# EDUCATION

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## RESP's "Registered Education Savings Plans" – Unconventional Planning Ideas

By Tom R Allain, CFP

Allow me plant a few seeds on the flexibility of RESP's:

**Tax Deferral on Savings and Tax Free Income**

A dollar of tax payable on the earnings in an RESP plan is not payable until maybe 20 years later and by that time the dollar has grown to 2, 3, or 4 dollars. It is like using other people's money as in leveraged investing, and the best part is that a dollar of tax deferred in an RESP is as good as a dollar of tax never paid. The reason is that in almost every case, a student never pays any income tax. In 2009, a full time student would have to earn income in excess of $13,000. This does not take into account other tax deductions the student may be eligible for.

**RESP's - "Realistic Elderly Sheltering Plan."**

RESP's have a great deal of appeal for grandparents. It is a wonderful place to store taxable savings and tax shelter it. Grandparents with say 10 grandchildren can tax shelter up to a lifetime maximum of $50,000 per grandchild. At that rate a large amount of capital can be taken out of taxable circulation in short order.

Grandparents control the capital, which can be withdrawn at any time without tax consequences should the capital, be required. The plan can and should have multiple beneficiaries. The earnings are taxed only in the hands of the beneficiary and only when withdrawn and not to the grandparents. Grandparents find it to be a great place for gifts at Christmas, birthdays and other special events such as making the honour roll. Their Will can deal with the capital in the plan at their death, or direct the capital to remain in the education plan. As the capital withdrawn is not income, there is no T4 slip and it therefore does not affect any entitlement they might have for assistance from the government for health support services and other income related benefits.

**RESP Now – RRSP Later**

With careful planning and the right timing, the same money can be used twice. As a beneficiary will likely be ready for post secondary education before their parents reach retirement, the contributions made to the RESP have the potential to fund two savings goals. You are allowed to carry forward unused RRSP room acquired since 1991. If the 20% CESG grants have been received for the beneficiary any withdrawal of contributions (capital) will be considered to be a withdrawal of the 20% CESG grants first. So care must be taken to time the withdrawal of the subscriber's contributions so as to not trigger repayment of the grant. However, it should be kept in mind that if the grant needs to be repaid, it has been an *interest free loan from the government.* The earnings remain in the plan and accrue to the benefit of the beneficiary. Earnings not used for education can be transferred from an RESP to your RRSP up to $50,000.00, if you have the RRSP room. There are a few conditions, the RESP must have been going for ten years or more and none of the beneficiaries are pursuing post secondary education by the age of 21.

It is important to time the transfer properly as a 20% penalty tax applies to earnings withdrawn that are not offset by RRSP room. This is in addition to the taxable income for the earnings withdrawal.

**Consider Taking a Course! Any Course! Any Subject! Even Cut Classes!**

The government's definition of a post-secondary educational institution is very broad and allows a lot of flexibility for withdrawing the earnings in the hands of the beneficiary. The definition is an educational institution in Canada offering a course at the post-secondary level in which the beneficiary is enrolled in for 10 hours a week of work lasting at least three consecutive weeks.

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So even a simple computer, or decorating course at your local college would qualify the beneficiary to receive the earnings as long as it is 10 hours a week for 3 weeks. For an educational institution outside of Canada the requirement is that the course last at least thirteen consecutive weeks. So, you could go to the University of Hawaii and enrol in the Surfing Course as long as it was a 13-week program. There is a further easing of requirements if the beneficiary has a disability.

Now here comes the neat part:

- You do not have to attend class.
- Correspondence courses qualify
- If you don't pass that doesn't matter either. Unlike pooled plans in that regard.
- Some universities and colleges waive the tuition fee for certain individuals. The most common being people over 65, which could be used on an individual RESP

So, even a spinster/bachelor should have an RESP to go to school when he or she retires on the tax sheltered funds they accumulated during their working years. I don't mean to suggest an abuse of the rules, only to illustrate the flexibility of the program, especially for those who wish to continue their education after retirement from work.

**Start an RESP - Do Not Apply For Any Grants**

When an RESP is used primarily for its tax sheltering advantages it could sometimes be more advantageous to not claim the 20% CESG grant. In a situation where the parents or grandparents are already getting the maximum grant allowed it becomes very attractive to have a family plan and not claim the grant for any of the beneficiaries. This can also be the case if the grandparents need the capital before the grandchildren reach college. If the purpose for tax sheltering is to allow for the capital to be withdrawn latter to fund an RRSP, or to provide capital for say nursing home expenses, there is more flexibility in not claiming any grants and enjoy the tax sheltering with the opportunity to withdraw the capital at any time.

**Estate Planning Opportunities**

The subscriber (owner) of the contributions owns a testamentary asset that can be dealt with in your Wills. In the process of reviewing your financial plan it should be determined if you desire to continue contributions for the beneficiaries, from your estate assets. If so, your Wills will need to be changed to reflect your wishes that contributions be continued for the beneficiaries.

Some grandparents are not too interested in giving more money to their children, but would love a way to give more to their Grandchildren but fear they will squander the funds even if received at age 19. Or, they may worry that even the parents may use the moneys unwisely. The RESP is then a perfect vehicle where the estate of the Grandparents can continue to deposit capital to the RESP knowing that the funds cannot be used until their executor allows it. At that time the earnings can be used for their normal purpose of funding education and the executor can use the capital to add to the education funding, or use it for some other bequest as laid out in the will document. Most, but not all financial institutions allow for joint subscribers (JWROS) on a new plan. In this case the surviving joint subscriber would receive the ownership of the trust capital without probate of the estate.

In summary, from the examples above you can see that having an RESP "Registered Educational Saving Plan" can and should be a part of your financial plan.

*Tom Allain, CFP is an Independent Certified Financial Planner specializing in comprehensive retirement planning, investment and insurance planning to business owners/managers, and business professionals. (905) 796-1219, or email tom@allainassociates.com or visit us at www.allainassociates.com*