Determining what an RESP beneficiary receives
Providing educational assistance

The principal point of establishing an RESP is to assist in funding a child’s post-secondary education. Generally, there are two types of withdrawal for Educational purposes

1. Educational Assistance Payments (EAPs)
2. Post-Secondary Educational (PSE) Capital Withdrawals

Educational Assistance Payments (EAPs)

The person who establishes the RESP decides how much will be paid during the beneficiary’s education. A portion of each EAP may be made up of accumulated income in the plan and government grants, such as the Canada Education Savings Grant (CESG).

An EAP can only be paid to a beneficiary enrolled in a qualifying educational program, or who is 16 years old and enrolled in a specified educational program, at a post-secondary educational institution.

A qualifying educational program must last at least three consecutive weeks and require at least 10 hours of instruction or work during each week for the duration of the program. A specified program is at least three consecutive weeks in duration, and requires the student to spend not less than 12 hours per month on courses.

The maximum amount of EAPs that can be paid for study in a qualifying program is $5,000 for the first 13 weeks of the program. After than initial 13-week period, there is no limit on the amount of EAPs that can be paid, as long as the student continues to qualify to receive them. For a specified program, the maximum is $2,500 for the 13-week period.

A Subscriber must provide proof of enrollment to the institution administering the RESP in order to permit EAPs to be made. Ensure the beneficiary provides you with the correct information so the proper EAP amount is paid.
Post-Secondary Educational Capital Withdrawals (PSE)

These payments are taken from the contribution amount portion of the RESP account. They are not taxable. There are no limits to the amount of contributions that can be withdrawn once the beneficiary is attending post-secondary education.

These payments are processed without any grant repayment to Employment and Social Development Canada, which administers the CESG.

Subscriber communication with RESP beneficiaries is paramount. Ensure you know the specifics regarding your beneficiaries’ post-secondary program.

When a beneficiary does not attend a post-secondary educational institution

The question often asked when establishing an RESP is: What if the beneficiary doesn’t pursue post-secondary education? The subscriber has a few options.

What if the beneficiary doesn’t pursue post-secondary education? The subscriber has a few options.

For a family plan, the subscriber can name another individual connected by blood or adoption, who is under 21, as a new beneficiary of the plan. It should be noted that, if the RESP has received government grants, the new beneficiary must be a sibling of all the existing beneficiaries. Then any beneficiaries, existing or new, can only get the maximum CESG per beneficiary, $7,200.

If the RESP is not a family plan and the government grants funding cannot be treated as indicated above, the CESG must be repaid to the government. Any accumulated growth can be left in the plan and will be taxed when it is withdrawn.

If a newly designated beneficiary had an existing plan, the new plan must be designated as his or hers before he or she turns 21. If this condition is not met, the transfer to the new plan may be considered an over-contribution and a penalty would apply.

Be prepared for the event that an intended RESP beneficiary does not attend post-secondary education. Understand your options.

Withdrawals of contributions by the subscriber

The subscriber may make contribution withdrawals — withdrawing the contribution portion of the plan for non-educational purposes. Where a refund of contributions is made and the original contribution attracted CESG grant, the grant must be repaid.

Accumulated Income Payment withdrawal

The subscriber of an RESP can decide to make withdrawals from the plan in the form of accumulated income payments (AIPs) if certain conditions are met. A Canadian resident subscriber may request an AIP if one of the following applies:

- The RESP has been in existence for at least 10 years and all the beneficiaries, past and present, are over 21, and not eligible to receive an EAP
- All beneficiaries, past and present, are deceased
- The AIP is made in the 35th year following the plan inception date, or 40th year if the RESP is a specified plan (an individual plan under which the beneficiary is entitled to the disability tax credit for the beneficiary’s tax year that includes the 31st anniversary of the plan)

An AIP is fully taxable as income to the subscriber at his or her marginal tax rate as well as a special 20% penalty tax. However, the subscriber may also transfer the AIP to his or her RRSP, or a spousal RRSP, if there is available contribution room.

The maximum amount eligible for a transfer to an RRSP is $50,000. A tax deduction is available for the transferred amount. Further, there is no penalty tax
applied when the amount is contributed to an RRSP. Finally, in the case of joint subscribers, the rollover can be made only to the RRSP of one of the subscribers.

If an AIP cannot be made, you may consider gifting the RESP proceeds to a qualifying educational institution. While you will not receive a tax donation receipt, you may get satisfaction from paying the funds to the cause of education.

**Have you established an RESP but the intended beneficiary has declined to pursue post-secondary education?** You may wish to consider speaking with your TD advisor and your tax professional to discuss how to structure an AIP in a tax-effective manner.

**Rollover to a registered Disability Savings Plan (RDSP)**

Beginning in 2014, it became possible for AIPs under the RESP to be rolled over on a tax-deferred basis to an RDSP. While the rollover is subject to tax deferral, when the funds are eventually withdrawn as a disability assistance payment, the RESP portion will be treated as earnings and count as taxable income in the hand of the RDSP beneficiary, rather than the RESP subscriber.

To be eligible to rollover the investment income from an RESP to an RDSP, the beneficiary must:

- be eligible for the disability tax credit at the time of the rollover;
- be 59 or less at the end of the calendar year that the rollover is made; and be a resident in Canada.

**And the following conditions must be met:**

- the RDSP documentation has been updated to allow for an RESP rollover while continuing to meet the RDSP requirements
- the RDSP beneficiary is also the beneficiary of the RESP that is rolling over the income
- the RESP permits AIPs and one of the following is met:
  1. the beneficiary has a severe and prolonged mental impairment that prohibits him or from post-secondary education enrollment, or
  2. the RESP has been open for at least 10 years, where each beneficiary in the RESP is at least 21 years of age, and is not eligible to receive EAPs at the time the rollover is made or
  3. the RESP has been open for 35 years
- The RESP subscriber and the RDSP-holder elect in writing to have the rollover take place
- The RESP provider and subscriber as well as the RDSP issuer and holder complete CRA form RC435, Rollover from a Registered Education Savings Plan to a Registered Disability Savings Plan, or a similar form from the RDSP issuer, and file it before the rollover will take place

All government grant balances, e.g., CESG and provincial grants must be repaid and the RESP must be closed by the end of February of the year following the rollover.

**Are you in a position to rollover RESP funds into an RDSP?** You may wish to consult with your TD advisor to facilitate this strategy.

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**Now you can:**

- Determine the amount of the EAPs your beneficiary can receive
- Consider your options if the intended beneficiary does not attend a post-secondary institutions
- Review the potential to rollover RESP funds to an RDSP
- Talk to your TD advisor about tax-effective rollover of AIPs to your RRSP or spousal RRSP
- Ensure any government grants are repaid