RBC Dominion Securities Inc.

Withdrawing from a Registered Education Savings Plan (RESP)

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You have planned, saved, watched them grow into young adults and now they are heading off to post-secondary education. Your registered education savings plan (RESP) can now be used for its intended purpose. This article explores the various ways of withdrawing funds from an RESP depending on your circumstances.

RESP withdrawals

If you have been contributing to your RESP for several years now, the plan may have accumulated a combination of original principal contributions along with income and Canada Education Savings Grants (CESGs). These amounts are tracked by RBC Dominion Securities and all withdrawals made up of principal, income and CESG are calculated by our Firm. There are several types of RESP withdrawals available including:

- Educational assistance payments (EAPs)
- Accumulated income payments (AIPs)
- Refund of contributions (principal) to the subscriber, or to your beneficiary
- Payment to a designated educational institution (DEI) in Canada

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Educational assistance payments (EAPS)
An EAP is the amount paid to a beneficiary from an RESP to help finance the cost of post-secondary education. EAPs can be paid from the RESP to a beneficiary who is enrolled full-time in a qualifying educational program or part-time in a specified educational program and is 16 years old or older. EAP payments consist of CESG and accumulated income first. RBC Dominion Securities will calculate the EAP payments proportionately using the formula provided by ESDC. EAP payments are processed in the following order:

- CESG and Income
- Principal/Contribution if required

Our Firm will also ensure that the maximum lifetime amount of CESG that a student receives does not go over the $7,200 limit per beneficiary of the plan.

In order to receive any CESG as part of an EAP, the beneficiary must be a resident of Canada at the time they receive the EAP.

It is generally advisable for a beneficiary to receive an EAP, rather than a refund of contributions, while they are enrolled in school. This is due to the fact that, while contributions can be removed at any time, if government incentives and income portions remain in an RESP after the beneficiary(ies) has completed school, there may be negative consequences when these funds are withdrawn from the plan. The unused government incentives may have to be returned to the government and the unused income may be taxed heavily.

An RESP beneficiary is entitled to receive EAPs for up to six months after ceasing to be enrolled in a qualifying educational program or specified educational program as long as the payment would have qualified under the rules for EAPs if it had been made immediately before the student's enrolment ceased.

Proof of enrolment
In order to receive an EAP, a beneficiary of an RESP must provide appropriate proof of enrolment written on the institution's letterhead confirming the student's name and enrolment dates. This can be obtained online through the student's portal or through the Registrar's office.

Payment amounts
For RESPs established or modified after 1998, the beneficiary can withdraw an EAP of up to the lesser of $5,000 and total allowable expenses in the first 13 weeks of full-time enrolment in a qualifying educational program. If there is a 12-month period in which your beneficiary is not enrolled in a qualifying educational program for 13 consecutive weeks, the $5,000 withdrawal limit will apply again upon their return to school. The restriction will be removed after this time period and any amount withdrawn must be "reasonable" to fund the educational needs of the beneficiary. The CRA will not require a list of expense items if the withdrawal is below $23,113.

Accumulated income payments (AIPs)

An AIP is an amount that may be paid to the subscriber if there is income earned within the RESP that has not been used by a qualifying beneficiary and any one of the following three conditions apply:

- The current beneficiary and all past beneficiaries have reached age 21, none of them are eligible for an EAP and the plan has been open for at least 10 years.
- The plan has reached December 31st of the 35th year following the year the plan was opened.
- All the beneficiaries named in the RESP have died.

As the subscriber, you must be a resident of Canada to be eligible to receive an AIP. If you are the original subscriber and you pass away before one of the above events has occurred, the AIP can be paid to the successor subscriber, if there is one, who is resident in Canada.
You will pay tax on the AIP you receive at your marginal tax rate plus an additional 20% tax. However, you may be able to defer the tax by transferring the AIP to your RRSP. The maximum amount that can be transferred to your RRSP is $50,000 on a tax deferred basis providing that you have adequate unused RRSP contribution room.

Refund of contributions

As the subscriber, the original RESP contributions you made to the plan can be returned to you at any time. You can receive them or you can redirect them to the plan beneficiary. If the funds are withdrawn for non-educational purposes and there is no beneficiary of the plan who is currently eligible to receive an EAP, any CESG that you received will need to be repaid to the federal government.

Since you made your original contributions with after-tax dollars, you will not pay tax if you make a refund of contributions. No tax slip will be issued and you should not report these payments as income on your beneficiary's tax return.

Payment to a designated educational institution (DEI)

In the event that your RESP has to be collapsed while investment income remains in the plan and the plan does not qualify for an AIP, the remaining income will be paid to the DEI you identified in your RESP application form.

If a payment is made from your RESP to your DEI, it is not taxable income to you or your beneficiary and is not eligible for a charitable donation tax credit.

Closing an RESP

An RESP must be closed by December 31st of the year that includes the 35th anniversary of the opening of the plan even if a beneficiary of the plan is still pursuing post-secondary education.

Non-residents

Non-resident beneficiary

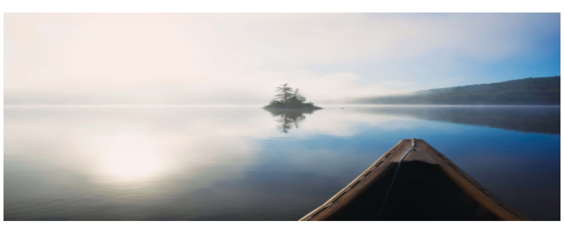
It is important to determine the beneficiary's residency status for tax purposes. A beneficiary of an RESP must be a resident of Canada at the time contributions are made to the plan. However, a beneficiary of an RESP can study outside Canada and still be considered a Canadian resident for tax purposes. If a beneficiary becomes a non-resident at a later date, it is important to understand the potential implications. In some cases, the beneficiary may not be able to use all of the funds that have accumulated in an RESP. However, please note that the subscriber or the beneficiary of the plan can receive the original contributions as a tax-free return of capital at any time.

If a non-resident beneficiary who is enrolled in a qualifying program requests an EAP, they can receive the investment income earned in the RESP. Withdrawals of investment income and growth will be subject to non-resident withholding tax at a rate of 25%, unless reduced by a tax treaty. Non-resident beneficiaries cannot receive payments of CESG. The tax rules in the beneficiary's country of residence may also apply. The beneficiary should obtain professional advice in the country where they live to ensure they understand any potential tax consequences.

Non-resident subscriber

The subscriber can only make contributions to an RESP if they provide their SIN and the beneficiary is a resident of Canada. If you set up an RESP while you are a Canadian resident, and you subsequently become a non-resident, the RESP will generally contain some CESG. This portion of the plan must be returned to ESDC if you close the plan while you are a non-resident of Canada.

There are many things to consider when withdrawing funds from an RESP. This article has explored just some of the areas of consideration. Please let us know if you would like additional information about the topics discussed in this article.



We are able to offer you access to our in house RBC Wealth Management team of lawyers, accountants and financial planning professionals. If you are interested in reviewing your estate or financial plan, please call us to book an appointment.