

Hello All,

RESP withdrawal season is here and so I thought it timely to send a note about the various payment options available.

Let's review the different types of withdrawals an RESP offers:

1. Educational Assistance Payment (EAP)

- a. Source of this payment is made up of Grant received from CRA as well as growth and income generated in the account
- b. **Proof of enrolment is required** for this type of withdrawal
- c. It is **taxable to the beneficiary** in the year withdrawn (a T4A is issued to the beneficiary in February of the following year)
- d. Can be made payable to the parent or guardian if tuition paid up front, however; **it is still taxed in the hands of the beneficiary**
- e. What happens if income (growth) is not used up for education? See AIP Payment info

2. Post-Secondary Education Payment (PSE)

- a. Source of this payment is contributions made by the subscriber (parent/grandparent or guardian who set up the plan)
- b. **Proof of enrolment is required** for this withdrawal
- c. **Not taxable to either the beneficiary or subscriber**

3. Refund of Principal (ROP)

- a. Principal amounts withdrawn (**not taxable**)
- b. If Grant remains in the plan, **this will have to be repaid to CRA**
- c. The withdrawals are **permanent**. Meaning, you cannot re-contribute the principal and expect to receive the grant money back.

4. Accumulated Income Payment (AIP)

- a. Consists of growth and income that remain in the plan **after all beneficiaries are done school** (or reached the age of 21); a few options are available.
- b. Withdraw direct from the RESP – must pay **20% withholding tax** on these draws, PLUS; the **income is taxed at the subscribers marginal tax rate**
- c. Up to **\$50,000 can be rolled over into the subscriber's RRSP** – must have RRSP room available
- d. A RESP can also be transferred to an **RDSP** (see attached article for details)

A quick note about limits:

- A EAP limit of \$5000 is in place for the first 13 weeks of a beneficiary's school program
- A max of approximately \$23,000 per EAP can be withdrawn per beneficiary(unless a detailed expense list is provided)

Conclusion

As you can see, the type of withdrawal selected is important for a couple reasons. First, EAP withdrawals are only allowed while the beneficiary is in a qualified program. Second, these types of withdrawals are taxable to the beneficiary, so this ***does impact their income*** and sometimes affects their hard earned refund that they were expecting at tax time (assuming they have a part-time job while going to school).

PSE Payments are used when education costs are high enough to use up all EAP and CESG first, therefore dipping into the capital contributions.

The first priority with RESP withdrawals is to use up all grant money (\$7200 per child plus other potential provincial grants); therefore, each semester when you request funds from your RESP, we look at EAP payments first so that Grant and Income is used up, unless you request otherwise.

Over the years and with the advice of your accountant, you may have specific requests on the variation of payment you prefer. We are always happy to accommodate and answer any questions you may have.

Kind Regards,

Jennifer