



TAX, RETIREMENT & ESTATE PLANNING SERVICES

Registered Education Savings Plans (RESPs)

The Facts







A Registered Education Savings Plan (RESP) is a tax-assisted plan that can help save money for post-secondary education.

Contributions to an RESP are not tax-deductible, but the money inside the plan will grow tax-deferred until it's withdrawn for a post-secondary educational program. In addition, there are grants and incentives available from the government of Canada and certain provinces to help build education savings.

Manulife has written this booklet to provide you with information to help you understand the technical details of RESPs and to offer tips on what to look for and how to maximize the benefits of these plans to find the plan that best meets your needs.

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What is a Registered Education Savings Plan?

An RESP is an education savings plan (ESP) that has been registered with the Canada Revenue Agency (CRA).

More specifically, an RESP is a contract between you (the subscriber) and a promoter (sometimes referred to as provider). Under the contract, the subscriber names one or more beneficiaries (the future student(s)) and agrees to make contributions for them. The promoter agrees to pay educational assistance payments (EAPs) to the beneficiaries of the plan.

The **promoter** is the administrator of the RESP.

The **subscriber** sets up the ESP and makes contributions to it.

The **beneficiary** is the individual (future student) named by the subscriber and for whom the RESP contributions are made.

Why open an RESP

An RESP is a convenient way to save for future post-secondary education.

- Government grants and incentives may be available to help RESP savings grow. The federal government offers two incentive programs; the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB). Some provinces have also introduced incentive programs.¹
- Investment income generated in an RESP is tax-sheltered as long as it remains in the plan.
- An RESP can be opened for a child, yourself or another adult.
- When withdrawn for enrolment in a qualifying post-secondary educational program, plan growth and government grants will be taxed at the student's tax rate (he or she may pay little or no tax on this money).

What to look for

Different RESP providers and plans have different features, risks and costs. It is important to choose the plan that best suits your needs.

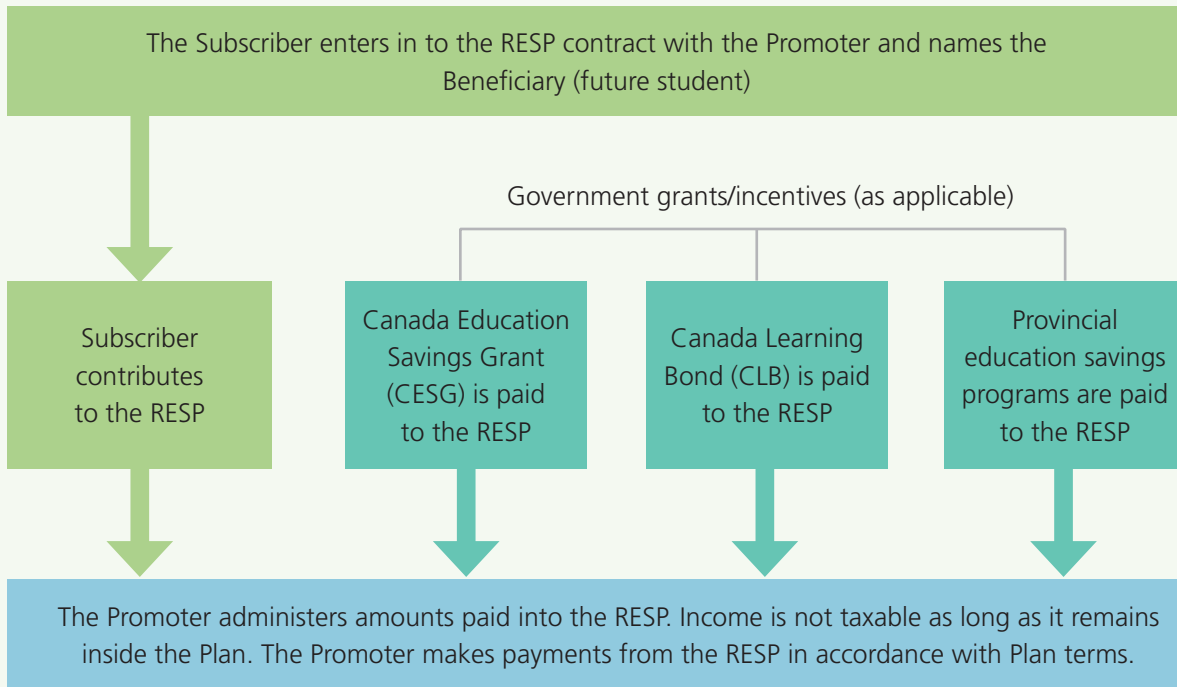
Ask your RESP provider for information about the plans offered

- What grants and incentives are supported? Ensure that your plan offers the grants that are important to you. All plans offer the basic CESG. However not all plans support all the other government of Canada or provincial government grants.¹
- What are the fees? Understand what fees you may be expected to pay when you open the plan as well as any other costs you may incur as long as you hold the plan.
- How much flexibility are you allowed in making your contributions? Many plans allow you to decide when and how much to contribute, up to the lifetime limits, while other plans require you to make contributions according to a set schedule.

¹ Manulife RESPs are eligible to receive CESG, enhanced CESG and CLB amounts on behalf of beneficiaries. Payments from provincial incentive programs cannot be paid into Manulife RESPs at this time.

- What are your investment choices? An RESP may invest in a wide range of qualified investments that carry different risks and rates of return. The availability of investment options will depend on your plan.
- When and how will you receive payments from the plan? To receive payments for post-secondary education from your plan, the student will need to provide proof of enrolment in a qualifying program, sometimes by a certain deadline.
- What options are available if your beneficiary does not continue with their post-secondary education? Depending on your situation and the terms of your plan, you may have the following options:
 - You may leave the plan open - your beneficiary may decide to continue his or her education at a later date.
 - You may be able to use the money for another beneficiary or, under certain conditions, transfer a beneficiary's RESP to a Registered Disability Savings Plan (RDSP).
 - You may close the plan.
- What happens if you find you need to terminate the plan? Your contributions, less any fees or penalties will be returned to you tax-free. Grants and incentives that remain in the plan will be returned to the applicable government. Under specific conditions, the earnings on the plan assets may be returned as taxable payments to you. You may be able to reduce or eliminate the tax by transferring money to your Registered Retirement Savings Plan (RRSP), or a spousal RRSP if you have available RRSP contribution room.

How an RESP works



Types of withdrawals

Beneficiary enrolls in post-secondary education			Beneficiary DOES NOT enroll in post-secondary education		
	Source	Taxation		Source	Taxation
Post-secondary Education (PSE) contribution withdrawal	RESP contributions	Returned tax-free to Subscriber	Contribution withdrawal	RESP contributions	Returned tax-free to Subscriber
Education Assistance Payments (EAP)	RESP earnings, CESG, and other incentives	Taxable to Beneficiary at his/her marginal tax rate	Accumulated Income Payments (AIP)	Earnings on contributions, grants, and incentives	Paid to Subscriber and taxable at his/her marginal tax rate, plus an additional 20% tax
			CESG, provincial grants: unused grants returned to government; no tax consequences		
			CLB: returned to government; no tax consequences		



Types of RESPs

There are three types of RESPs to choose from:

- Individual plans
- Family plans, and
- Group plans

The RESP you choose depends on how many beneficiaries you have, how old they are and what you want to invest in. Your RESP provider can give you information about specific plans and help you choose the plan that's right for you.

Individual plans and family plans

When an individual or family plan is entered into, a separate trust is established for each plan. Individual plans allow only one beneficiary. Family plans are for one or more beneficiaries.

Individual and family plans are offered by many financial institutions including banks, credit unions, mutual fund companies, insurance companies, investment dealers and Scholarship Plan Dealers.

As a subscriber you can decide when and how much you want to contribute (up to the lifetime limit per beneficiary). Alternatively, you can decide to take a break from making contributions at any time. The terms of the plan may set a minimum contribution amount. The plan may allow you to decide how to invest the funds in the plan or limit the investment options available.

Amounts paid into the plan under government incentive programs as well as investment earnings that accumulate in the plan are paid out as Educational Assistance Payments (EAPs) to the beneficiary(s) when they are enrolled in a qualifying educational program.

Individual Plan

Established for only one beneficiary who must be a Canadian resident and have a valid Social Insurance Number (SIN).

- There are no restrictions on the age of the beneficiary.
- There are no restrictions on who can be named as beneficiary. A subscriber can be the beneficiary of their own plan.
- Anyone can be a subscriber and make contributions.
- Contributions can be made up to 31 years after the plan is opened (35 years for a specified plan²).

Family Plan

- Established for one or more beneficiaries, who must be a Canadian resident, and have a valid SIN number.
- Each beneficiary must be under the age of 21 when added to the plan.
- Each beneficiary must be related to the subscriber of the RESP by blood or by adoption.
- Where all beneficiaries are siblings it is called a siblings only plan.
- Contributions can be made until the beneficiary is 31 years old.

Group plans

Group plans, also referred to as “Education Funds” or “Scholarship Funds” are offered by Scholarship or Group Plan Dealers and are sold by prospectus. They are a set of individual plans that are administered on an age group concept. That is, all contracts for beneficiaries who are nine years old are administered together. The date the plan matures is set at the time of enrolment and is based on the beneficiary’s birth date.

Contributions to a Group plan are calculated by the promoter’s actuary. The amount and frequency of these contributions stay the same as long as the beneficiary has not attained 18 years of age. Regular contributions throughout the term of the RESP are usually required, but each plan has its own rules.

Your savings are combined with those of other people and the earnings are shared when it’s time to pay for school. Generally, when each plan matures, the contributions are returned to the subscriber and the earnings are divided among the beneficiaries who qualify to receive EAPs in each year of their post-secondary education. The amounts received by each beneficiary will differ as the government grants and incentives cannot be shared among the beneficiaries of a group plan.

If your beneficiary does not begin post-secondary studies at the same time as the rest of the group, the earnings received from the plan may be affected. If you drop out of the plan before it matures, you may forfeit your earnings to the group.

It is important to read the prospectus to understand how the particular plan works.

² A specified plan is an individual plan where the beneficiary is entitled to the disability tax credit for the taxation year that ends in the 31st year following the year that the plan was entered. A specified plan cannot permit another individual to be designated as a beneficiary under the RESP after the 35th year following the year the plan was entered into.

Summary: Types of RESPs

	INDIVIDUAL PLAN	FAMILY PLAN	GROUP PLAN
RESP Promoter	Banks, credit unions, mutual fund companies, investment dealers, insurance companies, and scholarship plan dealers		Scholarship or Group Plan Dealers (non-taxable entities such as foundations or non-profit trusts)
Subscriber	Can be: <ul style="list-style-type: none"> ■ An Individual ■ An individual and their spouse or common-law partner (joint subscribers) ■ A public primary caregiver 		
Beneficiary	One	One or more	One beneficiary named by subscriber but as part of a plan for many children
Beneficiary must be related to subscriber by blood or adoption	No	Yes	No
Age of beneficiary	No age limitation	Under age 21 at the time designated Under age 31 at the time of contribution	May be specified by plan
Contributions	Subscriber decides when and how much to contribute up to the lifetime limit. Promoter may set minimum amount.		Regular contributions determined when you open the plan
Time limit for contributions	Up to 32nd year of plan (36th year for a specified plan)	Up to age 31 of each beneficiary	Contributions according to the plan schedule
Payout/Withdrawals	Contributions: May be returned tax-free to the subscriber at any time or may be paid to or on behalf of a beneficiary to help finance education. However, if the beneficiary is not eligible for an EAP, grants and incentives may need to be returned to the government. EAPs: Some plans make EAPs on a set schedule, while others let you decide.		Contributions: Usually repaid to the subscriber when beneficiary reaches a certain age EAPs: based on the total number of students of the same age who are in school that year, but government incentives are paid to specific beneficiaries.
Plan termination	End of 35th year after the year the plan was entered into (40th year for a specified plan)	End of 35th year after the year the plan was entered into	Date for plan maturity is set at enrolment and is based on the beneficiary's birth date

RESP – The Basics

Promoter

The promoter is the person or organization that offers the education savings plan (ESP) and applies to CRA for registration as a Registered Education Savings Plan (RESP) at the request of the subscriber.

The promoter arranges with a trust company licensed in Canada to hold the funds.

The promoter administers all amounts paid into the RESP to pay EAPs to or for one or more plan beneficiaries.

Subscriber

The subscriber is the individual who sets up the RESP, names one or more beneficiaries, and makes contributions to it. Generally, the subscriber of the plan cannot be changed after the plan has been set up.

You can change a subscriber by way of plan transfer. For example, where the grandparents have opened the original plan and wish to transfer the ownership to the parents of the beneficiaries.

The subscriber is responsible for ensuring that the contribution limits are not exceeded. Control of the contributions remains with the subscriber. However contributions may be paid to the beneficiary by or on behalf of the subscriber.

Who can be a subscriber?

A subscriber must be an individual(s); corporations and trusts are not allowed to be a subscriber (unless the trust is the estate of a deceased subscriber). All subscribers under an RESP have to give their SIN to the promoter before the plan can be registered as an RESP.

- You can be a single subscriber.
- You and your spouse or common-law partner can be joint subscribers³.
- A public primary caregiver of a beneficiary may also be a subscriber. A public primary caregiver may be the department, agency or institution that cares for the beneficiary; or the public trustee or public curator of the province in which the beneficiary resides.

For an individual plan, there are no restrictions on who can be the original subscriber under an RESP. Anyone, (parents, grandparents, or other relatives and friends) of any age, can open an RESP and name a beneficiary. You can even set up an RESP for yourself.

For a family plan, the subscriber must be connected by blood or adoption to all plan beneficiaries.

³ Joint subscribers must be spouses at the time they enter into an RESP contract. CRA allows a contract entered into prior to 1998 and that permitted joint subscribers who were not spouses to continue although the plan will need to comply with all other registration conditions applicable after 1997.

Can a subscriber be changed or replaced?

Changes to the subscriber are allowed in the following situations:

- A former spouse or common-law partner can become a subscriber as a result of a court order or written agreement for dividing property after a breakdown of the relationship;
- Another individual or another public primary caregiver who has, under a written agreement, acquired a public primary caregiver's rights may become a subscriber.
- If spouses are joint subscribers, the surviving spouse would continue as the subscriber of the RESP. An individual can be named as successor subscriber and will become the subscriber after the death of the last surviving subscriber. Otherwise, the executors of the subscriber's estate may assume this responsibility.

You will need to check the terms and conditions of your RESP for changes that are allowed under the terms of the plan.

Beneficiary

A beneficiary (future student) of an RESP is an individual named by the subscriber and to whom, or on whose behalf the promoter agrees to make educational assistance payments. There are no limits on the number of plans you can establish for a beneficiary, or the number of RESPs a beneficiary may have. However, the annual and lifetime contribution limits are per beneficiary and not per RESP account.

Who can be a beneficiary?

A beneficiary must have a SIN and be resident in Canada when the designation is made⁴. Contributions can be made only for beneficiaries who are resident in Canada. Also, only resident beneficiaries are eligible for the government incentives.

In an individual plan there is no restriction on who can be the beneficiary. Only one beneficiary is allowed and there is no age restriction. You can be the beneficiary of your own RESP.

In a family plan, there can be one or more beneficiaries and each beneficiary must meet both of the following conditions:

- The beneficiary must be connected by blood relationship or adoption to each living subscriber, or have been similarly connected to a deceased original subscriber.
- The beneficiary must not have reached 21 years of age at the time he or she is named as a beneficiary. When one family plan is transferred to another, a beneficiary who is 21 years of age or older can still be named a beneficiary to the new RESP.

Connected by blood or adoption refers to a parent, brother, sister, child, or grandchild of the subscriber. This does not include the subscriber's nieces, nephews, aunts, uncles, or cousins. Adoption refers to a child adopted legally or in fact. Stepchildren are considered to be connected to their stepparent.

⁴Effective January 1, 2004, an individual cannot be designated as a beneficiary unless the individual's SIN has been provided to the promoter of the plan and the beneficiary is resident in Canada. There are exceptions for beneficiaries of RESPs entered into before 1999 and, in limited cases, for transfers from another RESP for the same non-resident beneficiary

Can the beneficiary be changed or replaced?

You can name an alternate beneficiary as long as the terms of the plan allow it. This applies to both individual and family plans. If you have a group plan, check the terms of the plan to find out if you can change beneficiaries or transfer the plan to another beneficiary.

All contributions made to the plan for the previous beneficiary are treated as if they had been made for the new beneficiary on the date they were originally made. This can cause an overcontribution penalty unless:

- The new beneficiary is under 21 years old and a sibling of the former beneficiary, or
- Both beneficiaries are under 21 years old and related to the original subscriber⁵.

Some government incentives, up to the maximum per beneficiary, may be transferable to a sibling. Otherwise, they are returned to the government if the beneficiary does not pursue an education at a qualifying post-secondary institution.

What happens on the death of the beneficiary?

For an individual plan, you may be able to name a new beneficiary. For a family plan, the RESP continues with the remaining beneficiaries.

The plan will be terminated if all plan beneficiaries are deceased and a replacement beneficiary cannot be made.

Tax Implications

RESP contributions are not tax deductible when made and are not taxable when withdrawn from the plan by the subscriber.

Interest on borrowings⁶ used to contribute to an RESP is not tax deductible.

Government grants may be paid to an RESP for an eligible beneficiary. These amounts are not taxable until withdrawn from the RESP to fund the beneficiary's post-secondary education. As well, income earned on the contribution and the grants is tax deferred until withdrawn for post-secondary education purposes. They are taxable to the beneficiary at that time.

The subscriber may withdraw his or her contributions net of any fees, tax-free at any time however if withdrawals are made before the beneficiary enrolls in a post-secondary educational program, grants and incentives may need to be repaid to the government.

Under certain conditions, the subscriber may also be able to receive the accumulated investment income on the investments and the government incentives. These payments will be taxable to the subscriber at his or her marginal tax rate plus an additional 20 per cent tax⁷. The income tax can be deferred and the additional tax can be reduced or avoided where up to \$50,000 is transferred to an RRSP provided contribution room is available.

⁵The provision permitting the designation of non-related beneficiaries in contracts established prior to July 14, 1990 has been grandfathered. In this situation, you will be able to keep this beneficiary in your plan and contribute for his/her post-secondary education but your plan will not be entitled to any CESG. ⁶Borrowing to invest may not be appropriate for everyone. You should be fully aware of the risks and benefits associated with leveraged borrowing since losses as well gains may be magnified. ⁷For residents of Quebec, the additional tax is 12% federal plus 8% provincial.

Contributions

A subscriber can make a contribution for a beneficiary under the plan if the beneficiary is resident in Canada and the beneficiary's SIN has been provided to the promoter of the plan.

Contributions to an RESP are not deductible from the subscriber's income. Control of the contributions remains with the subscriber and may be withdrawn tax-free at any time. Note that a withdrawal may require repayment of government incentives and may result in the beneficiary being ineligible for additional incentives.

The subscriber is responsible for ensuring that the contribution limits are not exceeded.

What are the contribution limits?

There is a lifetime contribution limit of \$50,000 that can be contributed to all RESPs for a designated beneficiary. Since 2007, there is no annual limit for contributions to RESPs.

Government grants and incentives made to an RESP under the Canada Education Savings Act or under a designated provincial program are not considered part of the lifetime limit.

What is the time limit for contributions?

The final contribution must be made by the end of the 31st year after the year the plan is entered into or earlier if amounts have been transferred from an existing RESP. In addition, for a family plan, the final contribution must be before the beneficiary's 31st birthday.

For a specified plan, no contributions (except transfers from another RESP) may be made to the plan after the 35th year following the year the plan was entered into and the plan must be terminated by the end of the 40th year after the year the plan was opened.

What are the tax consequences of an overcontribution?

An excess contribution occurs at the end of a month when the total of all contributions made by all subscribers to all RESPs for a beneficiary is more than the lifetime limit or \$50,000 for that beneficiary.

Each subscriber for that beneficiary is liable to pay a one per cent per-month tax on his or her share of the excess contribution that is not withdrawn by the end of the month. The tax is payable within 90 days after the end of the year in which there is an excess contribution. An excess contribution exists until it is withdrawn.

Subscribers have to file CRA Form *T1E-OVP, Individual Income Tax Return For RESP Excess Contributions* to calculate the amount of tax you have to pay on your share of the excess contribution for a year.

NOTE:

The amount subject to tax can be reduced by withdrawing the excess contributions. However, in determining whether the lifetime limit has been exceeded, the withdrawn amounts are included as contributions for the beneficiary even though they have been withdrawn.

Government grants and incentives

Grants and incentives are available from the government of Canada as well as some provincial governments to assist and encourage parents or guardians to plan and save for their children's post-secondary education.

NOTE:

Not all plans support all government programs. Check with the promoter for the incentives that are offered with their RESP.

Federal incentives

The federal government provides incentives under the Basic and Additional Canada Education Savings Grant and Canada Learning Bond programs. These programs are administered by Employment and Social Development Canada (ESDC). You must apply for each of these separately.

Canada Education Savings Grant (CESG)

The CESG is money that the Government of Canada will add to a child's savings in an RESP. The maximum lifetime CESG is \$7,200 per child.

The CESG has two parts:

1. Basic Canada Education Savings Grant The Basic Canada Education Savings Grant provides 20 per cent on every dollar of the first \$2,500 you save in the child's RESP each year.
2. Additional Canada Education Savings Grant Depending on the primary caregiver's net family income, you could receive an extra 10 or 20 per cent on every dollar of the first \$500 you save in the child's RESP each year.

Carry forward grant room

The CESG is available only on the first \$2,500 contributions per year per child (to a maximum of \$500). The grant room accumulates until the end of the year that the child turns 17 – even if he or she is not a beneficiary of an RESP. Unused basic CESG amounts for the current year are carried forward. If you have available carry forward grant room, the CESG is available on up to \$5,000 in contributions per year (to a maximum of \$1,000).

Eligibility

All children resident in Canada (up to the end of the calendar year in which they turn 17) are eligible to receive money from the federal government for their post-secondary education as long as an RESP has been opened for them. Adults are not eligible for these grants.

However, in order to receive the CESG after age 15, the following contributions must have been made to the RESP (and not withdrawn) by December 31 of the calendar year in which the child turns 15:

1. Total contributions of at least \$2,000, or
2. Contributions of at least \$100 a year or more in any 4 previous years.

If the child turns 15 in July this year, by December 31 of this year, you must have either contributed at least \$2,000 in total to the child's RESPs, or you must have put in at least \$100 annually in any of 4 previous years (they don't have to be consecutive years).

Canada Learning Bond (CLB)

The CLB is an additional federal government incentive of up to \$2,000 lifetime administered by ESDC to help modest-income families set up RESPs and save for children born after 2003. The CLB money will be deposited directly into the child's RESP; no contributions need to be made.

The initial grant is \$500 plus an additional \$25 to cover the administrative cost of opening a RESP. Thereafter, for each year of eligibility, the grant is \$100 per year until the child reaches age 15.

If the beneficiary does not pursue post-secondary education, the CLB is returned to the government.

Eligibility

Available to Individual Plans or Sibling-only Family Plans.

Beneficiary(ies) must meet the following conditions:

- have been born January 1, 2004 or later
- have a birth certificate
- have a SIN
- be a Canadian resident
- be a beneficiary under an RESP

Primary caregiver's annual net family income must fall under the income threshold set by the government which is indexed annually.

Provincial Education Savings Incentives

Some provinces have also introduced incentive programs to assist families in saving for their children's post-secondary education.

Investments

An RESP may invest in a wide range of qualified investments such as stocks, bonds, and other popular portfolios including mutual funds, segregated fund contracts and guaranteed investment certificates (GICs). In general, the types of property that qualify for an RESP are similar to those that qualify for an RRSP. The availability of some or all of these investment options will depend on your plan.

TYPE OF PLAN	RESP PROVIDERS	INVESTMENT OPTIONS	INVESTMENT DECISIONS
Individual and Family Plans	Banks and Credit Unions	Savings accounts GICs Mutual funds	You and your advisor choose an appropriate mix of investments
	Mutual Fund Companies	Mutual funds	
	Insurance Companies	Segregated funds	
	Investment Dealers	T-bills Bonds Stocks Funds	
Individual, Family plans and Group plans	Scholarship Plan Dealers	In general, a plan must invest in fixed income securities, such as T-bills, GICs and bonds	All of the investment decisions are made for you

There is no restriction on foreign content held in an RESP. However, dividends paid on shares listed on a prescribed stock exchange in a foreign country may be subject to foreign withholding tax. Treaty relief for the withholding tax is generally not available.

If a non-qualified investment is acquired by your RESP, a penalty tax is equal to 50 per cent of the fair market value of the investment at the time it was acquired or became non-qualified. The investment income from such investments is subject to an advantage tax equal to 100 per cent of the income if the income is not withdrawn promptly. In addition, the CRA has the right to revoke any RESP that holds non-qualified investments.

Payments and withdrawals from an RESP

The promoter can make the following types of payments:

- When the beneficiary is enrolled in a qualifying post-secondary educational program
 - educational assistance payments (EAPs)
 - post-secondary education (PSE) contribution withdrawal
- When the beneficiary does not enroll in post-secondary education
 - refund of contributions to the subscriber
 - accumulated income payments (AIPs)
 - repayment of amounts under the Canada Education Savings Act or under a designated provincial program
- Transfers
 - transfer from one RESP to another RESP
 - transfer RESP investment income to an RDSP
- Payment to a designated educational institution in Canada.

When the beneficiary is enrolled in a qualifying post-secondary educational program

An RESP offers two types of payment options for educational purposes based on the types of monies in the plan.

- Educational Assistance Payment (EAP) consisting of the government incentives as well as earnings on the investments and incentives.
- Post-secondary Education (PSE) contribution withdrawal.

Educational Assistance Payments (EAP)

An EAP is the amount paid to or for a beneficiary (the student) from an RESP to help finance the cost of post-secondary education.

An EAP consists of the government grants, incentives and the earnings on the investments and incentives.

The student includes the EAPs as income on his or her tax return for the year the student receives them.

Qualifying for an EAP

The promoter can only pay EAPs to or for a student if one of the following situations applies:

- The student is enrolled in a qualifying educational program. This includes students attending a post-secondary educational institution and those enrolled in distance education courses, such as correspondence courses, provided by such institutions; or
- The student has attained the age of 16 years and is enrolled in a specified educational program.

A beneficiary may receive EAPs for up to six months after ceasing enrolment, provided that the payments would have qualified as EAPs if the payments had been made immediately before the student's enrolment ceased.

A qualifying educational program is an educational program at a post-secondary school level, that lasts at least three consecutive weeks, and that requires a student to spend no less than 10 hours per week on courses or work in the program.

A specified educational program is a program at a post-secondary school level that lasts at least three consecutive weeks, and that requires a student to spend not less than 12 hours per-month on courses in the program.

A post-secondary educational institution includes:

- a university, college, or other designated educational institution in Canada;
- an educational institution in Canada certified by ESDC as offering non-credit courses that develop or improve skills in an occupation; and
- a university, college, or other educational institution outside Canada that has courses at the post-secondary school level at which the beneficiary was enrolled on a full-time basis in a course of not less than three consecutive weeks.

Limit on EAPs

Full-time	Qualifying educational program	First 13 consecutive weeks	\$5,000 maximum
		After first 13 consecutive weeks	No limit
Part-time	Specified educational program	Each 13 week period	\$2,500 maximum

If there is a 12-month period that the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the \$5,000 maximum applies again; or

For studies in a specified educational program, the limit is \$2,500, for the 13-week period whether or not the student is enrolled in such a program throughout that 13-week period.

ESDC may, on a case-by-case basis, approve an EAP amount of more than the above limit if the cost of tuition plus related expenses for a particular program is substantially higher than the average.

Post-Secondary Education (PSE) withdrawal

A Post-Secondary Education withdrawal may be made by the subscriber when a beneficiary is eligible for an EAP and may be used for any purpose. This type of withdrawal of the subscriber's contributions while the beneficiary qualifies for an EAP does not incur a CESG clawback.

Subject to the terms and conditions of the RESP, a portion of the contributions withdrawn can be paid to the beneficiary to supplement the EAP. There is no limit on the dollar amount for a PSE withdrawal.

When beneficiary does not enroll in post-secondary education

If the beneficiary does not enroll in a post-secondary educational program and if another beneficiary is not named, the terms of the RESP may offer options to withdraw the RESP property for non-education purposes.

- Contributions can be returned tax-free to the subscriber at any time.
- Accumulated Income Payments that are taxable payments consisting of investment earnings may be paid, under specified conditions, to the subscriber.
- Amounts received under the Canada Education Savings Act or under a designated provincial program may need to be repaid to the applicable government.

TIP:

If the beneficiary does not enroll in a post-secondary educational program right away, you can also wait before withdrawing funds and terminating the plan. RESPs can remain open for 36 years (40 for specified plan). The beneficiary may decide to enroll in post-secondary education at a later time.

Refund of contributions to the subscriber

Subject to the terms and conditions of the RESP, the promoter can return contributions to you tax-free when the contract ends or at any time before.

A refund of contributions may trigger repayments of some or all incentives that remain in the RESP. A CESG repayment is a portion of the assisted contributions (those qualifying for the Basic and Additional grants) up to and including the total CESG balance remaining in the plan; certain conditions may apply⁸. A repayment of provincial incentives that remain in the RESP may also be required.

Accumulated income payments (AIP)

An AIP consists of earnings on contributions to the RESP and earnings on the CESG and other additional government incentives.

It is important to carefully review the terms and conditions of any RESP as the treatment of accumulated income varies.

AIPs can be made to, or for, only one subscriber and cannot be made as a single joint payment to separate subscribers. When more than one individual is entitled to receive accumulated income payments from the plan, the payments must be made separately to each person.

An RESP may allow for AIPs when the following conditions are met:

- The recipient must be a Canadian resident,
- The recipient must be a Subscriber of the RESP; and
- Any one of the following:
 - The RESP must have been in existence for at least 10 years and the current (and former, if any beneficiary(ies) must be at least 21 year of age and not eligible to receive an EAP
 - Each individual who was a beneficiary is deceased
 - The RESP is in its final year

NOTE:

CRA may waive the first two conditions if it is reasonable to expect that a beneficiary under the RESP will not be able to pursue post-secondary education because he or she suffers from a severe and prolonged mental impairment. Such requests have to be made by the RESP promoter in writing

An RESP must be terminated by the end of February of the year after the year that the first AIP is paid.

⁸ The withdrawal of assisted contributions from an RESP after March 22, 2004 will result in a beneficiary being ineligible to receive any CESG for the balance of the year and the next two years. A withdrawal of pre-1998 contributions will cause all beneficiaries under the plan to be ineligible for the CESG in the calendar year that the withdrawal was made and for the following two calendar years.

How AIPs are taxed

The recipient has to include the AIP as income on his or her tax return for the year it is received. An AIP is subject to two different taxes: the regular income tax and an additional tax of 20 per cent (for residents of Quebec, 12 per cent federal plus eight per cent provincial).

Reducing the amount of AIPs subject to tax

You can reduce the amount of AIPs subject to tax if you are the original subscriber or, where there is no other subscriber, the spouse or common-law partner of a deceased original subscriber and you meet both of the following conditions:

- You contribute an amount not more than the amount of the AIPs (to a lifetime maximum of \$50,000 worth of AIPs) to your RRSP, or your spouse's or common-law partner's RRSP, in the year the AIPs are received or in the first 60 days of the following year; and
- You have available RRSP contribution room allowing you to deduct the amount contributed to your or your spouse's or common-law partner's RRSP. The deduction must be claimed in the calendar year that any payments are made.

You cannot reduce the AIPs subject to tax if you became a subscriber because of the death of the original subscriber.

TIP:

Promoters usually have to withhold regular and additional taxes on AIPs unless the AIPs are transferred directly to your or your spouse's or common-law partner's RRSP; and your RRSP deduction limit allows you to deduct the contribution in the calendar year it is made.

Complete Form T1171, Tax Withholding Waiver on Accumulated Income Payments from RESPs, to ask the promoter to transfer the payment directly to your or your spouse's or common-law partner's RRSP without withholding tax.

Repayment of government grants

Federal and provincial government grants can only be used to pay for post-secondary education. If they cannot be used for educational purposes, they must be returned to the government.

Transfers

Transfers between RESPs

Transfers of property between RESPs are generally not restricted. For example:

- An Individual plan can be transferred to any other Individual plan.
 - An RESP can be transferred to a plan with a different subscriber but the same beneficiary.
 - A family plan can be split into individual plans or individual plans can be combined into a family plan.
- A direct transfer cannot be made from an RESP that has made an AIP.

TIP:

The receiving plan must be registered with CRA before the funds are transferred. If not, the transferring plan will be considered as having been paid to the subscriber as an AIP.

NOTE:

Transfers can result in an excess contribution. This is because the RESP contribution history for each beneficiary under the transferring RESP is assumed by each beneficiary under the receiving RESP. Each contribution is treated as if it had been made into the receiving RESP. In addition, each subscriber under the transferring RESP is treated as a subscriber under the receiving RESP. This means that he or she is liable for any tax on excess contributions.

Transfers from one RESP to another RESP can be made without resulting in any tax penalties in the following cases:

- there is a common beneficiary under the transferring plan and the plan receiving the transfer; or
- a beneficiary under the transferring plan is a sibling of a beneficiary under the receiving plan and either:
 - the receiving plan allows more than one beneficiary under the plan; or
 - in any other case, the beneficiary under the receiving plan was under 21 years of age at the time the receiving plan was entered into.

Transferring RESP investment income to an RDSP

Transfers of RESP investment income can be made after 2013 from an RESP to an RDSP. In general terms, a subscriber of an RESP that allows AIPs and a holder of an RDSP may jointly elect in prescribed form to transfer an AIP under the RESP to the RDSP if, at the time of the election, the RESP beneficiary is also the beneficiary under the RDSP.

To qualify for an RESP rollover, the beneficiary must meet the existing age and residency requirements in relation to RDSP contributions. As well, one of the following conditions must be met:

- the beneficiary is, or will be, unable to pursue post-secondary education because he or she has a severe and prolonged mental impairment; or
- the RESP has been in existence for more than 35 years, or for at least 10 years and each beneficiary under the RESP has attained 21 years of age and is not eligible to receive educational assistance payments.

The accumulated income payment rollover to an RDSP will not be subject to regular income tax or the additional 20 per cent tax.

When an RESP rollover occurs, contributions in the RESP will be returned to the RESP subscriber on a tax-free basis. As well, grants and incentives will be required to be repaid to the applicable government and the RESP terminated by the end of February of the following year.

The investment income rolled over to an RDSP:

- will be considered a private contribution for the purpose of determining whether the RDSP is a primarily government-assisted plan (PGAP), but will not attract Canada disability savings grants (CDSGs);
- will be included in the taxable portion of RDSP withdrawals made to the beneficiary; and
- may not exceed, and will reduce the RDSP contribution lifetime limit.

An investment income rollover cannot be made if the beneficiary:

- is not eligible for the disability tax credit (DTC);
- is deceased;
- is over 59 years of age in the year of the contribution; or
- is not a resident of Canada.

Payment to a designated educational institution

An RESP may provide for payments to be made to a Canadian designated educational institution or to a trust for such an institution at any time.

For example, payments could occur when the plan is left with only a small amount of cash after the subscriber withdraws the contributions as a refund of contributions and one or more of the requirements for AIPs are not met.

Plan termination

When does an RESP have to terminate?

An RESP must be terminated on or before the last day of the 35th year following the year that the plan was entered into.

For a specified plan, if the beneficiary may claim the disability tax credit for the 31st year following the year that the plan was opened and he or she is in an individual plan, the maximum period that the RESP may be in existence can be extended to 40 years following the year the plan was entered into, if your existing plan provides for it.

What happens to the assets following termination of a plan?

The assets of an RESP can be paid out in the following manner:

- Contributions are returned tax-free to the subscriber
- Federal and provincial government grants are returned to the government – as this money can only be used to pay for post-secondary education.

Other

Estate Planning

The RESP rules provide for a transfer of the subscriber's rights on his or her death. An individual, including the estate of the subscriber, can become a subscriber if they have acquired the subscriber's rights under the RESP or if they continue to make contributions into the RESP for the beneficiary after the death of the original subscriber.

- A joint or successor subscriber, other than the estate, can be named to take over for the subscriber on death and thus avoid the RESP from becoming part of the subscriber's estate. The named person becomes the new subscriber.
- If the estate of a deceased subscriber continues to make contributions into an RESP, the estate is considered to be the replacement subscriber.

The subscriber is responsible for ensuring that the contribution limits are not exceeded.

■ Investment earnings

- For a family or individual RESP, investment earnings can be paid to the subscriber as an AIP. Where the criteria for an AIP is not met, the earnings can be paid to a designated educational institution.
- The subscriber has to pay tax on any AIP received from the plan plus a 20 per cent additional tax. The regular tax can be deferred and the additional tax can be avoided where up to \$50,000 is transferred as a contribution to the RRSP of the subscriber or a spousal RRSP, provided contribution room is available.
- For a group RESP, if the subscriber drops out or cancels the plan before it matures, the investment earnings stay in the plan and are shared with the remaining beneficiaries of the group when the plan matures. Depending on the terms of the plan, it may be possible to transfer the RESP savings to an individual plan.

NOTE:

Upon the death of the subscriber, or the last of the joint or successor subscribers, an RESP becomes an asset of the deceased subscriber's estate and is subject to the terms of the will. When no successor subscriber is appointed in the will, it may be difficult to arrange for the preservation and continuance of the RESP.

TIP:

The decision on who should be the successor subscriber is very important. A joint or successor subscriber is considered to have made all contributions to the plan. As a result, he or she can collapse the RESP and/or access the plan assets at any time.⁹

⁹ Fees may apply.

Creditor protection

Money held in an RESP is **generally not protected** against creditors of the subscriber.

An RESP is an investment of capital made by the subscriber and remains under the control of the subscriber with the intent that it goes to the beneficiary if and when he or she attends a post-secondary educational program. The RESP can be collapsed by the subscriber at any time prior to that. This means that a creditor of the subscriber can have access to all assets of the RESP, other than government subsidies, that belong to the subscriber.

Creditor protection for an RESP is generally not available even for an RESP with an insurance company. This is because the *Income Tax Act* (Canada) requires that the RESP Trust be the contract beneficiary and therefore creditor protection under the provincial insurance legislation is not available. However, Alberta legislation now provides protection for assets held in an RESP and where used for post-secondary education purposes.

Non-residents and RESPs

If an RESP subscriber or beneficiary is (or will become) a non-resident, there may be some Canadian tax consequences as well as tax consequences in the foreign jurisdiction.

NOTE:

Tax advice should be obtained in the foreign jurisdiction

Non-resident Subscriber

A non-resident can set up and contribute to an RESP however the subscriber must have a Canadian SIN when opening an RESP.

A return of contributions may be made to a non-resident subscriber with no Canadian tax consequences. However AIPs cannot be made to a non-resident.

Non-resident beneficiary

A beneficiary must be a resident in Canada when designated as a beneficiary and when contributions are made on his or her behalf. Non-residents do not accumulate CESG room.

Beneficiaries who are non-resident when they start their post-secondary education are eligible to receive EAPs, but when paid to a non-resident, EAPs cannot include accumulated CESGs and CLBs. As well, when EAPs are made to a non-resident, a repayment of government grants will be made to the applicable federal or provincial government.

EAPs paid to non-residents are subject to 25 per cent Canadian withholding tax (may be reduced by a treaty), unless the payments are otherwise subject to regular Canadian income tax.

U.S. citizens resident in Canada

RESPs may not be desirable if the subscriber is a Canadian resident who is a U.S. citizen or a U.S. green card holder who files U.S. resident tax returns. The main concern is that the taxation of income earned in an RESP is not deferred for U.S. tax purposes.

While a non-resident can continue to be a subscriber of a Canadian RESP and the funds in the plan will be exempt from Canadian tax, under U.S. tax rules, the RESP is considered a foreign trust. The result is that the annual income earned as well as any grant and incentive money received in the year is considered taxable income to the subscriber. Because there is no Canadian tax payable on the RESP, there is no offsetting foreign tax credit.

When the beneficiary draws on the RESP for post-secondary education, the accumulated income, grants and bonds are taxed to the student resulting in double taxation.

This can be avoided by having a Canadian resident who is not required to file a U.S. tax return as the RESP subscriber.

Glossary of Terms

Accumulated Income Payments (AIP): Payments to the subscriber out of the plan consisting of the investment earnings on contributions and government grants.

Beneficiary: Individuals named by the subscriber and to whom, or on whose behalf the promoter agrees to make educational assistance payments when they qualify for these payments under the terms of the plan.

Educational Assistance Payments (EAP): Amounts paid or payable under an RESP to or for an individual (the beneficiary) to assist with the individual's post-secondary education. These amounts consist of the grants as well as the earnings on the grants and contributions.

Family Plan: A type of RESP established for more than one beneficiary. All beneficiaries must be related to the original subscriber by blood or adoption.

Group Plan: Group plans, also referred to as "Education Funds" or "Scholarship Funds" are a set of individual plans that are administered on an age group concept by Scholarship or Group Plan Dealers.

Individual Plan: A type of RESP that is established for only one beneficiary. The beneficiary does not have to be related to the subscriber.

Post-Secondary Education (PSE) withdrawal: The payment of RESP contributions to or on behalf of a beneficiary to help finance his or her post-secondary education.

Promoter: The promoter is the person or organization that offers the education savings plan (ESP) and applies to the Canada Revenue Agency (CRA) for registration as a RESP. The promoter administers all amounts paid into the RESP to pay EAP to or for one or more plan beneficiaries.

Subscriber: The subscriber (or a person acting for the subscriber) is the individual who sets up the RESP, names one or more beneficiaries, and makes contributions to it. A subscriber must be an individual(s); corporations and trusts are not allowed to be a subscriber (unless the trust is the estate of a deceased subscriber).



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- Manulife has strong claims paying ability and financial strength ratings from all of its credit rating agencies
- Is the largest insurance company in Canada and one of the top five in the world
- Manulife was first incorporated in 1887 with Sir John A. Macdonald, Canada's first Prime Minister, as President

¹⁰ As of March 31, 2017.

For more information, please contact your advisor or visit manulife.ca/investments



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