will receive an additional CESG of $50 providing a maximum CESG of $550 on a $2,500 contribution. The threshold amounts are adjusted every year.

Check to determine if your RESP plan provider supports the additional CESG.

Accumulating CESG carry forward room

Since 2007, $500 of CESG has been available each year for a qualifying beneficiary who is 15 years old or under. (Specific rules exist for children who are 16 and 17 years old, which are discussed later on in the article). Since the annual CESG is 20% of the RESP contribution made during the year, an RESP contribution of $2,500 for the year attracts the full $500 CESG annual limit. This does not take into account the additional grant, described above, available to lower income families.

Before 2007, the maximum CESG that was available for each qualifying beneficiary was $400 per year. An annual RESP contribution of $2,000 attracted the full CESG.

If you make an RESP contribution of less than $2,500 for a particular beneficiary for the year, it will not attract the full CESG. You can carry forward the remaining CESG amount, also referred to as unused grant room. This unused CESG creates a "pool" of carry forward CESG room for the beneficiary, which is available for future years. Each beneficiary has their own pool, even if the contributions you make on their behalf are combined with those of other beneficiaries in a family RESP.

Using up the carry forward CESG room

When you make a contribution to an RESP of more than $2,500 per year, you may be able to use the carry forward pool. The maximum grant available in a year is limited to $1,000 or 20% of the first $5,000 of RESP contributions that you make. This will allow you to use $500 of carry forward CESG room.

For example, a child who is born in 2012 and for whom no RESP

A beneficiary must be a resident of Canada in order to accumulate grant room for any given year.

contributions have ever been made, will have a total pool of $2,500 in 2017 in unused grant room ($500 for each of 2012-2016). A contribution of $5,000 in 2017 will attract grant of $1,000, made of $500 for the 2017 contribution and $500 from the CESG carry forward pool being used. The grant pool will then be reduced to $2,000. To determine what past contributions have been made to an RESP and the amount of the grant carry forward pool, you can contact Employment and Social Development Canada (ESDC).

The following table illustrates the possible amounts in the carry forward pool for beneficiaries born in given years. This example assumes that a $5,000 contribution is made in 2017 and that RESP contributions have not been made previously for these beneficiaries in any RESP plan.

Year in which child was born	CESG carry forward pool in 2017	Contribution made in 2017	Grant paid in 2017	Remaining carry forward pool
2012	$2,500	$5,000	$1,000	$2,000
2013	$2,000	$5,000	$1,000	$1,500
2014	$1,500	$5,000	$1,000	$1,000
2015	$1,000	$5,000	$1,000	$500
2016	$500	$5,000	$1,000	$0
2017	$0	$5,000	$500	$0

Eligibility for CESG

In most cases, to be eligible for the CESG, the beneficiary must be no more than 15 years old during the calendar year. The CESG is also available to 16 and 17 year old beneficiaries under specific circumstances. See the section on 16 and 17 year olds beneficiaries later on in the article.

A beneficiary must be a resident of Canada in order to accumulate grant room for any given year. Grant room accumulates at a rate of $500 per year ($400 from 1998-2006) until the end of the year the beneficiary reaches the age of 17, whether or not an RESP account has even been opened. However, grant room does not accumulate for years when the beneficiary is not a resident of Canada and it cannot be recovered, even if the beneficiary subsequently becomes a Canadian resident again. The grant room is not pro-rated where the beneficiary was only a Canadian resident for part of the year.

Sharing CESG among beneficiaries of a family plan

One of the benefits of a family plan is that accumulated CESG contributions do not have to be paid out equally among beneficiaries. However, the maximum lifetime CESG that each beneficiary can receive is $7,200. If a beneficiary doesn't pursue post-secondary education or is not able to share the accumulated CESG with another beneficiary, that beneficiary's CESG may have to be returned to the government.

For example, Mr. and Mrs. Smith set up a family plan for their 12 year old twins. They contribute $5,000 per year for six years, designating $2,500 for each beneficiary. Since they contributed equal amounts to each child, the grant allocated to each child will be $500 per year for a total of $3,000. Assuming a 4% average annual rate of return and that contributions and grant are paid into the plan at the end of the year, the plan will have a total balance of $39,798 at the end of six

There is a $50,000 lifetime contribution limit per RESP beneficiary but no annual maximum limit. So, should you contribute $50,000 up-front to your RESP to take immediate advantage of the tax deferral opportunity?

years including the CESG. If one child goes to a school that is much more expensive than the other child's school, all or the majority of the CESG in the plan can be paid out to the child who needs it. There is no requirement to pay out $3,000 of CESG to each child.

16 and 17 year old beneficiaries

A beneficiary may receive the CESG as long as they are 15 years of age or less in the current calendar year. A beneficiary who is turning 16 or 17 during the current calendar year can also qualify for the CESG if one of the following two conditions is met:

- Contributions to all RESPs for the beneficiary are at least $2,000 (and not withdrawn) and were made before the calendar year in which the beneficiary turned 16; or
- Contributions for the beneficiary of at least $100 per calendar year were made in any four years (and not withdrawn) before the calendar year in which the beneficiary turned 16.

If no previous RESP existed for the beneficiary who is turning 16 or 17 in the current calendar year, they will not be eligible to receive the CESG. Any beneficiary who was already 17 years of age at the start of the calendar year will also not be eligible for the CESG.

The impact on CESG when a large lump-sum contribution

There is a $50,000 lifetime contribution limit per RESP beneficiary but no annual maximum limit. So, should you contribute $50,000 up-front to your RESP to take immediate advantage of the tax deferral opportunity?

The issue is that if you contribute $50,000 up front, you will benefit from the tax deferral on the investment income; however, you will forfeit the ability to receive future CESG, which may otherwise be available if you make regular annual contributions.

The CESG is paid based on 20% of the annual RESP contribution amount, to an annual maximum of $500, or if there is a CESG carry forward pool, to an annual maximum of $1,000. So, if you make a one-time lump-sum contribution of $50,000 to the plan, the maximum CESG the plan could receive is $1,000. A lump-sum contribution in excess of $5,000 in any given year will attract CESG only on the first $2,500 ($5,000 if there is enough CESG in the carry forward pool). Grants are not paid to the plan in future years for past years' contributions.

Is there an advantage to making a lump-sum contribution up-front or should you make several annual contributions to maximize the amount of CESG? In summary, here are some of the factors you should consider when deciding if you want to make a lump-sum contribution upfront:

- Your ability to make a larger up-front contribution
- The age of the beneficiary. This is used to determine the balance in the CESG carry-forward pool and the approximate timing of future withdrawals
- Your marginal tax rate on your non-registered investment income
- Your expected rate of return on the investment income (both inside and outside the RESP)
- Your beneficiary's expected marginal tax rate when the funds are withdrawn. This is often minimal given the basic personal exemption and other tax credits available to students

Analyzing the numbers

Speak with an RBC advisor about the RESP funding strategy calculator.

A $500 Canada Learning Bond (CLB) is available for children of modest income families based on the adjusted family net income of the beneficiary's primary caregiver (approximately $46,000) born on or after January 1, 2004.

It can help illustrate the potential outcome of making a $50,000 lump-sum contribution to an RESP compared to an annual contribution that maximizes the CESG payments.

Canada Learning Bond (CLB)

A $500 Canada Learning Bond (CLB) is available for children of modest income families based on the adjusted family net income of the beneficiary's primary caregiver (approximately $46,000) born on or after January 1, 2004. These children also qualify for CLB instalments of $100 per year until age 15. The total lifetime maximum CLB payable per child is $2,000. Unlike CESGs, CLBs cannot be shared with other beneficiaries. You will have to check to see if the RESP plan provider supports receipt and payment of the CLB.

Additional government incentives

A number of provincial governments provide additional incentives for their residents who open up an RESP. They are as follows:

- The British Columbia Training and Education Savings Grant (BCTESG) will provide a one-time grant of $1,200 to the RESP of a child who is resident in British Columbia and has a custodial parent or a legal guardian who is also a resident.

  The grant is available for children born in 2006 or later. The earliest you can request the grant is when the beneficiary turns six. After that, you may apply any day before their ninth birthday. If the beneficiary had their 6th birthday in 2013, 2014 or 2015, you have an extension until August 14, 2018 or the day before their ninth birthday, whichever is later to get the grant. If the beneficiary was born in 2006, you have an extension until August 14, 2019.

- The Saskatchewan Advantage Grant for Education Savings (SAGES) provides a grant of 10% on contributions made since January 1, 2013 to a RESP for a child residing in Saskatchewan. The maximum grant is $250 per child per year for each eligible year, until the end of the calendar year in which a beneficiary turns 17. The maximum lifetime SAGES grant is $4,500 per child.

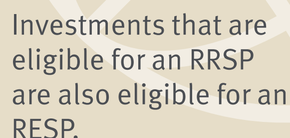
  The Saskatchewan government announced in the March 2017 provincial budget that SAGES payments will be suspended effective January 1, 2018. This means SAGES will not be paid on contributions made to a Registered Education Savings Plan (RESP) after December 31, 2017. SAGES payments will resume when the province's financial situation improves.

- The Quebec Education Saving Incentive (QESI) is an amount paid into an RESP by the Quebec government to support the education savings of its residents. Annual RESP contributions of up to $2,500 are eligible for a basic amount of 10%. Lower-income families are eligible for an increased amount (5% or 10%) on the first $500 of annual RESP contributions. A total cumulative QESI amount of $3,600 can be granted per child.

Payments of the following education savings incentives can only be paid into a family plan if all of the beneficiaries in the plan are siblings:

- Canada Learning Bond (CLB)
- Additional CESG
- Saskatchewan Advantage Grant for Education Savings (SAGES)
- British Columbia Training and Education Savings Grant (BCTESG)

You will have to check to see if the RESP plan provider supports the additional provincial incentives.


Investments that are eligible for an RRSP are also eligible for an RESP.

Opportunities and constraints for grandparents

Grandparents may have the desire and the financial means to contribute to an RESP for their grandchildren. It can be a wonderful way to give a meaningful gift.

If you are a grandparent, you can establish an RESP yourself (i.e., be the subscriber) and contribute to the RESP for your grandchildren. However, you may want to consider an alternative approach. You could decide to gift the funds to your son or daughter who in turn establishes the RESP for your grandchildren. In both cases you provide the financial gift and your grandchildren are the beneficiaries of the RESP, but in the latter case, your child (the parent of the beneficiaries) will be the subscriber of the plan.

The advantage of the second approach is that if one of the beneficiaries does not attend post-secondary education, the subscriber may be able to transfer the earnings from the RESP to their own RRSP, within certain limits. This is discussed further in the RESP article, “Withdrawing from the Plan and Non-Resident Issues”.

The subscriber must be 71 years of age or younger to do this. As RESP plans have a potential life span of 35 years (40 for a specified plan), by the time you realize that one of your grandchildren will not attend school, you may have exceeded the age at which you are eligible to make an RRSP contribution. However, your son or daughter may still be able to benefit.

The disadvantage of this approach is that you have little or no legal control over the funds. Your son or daughter will have control over the funds and there is no guarantee that they will follow your wishes. Even if the funds are contributed to an RESP, as the subscribers, they will have the ability to withdraw the contributions.

Grandparents may have certain advantages when establishing multiple beneficiary plans. For example, a grandparent can include all their grandchildren in one family RESP. A parent, by comparison, cannot include the same list of beneficiaries since they cannot include nephews and nieces as beneficiaries of a family plan.

Investment options

Investment risk and asset allocation

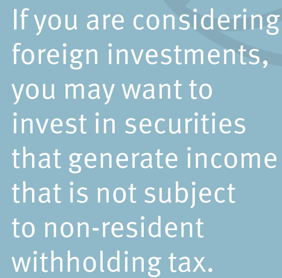
As with any other investment, you must consider your own risk tolerance, your investment objectives, the time horizon for the use of the funds and any investment preferences you may have when you determine the appropriate investment asset allocation for the RESP funds.

Also, by establishing a larger plan balance at the time the plan is opened, you may have access to a wider array of investment solutions than you would if you made smaller annual contributions.

You may also decide to combine a lump-sum amount of less than $50,000 with future contributions to maximize the CESG.

Eligible investments

Investments that are eligible for an RRSP are also eligible for an RESP. If an RESP acquires a non-qualified investment, or holds a property that ceases to be a qualified investment and is not disposed of within 60 days of becoming a non-qualified investment, the plan’s registration may be revoked. If the plan’s registration is revoked, the RESP becomes taxable as an inter vivos trust. The RESP is also subject to a tax of 1% of the fair market value at the time of acquisition of all property that it holds at the end of the month that is a non-qualified investment.



If you are considering foreign investments, you may want to invest in securities that generate income that is not subject to non-resident withholding tax.

Keep in mind while you can invest in foreign securities in the RESP, you may be subject to non-resident withholding tax on the income. You cannot claim a foreign tax credit on your personal tax return. If you are considering foreign investments, you may want to invest in securities that generate income that is not subject to non-resident withholding tax. For example, generally U.S. interest income and UK dividends are not subject to withholding tax. However, as always, it is important to analyze the investment merits of the securities before looking at the tax implications when deciding how to structure your portfolio.

Conclusion

There are many considerations that you need to take into account when opening an RESP. The type you choose, how you will fund the RESP and who the subscriber of the plan will be can have a number of implications in the future. Speak to an RBC advisor to help you assess the options that are available to you.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

Please contact us for more information about the topics discussed in this article.

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