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RESP GUIDE



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Understanding the RESP

A **Registered Education Savings Plan (RESP)** is a government-registered account designed to help families save for a child's post-secondary education. It offers tax-deferred investment growth and government grants, making it one of the most effective tools for education funding.

The RESP is a contract between the subscriber (e.g. the parent), the Minister designated for the purposes of the Canada Educations Savings Act, and the promoter, that is, the financial institution or entity that offers and administers the RESP[1].

Types of RESPs

There are three types of Registered Education Savings Plans (RESPs) available in Canada: **individual, family, and group RESPs**.

An **individual RESP** is designed for one beneficiary and is ideal when there is no need to share funds between multiple children. The benefit of an individual plan is that the beneficiary can be a non-relative, which may suit some people in certain situations.

A **family RESP** allows multiple beneficiaries, making it a flexible option for families with more than one child, as grants and investment growth can be shared among eligible children. A multi-beneficiary plan may include as beneficiaries only the subscriber's children, brothers, sisters, grandchildren, or great-grandchildren, by blood or adoption.

A **group RESP**, offered by scholarship plan dealers, pools contributions from multiple investors and follows a structured payout schedule based on the child's age and enrollment. While group RESPs provide disciplined savings, they often have rigid rules and high upfront fees, making individual or family RESPs more flexible choices for most investors.

RESP Features

- **Maximum Contribution:** Since 2007, the maximum lifetime contribution per child is $50,000. However, there is no annual limit. There is a penalty tax of 1% per month on excess contributions. Another important thing to note is that contributions are not tax deductible, but as mentioned before, a RESP offers growth within the plan on a tax-deferred basis.
- **Allocating Contributions in a Family RESP:** When contributing to a Family RESP, you must designate how the contribution is allocated among the beneficiaries at the time of contribution. By default, if you have multiple beneficiaries, most RESP providers will split contributions evenly (e.g., a $3,000 deposit would typically be divided as $1,500 per child for a plan with 2 children). However, you can choose to customize the default allocation or the allocation at the time of each contribution if you want one child to receive a larger portion, for example, if one child is closer to post-secondary education or if you want to maximize CESG grants for a specific beneficiary. Managing contributions this way allows for greater flexibility in planning RESP savings based on each child's education needs and contribution history.
- **CESG Matching:** The federal government provides a Canada Education Savings Grant (CESG), which is worth 20% of the first $2,500 of annual RESP contributions. The lifetime amount per beneficiary is $7,200. An additional CESG amount is available for low-income families.
- **Canada Learning Bond (CLB) for low-income families:** The CLB is available for eligible children from low-income families born in 2004 or later and provides an initial payment of $500 for the first year the child is eligible, plus $100 for each additional year of eligibility, up to age 15, for a maximum of $2,000. Personal

contributions are not required to receive the CLB[2]. For July 1, 2024, to June 30, 2025, the income eligibility amount for CLB is based on the following[3]:

Number of Children	Adjusted Income level
1 to 3	Less than or equal to $55,867
4	Less than $63,036
5	Less than $70,234

- **How long can RESPs stay open**: Contributions into an RESP can be made until 31 years after it was first opened. The RESP will then expire at the end of the 35th year after the plan was first opened. Transferring the RESP does not reset the date.

CESG Features

The **Canada Education Savings Grant (CESG)** is structured as follows:

- The annual grant a beneficiary can receive is up to $500 per year, up to and including the year they turn 17.
- Eligible children from families with middle- or low-income could receive additional CESG of up to another $100 each year. Eligible beneficiaries from families with middle- and low-income can receive an additional 20% (If the 2024 adjusted family income is $55,867 or less) or 10% (If 2024 adjusted family income is greater than $55,867 and up to $111,733) of the first $500 contributed to the RESP.
- The lifetime CESG limit per beneficiary is $7,200.
- If the beneficiary has unused grant room from previous years, the maximum CESG paid in a single year is $1,000 (which equals 20% of the first $5,000 contributed).
- Contributions exceeding $5,000 in a single year will not receive any additional CESG.

The following scenario provides a better idea about how the grants work: Emma's parents open an RESP at birth but do not contribute for the first few years. They start contributing when she turns 3 years old, but they assume they can catch up all at once. They earn more than $111,733 as a family, so they are not eligible for additional CESG.

Year	Contribution Amount	Grant Room Earned	Accumulated Grant Room	Grant Received
0	-	500	500	-
1	-	500	1,000	-
2	-	500	1,500	-
3	10,000	500	2,000	1,000
4	5,000	500	1,500	1,000
5	5,000	500	1,000	1,000
6	2,500	500	500	500
7	2,500	500	500	500
8	2,500	500	500	500
9	2,500	500	500	500
10	2,500	500	500	500
11	2,500	500	500	500
12	2,500	500	500	500
13	2,500	500	500	500
14	2,500	200	200	200
15	2,500	-	-	-
Total	**45,000**	**7,200**		**7,200**

As shown above, no contributions were made during the first three years, resulting in $1,500 of unused CESG grant room. When a $10,000 contribution was made in Year 3, only $1,000 in grants was received, as the CESG catch-up limit is capped at $1,000 per year, even with available grant room. They realize their error, so use the next two years to top up the RESP with $5,000 each year, where the full $1,000 maximum grant was received. By Year 15, no further grants were paid, as the beneficiary had already reached the lifetime CESG limit of $7,200.

Grant Eligibility Rules for Older Beneficiaries (Ages 16-17)

To qualify for CESG in the years the beneficiary turns 16 and 17, at least one of the following must apply:

- At least $2,000 was contributed before the end of the calendar year in which the child turned 15 (and not withdrawn).
- At least $100 was contributed in four separate years before the child turned 15 (and not withdrawn).

Provincial Grants

- **Quebec Education Savings Incentive (QESI)** – The QESI is equal to 10% of annual RESP contribution for eligible beneficiaries, up to $3,600 in grants over time.
- **British Columbia Training and Education Savings Grant (BCTESG)** – A one-time $1,200 **grant** will be contributed when the child turns six. Unlike the CESG, parents **do not need to contribute** to receive the BCTESG.

RESP Contribution Strategies

Choosing the right contribution strategy for a Registered Education Savings Plan (RESP) can significantly impact long-term growth and the amount of government grants received. Below are some strategies to optimize RESP savings based on different financial situations

- **Standard Approach:** Contribute $2,500 per year from birth to age 14 to receive the full $7,200 CESG while maximizing tax-free growth. If $2,500 isn't feasible, contributing $2,000 per year still allows full CESG by age 17.
- **Front-Loading Options:**
    - A one-time $50,000 deposit grows tax-free but only earns $500 in CESG, leaving most grants unclaimed.
    - A $14,000 initial contribution, followed by $2,500 annually, balances early compounding and full CESG eligibility.
- **Investing Outside the RESP & Contributing Annually:** Instead of depositing $50K upfront, some families invest it in a TFSA or non-registered account and use the capital and investment returns to fund $2,500 RESP contributions each year, potentially outperforming a one-time lump-sum RESP contribution, even after taxes.
- **Starting Late?**: The latest a child can start receiving CESG and still reach the $7,200 maximum is age 10 (by contributing $5,000 per year until age 17).

Withdrawing RESP Funds: Tax-Efficient Strategies

Once your child enrolls in post-secondary education, it's time to start withdrawing from the RESP. Understanding how withdrawals work can help you minimize taxes and maximize government grants while ensuring education expenses are covered.

Types of RESP withdrawals

When withdrawing from an RESP for the beneficiary's education, funds fall into two categories:

1. Educational Assistance Payments (EAPs) – Grants & Investment Growth

EAPs consist of the Canada Education Savings Grant (CESG), Canada Learning Bond (CLB), provincial benefits and investment earnings. These are considered taxable income for the student, but since most students have little to no income and tuition credits, the tax impact is often minimal.

Key Limits:

- During the first 13 weeks of full-time studies, the maximum EAP withdrawal is $8,000.
- After 13 weeks, withdrawals can be unlimited, as long as they remain reasonable for education expenses. If there is a 12-month period where the beneficiary is not enrolled in a qualifying program, the $8,000 maximum applies again.

  However, there are annual EAP thresholds ($28,881 for 2025). If the total of EAPs requested exceeds the annual threshold, the financial institution must determine the reasonableness of the expenses. They can ask for additional information and documentation, including receipts, from the subscribers and beneficiaries of the RESP[4].

- For part-time students, the limit is $4,000 including any withdrawals made in the preceding 13 weeks.

2. Post-Secondary Education (PSE) Withdrawals – Contributions

This portion consists of the **original contributions made to the RESP**. Since these were made with after-tax dollars, they can be withdrawn tax-free at any time while the beneficiary is at school. There is no limit to how much can be withdrawn as a PSE from the contribution portion while the beneficiary is in school. This portion of the RESP can be used to supplement the EAP if it is not sufficient and to better plan the beneficiary's taxable income.

Given that PSE withdrawals can be used flexibly without tax consequences, it may make sense to utilize the EAPs first if there are concerns about the beneficiary not continuing with school or if their income is expected to rise, which we discuss in more detail next.

How to Structure RESP Withdrawals Efficiently

1. Prioritize EAP Withdrawals When Income Is Low

Since EAPs, which include government grants and investment growth, are taxable in the student's hands, it's generally best to withdraw them in years when the student's income is low to minimize taxes.

While many students earn little to no income in their early years of school, this isn't always the case. Consider these factors when deciding when to take EAP withdrawals:

- **Early Years (Lower Income)** – Students may work fewer hours or have lower-paying part-time jobs. This makes early years ideal for EAP withdrawals, as the student is more likely to pay little or no tax due to tuition credits and low taxable income.
- **Later Years (Higher Income Potential)** – As students gain experience, they may secure higher-paying summer jobs, internships, or co-op placements. If a student expects to earn more in later years, it may be best to withdraw more EAP earlier when their income is lower.
- **Gap Years & Work Before School** – If a student takes a gap year and works full-time before starting school, their income for that year may be higher. In this case, it may be better to delay EAP withdrawals until their first full calendar year of school when they have lower income and tuition tax credits.
- **Co-op Programs & Work-Integrated Learning** – Many co-op students alternate work terms and study terms, meaning some years they may have 8 months of school and only 4 months of work, while other years they may have 8 months of full-time work and only 4 months of school.
    - In study-heavy years (e.g., 8 months of school, 4 months of work), EAP withdrawals make sense because income is lower.
    - In work-heavy years (e.g., 8 months of work, 4 months of school), EAP withdrawals should be minimized to avoid unnecessary taxation.
- **Plan withdrawals across multiple years** – Instead of taking large EAP withdrawals in a single year (which may push the student into a higher tax bracket), spread them out over multiple years to keep taxable income lower.

Example: Structuring EAP Withdrawals for Different Study Paths

Scenario	Best EAP Withdrawal Strategy
Traditional 4-Year Degree (Minimal part-time/summer work in early years, higher-paying summer job in later years, full-time work after graduation)	Withdraw more EAP in years 1-3 when income is lowest; reduce withdrawals in year 4 if summer job or full-time income is higher.
Co-op Program (5-Year Degree with Alternating Work Terms)	Withdraw more EAP in study-heavy years (e.g., Year 4 with two school terms). Minimize EAP in work-heavy years (e.g., Year 3 with two co-op terms).
Gap Year Before School (Worked full-time for 8 months before starting university)	Delay EAP withdrawals until the first full calendar school year to avoid taxable withdrawals in a high-income year.

2. **Use PSE Withdrawals for Additional Needs**

   Since PSE withdrawals are tax-free, they can be used strategically to supplement education costs when needed. They can also be saved for later years (e.g., graduate school) without restrictions or be withdrawn as a lump sum at the end of the beneficiary's schooling if there were unneeded excess funds in the RESP. They can also be used to supplement EAP withdrawals in years when taxable income is already high.

3. **Keep Proper Records**

   Proof of enrollment is required for both PSE and EAP withdrawals. Proof of enrollment documents must come from the educational institution and generally have to provide the following information:

   - Full Name of the beneficiary/student
   - Program type
   - Semester/term start date, duration and year of the program
   - Name of post-secondary educational institution
   - Beneficiary/student status: full-time or part-time

4. **Family RESP: Flexible Withdrawals Across Beneficiaries**

   Family RESPs provide greater flexibility when withdrawing funds. While contributions are allocated per child at the time of deposit, all funds are pooled within the plan—meaning withdrawals do not have to be based on how much was contributed per child. The only restriction is that each beneficiary can receive a maximum of $7,200 in CESG grants paid out to them. But investment earnings and contributions can be split between beneficiaries, allowing parents to allocate funds based on each child's education costs.

   For example, if one child attends a more expensive university and lives away from home, while another child lives at home and attends a lower-cost college, parents can withdraw more funds for the child with higher expenses while still ensuring both children benefit from the RESP savings.

What Can RESP Funds Be Used For?

RESP funds can be used to cover a wide range of education-related expenses once the beneficiary enrolls in an eligible post-secondary program. This includes tuition, textbooks, school supplies, and mandatory fees, as well as living expenses such as rent, groceries, and transportation. There are no strict restrictions on how Post-Secondary Education (PSE) withdrawals (the original contributions) are spent, while Educational Assistance Payments (EAPs) (grants and investment earnings) should be used for costs directly related to education.

Advanced RESP Tax Strategies

1. **RESP & Family Tax Efficiency**

    - Since EAP withdrawals are taxed in the student's hands, an RESP effectively allows parents to shift taxable investment income to a lower-income individual.
    - **If the parents' tax bracket is high**, using an RESP is more tax-efficient than investing in a non-registered account, where investment income would be taxed annually.
    - **RESP withdrawals do not affect eligibility for Canada Child Benefit (CCB)** since RESP income is taxable in the student's hands. This is particularly relevant if the parents have younger children and are still receiving Canada Child Benefit (CCB) while withdrawing from an RESP for an older child.

2. **Combining RESPs with Other Tax Strategies**

    - **TFSA Contributions:** Parents can use a TFSA for additional tax-free education savings, which has no withdrawal restrictions.

What If the Child Doesn't Attend Post-Secondary Education?

If the beneficiary does not pursue post-secondary education, parents have several options for handling unused RESP funds. However, there are rules regarding when and how funds can be withdrawn or transferred to ensure grants and investment growth are used efficiently.

1. Keep the RESP Open – The 35-Year Rule

An RESP does not have to be closed immediately if the beneficiary is undecided about school. The account can remain open for up to 35 years from the date it was opened.

- This gives the beneficiary time to change their mind and enroll later.
- Allows RESP funds to be used for graduate school, trade school, or other eligible programs.
- If a sibling is still using RESP funds, keeping the account open maintains flexibility.

For example, if parents opened an RESP when their child was born, the funds can remain in the plan until the child turns 35. This gives plenty of time for delayed education or career shifts.

2. Reallocate the RESP Funds to Another Beneficiary

In a Family RESP, unused CESG grant of one beneficiary can be reallocated to another sibling as long as the latter has not already received $7,200 in CESG grants. The options for the remaining funds are:

- If one child does not attend school but another does, RESP funds can be used for the sibling's tuition and living expenses.
- If a sibling is planning to pursue graduate school, RESP funds can be left in the account for them.

Additionally, if one child completes an undergraduate degree but does not need the full RESP, the remaining balance can be used for a sibling's medical school tuition.

3. Withdraw Unused Contributions & Investment Growth (Accumulated Income Payments - AIP)

If an RESP has unused investment growth, the funds can be withdrawn as Accumulated Income Payments (AIP). To be eligible for an AIP, one of the following conditions must be met:

a) The RESP has been in existence for at least 10 years, and each beneficiary has reached 21 years of age and is not currently eligible to receive Educational Assistance Payments (EAPs).

b) The RESP has been in existence for at least 35 years.

c) All beneficiaries under the RESP are deceased.

If the RESP must be closed, withdrawals depend on the type of funds in the account.

- **Contributions (PSE Withdrawals):**
    - The original contributions (Post-Secondary Education (PSE) withdrawals) can be taken out tax-free since they were made with after-tax dollars.
    - Parents can use these funds for other financial goals, including helping a child start a business, investing, or covering other family expenses.
- **CESG Grants:**
    - Any unused CESG grants must be repaid to the federal government.
    - CESG funds cannot be transferred, withdrawn, or redirected for other purposes.
- **Investment Earnings (Accumulated Income Payments - AIP):**
    - Any growth in investments (capital gains, dividends, or interest) is considered an Accumulated Income Payment (AIP) if withdrawn when the RESP is closed.
    - AIP is taxed at the subscriber's marginal tax rate plus a 20% penalty.

4. Transfer Investment Growth (AIP) to an RRSP or RDSP

To avoid tax and penalties, AIP funds can be transferred tax-free to certain registered accounts.

- **Transfer AIP to an RRSP:**
    - If the subscriber (parent or grandparent) has available RRSP contribution room, up to $50,000 in AIP can be transferred tax-free to their Registered Retirement Savings Plan (RRSP).
    - This avoids the 20% penalty and immediate taxation of the RESP's investment earnings.
- **Transfer RESP Funds to a Registered Disability Savings Plan (RDSP):** If the child has a disability and is eligible for the Disability Tax Credit (DTC), RESP investment growth can be transferred to an RDSP. AIP can be rolled over tax-free into the RDSP to provide long-term financial support for the disabled individual. CESG grants must still be repaid, but this ensures investment growth is not lost. To qualify for an **education savings rollover** from an RESP to a Registered Disability Savings Plan (RDSP), the beneficiary must meet the age and residency requirements for RDSP contributions. Additionally, **one** of the following conditions must be met:
    - The beneficiary has severe and prolonged mental impairment that prevents them from pursuing post-secondary education.

- The RESP has been open for at least 35 years.
- The RESP has been open for at least 10 years, and all beneficiaries are at least 21 years old and not eligible to receive Educational Assistance Payments (EAPs)[5]

5. Gifting RESP Funds to an Educational Institution

If the RESP is not needed, subscribers can donate the funds to a post-secondary institution. The funds must go to a designated educational institution (e.g., a university, college, or trade school). Investment growth and contributions can be donated, but CESG grants must still be repaid to the government.

Final Thoughts

RESPs are a cornerstone of efficient education funding and tax planning for Canadian families. When combined with smart investment and withdrawal strategies, they can significantly ease the financial burden of post-secondary education.

Would you like help structuring RESP contributions or withdrawals for your family's education plan? Let's discuss your options.

References

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