Registered Education Savings Plan

Frequently asked questions

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Registered Education Savings Plan (RESP)

Government grants and tax-deferred growth make RESPs an attractive way to save for the rising cost of a child's post-secondary education. The following questions and answers provide important information about RESPs and government grants, and how they work.

Please note: In this document, "you" and "I" refer to the subscriber who contributes to an RESP on behalf of a beneficiary.

Introduction

Q. What is an RESP?

A. An RESP is a tax-deferred education savings vehicle through which the federal government allows a subscriber to save money for a beneficiary's post-secondary education.

Q. What costs does the RESP cover?

A. RESP money can be used to cover the student's tuition, housing, transportation, books, supplies and other incidentals relating to the student's education.

Q. Is there a limit to the amount that can be contributed?

A. Yes. Effective January 1, 2007, the lifetime RESP contribution limit per beneficiary was increased to $50,000 from $42,000 and the annual contribution limit of $4,000 has been eliminated.

Q. Can a lump sum contribution be made?

A. Yes. A lump-sum contribution of up to $50,000 lifetime maximum can be made all at once to an RESP; however, the entire lump sum will not be eligible for a government grant. Please note that future government grants would not be available on the lump-sum amount contributed.

Q. What are the relationships within an RESP?

A. A subscriber is the person who creates the plan and who makes contributions to the plan. This could be anyone. However, if the RESP is a family plan, the beneficiaries must be related by blood or adopted by the subscriber. For this purpose, blood relationships include children, brothers, sisters, grandchildren and great-grandchildren. The subscriber, the subscriber's spouse or common-law partner, nieces or nephews are not considered blood-related to the subscriber.

A beneficiary is the person who will receive educational assistance payments from the RESP to finance his or her education.

Q. Can there be more than one RESP per child?

A. Yes, but the total contributed amounts across all plans must not exceed the lifetime contribution limit of $50,000 per beneficiary. The subscribers are responsible for tracking the total amount contributed to all RESPs on behalf of the beneficiary.

Individual and family plans

Q. What is an individual plan and who can be a beneficiary?

A. An individual plan is an RESP set up by a subscriber for one beneficiary. A subscriber may designate anyone as the beneficiary of the plan, including himself/herself, a spouse or a common-law partner. There is no age restriction on the beneficiary of an individual plan. The individual plan is the only plan available that allows the beneficiary to be unrelated by blood or adoption and any beneficiary over 21.

Q. What is a family plan and who can be a beneficiary?

A. A family plan is an RESP set up by a subscriber for one or more beneficiaries. Each beneficiary must be under 21 years of age at the time of designation and must be related to the subscriber by blood or adoption. Children, grandchildren, brothers and sisters are considered blood relationships, while nieces and nephews are not. Subscribers may not designate themselves or a spouse or a common-law partner as a beneficiary under a family plan. There are further restrictions when applying for certain government grants. (See pages 4 and 5 for restrictions.)

Government grants

Q. What government grants are available?

A. The government grants available for RESPs are:

- Basic Canada Education Savings Grant (Basic CESG)
- Additional Canada Education Savings Grant (Additional CESG)
- Canada Learning Bond (CLB)
- Alberta Centennial Education Savings Grant (ACES Grant)
- Quebec Education Savings Incentive (QESI)

Please note: Invesco is authorized to administer all of these government grants.

Q. What is Human Resources and Skills Development Canada (HRSDC)?

A. HRSDC is the branch of the federal government of Canada that is responsible for monitoring and paying the Basic CESG, Additional CESG, CLB and ACES Grant.

Basic and Additional Canada Education Savings Grant (CESG)

Q. What is the Basic CESG?

A. To promote education savings and give a boost to RESPs, the federal government introduced the Basic CESG in 1998. From 1998 to 2006 inclusive, the Basic CESG was equal to 20% of the annual contributions made to an RESP, to a maximum of $400 per calendar year for each beneficiary. Effective January 1, 2007, the maximum annual RESP contribution that will qualify for the 20% CESG was increased to $2,500 from $2,000 for a maximum $500 Basic CESG. The lifetime maximum of CESG that one beneficiary can receive is $7,200.

In order to be eligible for the Basic CESG, the beneficiary must be a Canadian resident at the time of the contribution, and the contributions must be made before the calendar year the beneficiary turns 18. In addition, certain conditions must be met for the beneficiary to receive Basic CESG in the calendar year the beneficiary turns 16 or 17 years old. (See page 5 for the age 16/17 rules.)

Q. What is the Additional CESG?

A. Additional CESG is a supplement to the Basic CESG, and the additional amount is based on the net family income of the child's primary caregiver. The primary caregiver is the person who receives the Canada Child Tax Benefit (CCTB). The net family income is reported on the primary caregiver's CCTB statement provided by Canada Revenue Agency (CRA) each July. The Additional CESG amount can change over time as the net family income changes.

If the net family income is below $41,544,[†] the Additional CESG will be 20% on the first $500 contributions made in a calendar year to the RESP.

If the net family income is between $41,544 and $83,088,[†] the Additional CESG will be 10% on the first $500 contributions made in a calendar year to the RESP (see page 5).

[†] 2011 income brackets, indexed annually.

Q. How do you apply for the Basic CESG?

A. The beneficiary must meet the following eligibility requirements:

- A valid Social Insurance Number (SIN)
- Be named in an established RESP
- Is a Canadian resident at the time the contribution is made
- Contribution is made prior to the end of the calendar year in which the child turns 17. Special conditions apply for beneficiaries turning 16 or 17 in the calendar year (see page 5)

If the beneficiary meets the above requirements, the subscriber must provide the promoter with a duly completed government grant application. CESG will only be paid on contributions accepted by HRSDC within three years of the contribution date.

Q. How do you apply for the Additional CESG?

A. The beneficiary must meet the requirements for the Basic CESG and the following:

- RESP is an individual plan; or RESP is a family plan in which all beneficiaries must be siblings of each other. Invesco requires a declaration from the subscriber confirming that all beneficiaries are siblings of each other
- Contribution was made to the RESP on or after January 1, 2005
- Beneficiary's primary caregiver (usually the mother) has a valid SIN
- Beneficiary's primary caregiver has applied and is entitled to receive the CCTB, commonly known as the baby bonus or family allowance
- For the 10% Additional CESG, the beneficiary is a dependent of a primary caregiver whose net family income is less than $83,088[†]
- For the 20% Additional CESG, the beneficiary is a dependent of a primary caregiver whose net family income is less than $41,544[†]

If the beneficiary meets the above requirements, the subscriber must provide the promoter with a duly completed government grant application. The primary caregiver's SIN and written consent must be provided on the application. CESG will only be paid on contributions accepted by HRSDC within three years of the contribution date.

† 2011 income brackets, indexed annually.

Q. Does Basic CESG room accumulate for every child even if an RESP does not exist?

A. Yes. Basic CESG room accumulates for each eligible child who resides in Canada from his or her birth year or from 1998 (whichever is later) until the end of the calendar year of his or her 15th birthday, whether or not he or she is a beneficiary of an RESP. This grant room can be carried forward to future years' RESP contributions; however, the maximum CESG annual payout limits will apply. CESG will only be paid or accumulate in the calendar years that the beneficiary is 16 and 17 if the beneficiary meets the age 16/17 conditions (see below).

Q. Can unused CESG amounts be carried forward?

A. Yes. If from 1998 to 2006 (inclusive) you contributed less than $2,000 annually to an RESP or less than $2,500 as of 2007, you may apply for the unclaimed Basic CESG in the following years. From 1998 to 2006, if CESG room was available, the maximum annual contribution of $4,000 could have attracted up to a maximum total of $800 CESG.

As of January 1, 2007, an annual contribution of $5,000 may receive the maximum annual CESG payment of $1,000 if there is unused CESG carryforward room from previous years. The beneficiary must be eligible to receive the CESG for that calendar year in order to be eligible for the carryforward room. (See page 4 to ensure beneficiary eligibility for missed years.) The Additional CESG, however, does not carry forward if contributions were not made in a previous eligible year.

The combined lifetime limit for the Basic and Additional CESG remains at $7,200 for each beneficiary.

Q. What is the maximum age for a child to qualify for the CESG?

A. HRSDC will only pay the CESG on contributions for beneficiaries up to the end of the calendar year of his or her 17th birthday. For beneficiaries turning 16 or 17 in the calendar year, the CESG will only be paid if:

1) there have been contributions for the beneficiary to any RESPs of at least $100 per year in any four years prior to the calendar year the beneficiary turned 16 and these contributions have not been withdrawn, or

2) there have been contributions for the beneficiary to any RESPs totalling at least $2,000 prior to the calendar year the beneficiary turned 16 and these contributions have not been withdrawn.

Canada Learning Bond (CLB)

Q. What is the CLB?

A. The CLB is a special bond paid to RESPs for children born on or after January 1, 2004 and whose families may not normally be able to save for their children's post-secondary education. RESP contributions are not required to receive the CLB.

- $500 is paid for the first benefit year of eligibility
- $100 is paid for any subsequent year of eligibility up to and including the child's 15th year
- The maximum benefit for any one child is $2,000
- CLB payments do not count as part of the $7,200 CESG lifetime limit

Q. How do you apply for the CLB?

A. The beneficiary must meet the following requirements:

- Child is a Canadian resident born on or after January 1, 2004
- Child has a valid SIN
- Child must be a named beneficiary on an established RESP where:
  - RESP is an individual plan, or
  - RESP is a family plan in which all beneficiaries are siblings of each other. Invesco requires a declaration from the subscriber confirming that the beneficiaries are siblings of each other
- Child's primary caregiver (usually the mother) has a valid SIN
- Child's primary caregiver receives the National Child Benefit Supplement (NCBS) for at least one month of the benefit year. The NCBS is a supplement to the CCTB, and amounts paid are indicated on the primary caregiver's CCTB annual statement sent by Canada Revenue Agency (CRA) every July

If the beneficiary meets the above requirements, the subscriber must provide the promoter with a duly completed government application that requests the CLB before the beneficiary's 21st birthday. The government accrues the CLB payments without interest until an application is made. The primary caregiver's SIN and written consent must be provided in the government application.

Alberta Centennial Education Savings (ACES) Grant

Q. What is the ACES Grant?

A. The ACES Grant was introduced by the government of Alberta to encourage families to plan and save for their children's post-secondary education. It is funded by the Alberta government and paid into RESPs, and not to a child's parents.

- $500 is available to children born on or after January 1, 2005, to Alberta residents
- $100 is available to children who turn 8, 11 and 14 in 2005 or later
- The maximum a beneficiary can receive is $800
- ACES Grants do not count as part of the $7,200 CESG lifetime limit

Q. How do you apply for the $500 ACES Grant?

A. The beneficiary must meet the following requirements:

- Child is born on or after January 1, 2005
- Child's parent or legal guardian is a resident of Alberta and ordinarily present in Alberta at the time of request
- Child has a valid SIN
- Child must be a named beneficiary on an established RESP where:
  - RESP is an individual plan, or
  - RESP is a family plan in which all beneficiaries are siblings of each other. Invesco requires declaration from the subscriber confirming that the beneficiaries are siblings of each other
- Parent or legal guardian has provided proof of Alberta residency

If the beneficiary meets the above requirements, the subscriber must provide the promoter with a duly completed government application that requests the ACES Grant within six years of the child's date of birth. The custodial parent or legal guardian's consent is required.

Q. How do you apply for the $100 ACES Grant?

A. The beneficiary must meet the following requirements:

- Child has attained the age of 8, 11 or 14 in 2005 or later
- Child's parent or legal guardian is a resident of Alberta and ordinarily present in Alberta at the time of request
- Child has a valid SIN
- Child must be a named beneficiary on an established RESP where:
  - RESP is an individual plan, or
  - RESP is a family plan in which all beneficiaries are siblings of each other. Invesco requires a declaration from the subscriber confirming that the beneficiaries are siblings of each other
- Parent or legal guardian has provided proof of Alberta residency
- Child is attending school in Alberta or, if outside Alberta, a school deemed satisfactory by the Minister of Advanced Education, Government of Alberta
- $100 contribution has been made on behalf of the beneficiary within 12 months prior to each ACES Grant application

If the beneficiary meets the above requirements, the subscriber must provide the promoter with a duly completed government application that requests the ACES Grant within six years following the child's 8th, 11th and 14th birthdays. The custodial parent or legal guardian's consent is required.

Q. What is the Quebec Education Savings Incentive (QESI)?

A. The incentive is a refundable tax credit for eligible beneficiaries, paid directly into an RESP opened with a financial institution or with any other RESP provider that offers the QESI. A single beneficiary cannot be granted more than $3,600 QESI in his/her lifetime for all the RESPs of which he/she is a beneficiary. Please note that, in general, "grants" will include the QESI; however, it is actually considered a tax measure under the Taxation Act (Quebec).

Q. How do you apply for the QESI?

A. To be entitled to the QESI, the beneficiary must meet all of the following conditions:

- Be younger than 18 years old at the beginning of the taxation year
- Have a valid SIN
- Be a resident of Quebec on December 31 of the taxation year†
- Be a designated beneficiary of the concerned RESP
- Net calculation of annual contributions is greater than $0
- Must meet the age 16/17 requirements in the year the beneficiary turns 16 or 17
- A prescribed application is not required

† Please note that the QESI became effective February 21, 2007. For the 2007 taxation year, only net contributions covering the period from February 21, 2007 to December 31, 2007 will be used to define the amount to be filed.

Q. How are net contributions calculated for filing purposes?

A. Net contribution amount equals:

+ Contribution purchases in cash/pre-authorized cheque or in kind
+ RESP transfer in contributions (year-to-date amounts only)
– Contribution withdrawals
  (refund of contributions or post-secondary education contribution withdrawal, etc.)
– RESP transfer-out contributions (year-to-date only)

Q. How much Basic QESI can eligible beneficiaries receive?

A. An eligible beneficiary can receive an amount equal to 10% of the net contributions up to a maximum of $250 for a taxation year. The taxation year of 2007 is defined as the period from February 21, 2007 to December 31, 2007 inclusive, as the program became effective February 21, 2007. For other years, it is defined as the calendar year (i.e., January 1 to December 31).

Q. Does QESI have a carryforward provision?

A. The Quebec government has termed the carryforward room for the Basic QESI as "accumulated rights."

Every eligible beneficiary begins to accumulate QESI carryforward from 2007 or the year in which he or she was born (whichever is later), even if he or she did not have an RESP in place or hasn't make a contribution into an RESP. The maximum Basic QESI that a beneficiary may receive for a specific taxation year, taking into consideration any carryforward room after 2007, is $500. This is separate from any QESI Increase that beneficiary may receive.

QESI carryfoward room does not accumulate for any taxation year in which a beneficiary is not a resident of Quebec as of December 31 of that taxation year.

QESI carryfoward room ends in the calendar year the beneficiary turns 18.

Q. If a family qualifies for QESI Increase, how much will the beneficiary receive?

A. To help low-income families, an increase of up to $50 per year, calculated on the basis of net family income, may be added to the Basic QESI amount.

- 20% QESI (10% Basic + 10% Increase) will be awarded for the first $500 in contributions per beneficiary per year for a family with a net annual income of $39,060 or less†

- 15% QESI (10% Basic + 5% Increase) will be awarded for the first $500 in contributions per beneficiary per year for a family with a net annual income between $39,061 and $78,120†
- The Basic QESI and QESI Increase amounts combined cannot exceed the beneficiary lifetime limit of $3,600
- It is not possible to carry forward the unused QESI Increase

† 2011 income brackets, indexed annually.

Q. Are the government grants included in the calculation of the $50,000 lifetime contribution limit to an RESP?

A. No, the lifetime contribution limit of $50,000 excludes all government grants as well as the distributions and income earned on the investments in the plan.

Q. If I hold more than one RESP, which account will receive the government grants?

A. The rules are different for each type of government grant.

Basic and Additional CESGs

When multiple applications for the CESG are made in the same filing period (Invesco files applications in good order with HRSDC on a monthly basis), the CESG is deposited into the RESP that submitted the contribution with the earliest date. If contributions relating to the same beneficiary are made on the same date, HRSDC will automatically split the Basic CESG proportionately. The Additional CESG will be paid on the first eligible contribution accepted by HRSDC. As of December 31, 2004, applications for the CESG must be accepted and paid by HRSDC within three years of the contribution date, or the grant will not be paid.

Canada Learning Bond

The CLB payment is always made to one promoter at a time. Once a CLB application has been accepted, all future eligible CLB payments will be directed to the same RESP unless the primary caregiver designates another RESP to receive the CLB. If more than one request is received in a filing period, the CLB will be paid to the oldest request, but the next payment will be directed to the most recently dated request.

A subscriber may request an outstanding CLB for a beneficiary up to the beneficiary's 21st birthday, but the beneficiary must be the subscriber if he or she is already 18.

Alberta Centennial Education Savings Grant

The current eligible ACES Grant payment is made to the oldest and first-accepted request at HRSDC. Subscribers must apply for any subsequent grants when the beneficiary has reached the appropriate milestone age, as future payments are not automatic. The subscriber and custodial parent or legal guardian are required to confirm that the beneficiary meets all the eligibility requirements at each milestone age.

Quebec Education Savings Incentive

When more than one promoter files an application to obtain the QESI for the same beneficiary and same taxation year within the 90 days following the end of the taxation year, a sharing rule is applied to determine the amount of QESI for each promoter. The sharing rule is a proportional split between the total net contributions filed, and applies to both the Basic QESI and the QESI Increase. If the promoter files a QESI request after this deadline, the first-come, first-serve rule is applied.

Contributions

Q. Who can contribute to an RESP?

A. Anyone can contribute to an individual plan. Only a blood relative may contribute to a family plan. All contributions are considered to have been made by the subscriber.

Q. I am living abroad and would like to set up an RESP for my child. Is this permitted?

A. The subscriber doesn't need to be a Canadian resident for the RESP to qualify for the government grants, but he or she must provide a valid SIN when setting up the RESP. The child, however, must be a Canadian resident to be a beneficiary, to have contributions made on his or her behalf and also to receive government grants. Keep in mind that not all countries permit their residents (subscribers) to purchase Canadian mutual funds.

Q. How long can I contribute to an RESP?

A. Due to legislative changes in 2008, contributions may be made to an RESP up to December 31 of the 31st year following the RESP's year of inception, but total contributions for a beneficiary cannot exceed $50,000, the lifetime limit. Contributions for a beneficiary on a family RESP are only allowed until his or her 31st birthday. All RESPs must be terminated by December 31 of the 35th year following the year of inception.

Contribution amounts

Q. Is there a minimum contribution level?

A. RESP rules do not stipulate a minimum contribution amount. However, to open an Invesco account, an initial contribution of $500 must be made. The minimum amount for subsequent contributions is $50.

Q. Can I determine how the contributions should be divided among beneficiaries of a family plan?

A. Yes. You should indicate your desired contribution allocation on the Invesco Education Savings Plan (ESP) application form, but remember that total contributions per beneficiary cannot exceed beneficiary's lifetime limit of $50,000, and the annual contribution limit of $4,000 no longer applies (see page 2). If no contribution allocation is indicated on the Invesco ESP application, Invesco will divide contributions equally between the beneficiaries under 31. You or your advisor must advise Invesco before a contribution is made if the contribution allocation instructions differ from any previous instructions.

Overcontributions

Q. What happens if I exceed the maximum contribution amount?

A. You will be subject to a penalty of 1% per month on the overcontributed amount until the overcontribution is withdrawn. If there is more than one RESP for a beneficiary, you must keep track of all contributions made on behalf of the beneficiary. You should communicate with the other subscribers because the overcontribution penalty is shared among all subscribers.

Q. Are there other consequences to overcontributing?

A. Yes. Overcontribution amounts are not entitled to a CESG. As well, the amount of the overcontribution will be included in the calculation of the $50,000 lifetime contribution limit, even if the overcontribution is withdrawn from the plan. If the overcontribution amount exceeds $4,000 for a calendar year, a CESG repayment will occur. As of January 1, 2007, there is no annual contribution limit.

Q. How will I know if there has been an overcontribution to an Invesco RESP?

A. Invesco will only monitor Invesco RESPs for contribution amounts over $50,000 per beneficiary per account. Invesco's policy is to place the overcontributed amount in an investment account using the same investment instructions and original trade date. A fax will be sent to your advisor within 24 hours informing him or her of the overcontribution adjustment.

Withdrawals

Q. How does a beneficiary receive payments from the RESP?

A. Payments made to the beneficiary under an RESP are called Educational Assistance Payments (EAPs). EAPs consist of government grants and income earned on both contributions and government grants. The subscriber determines when and how much of the EAP should be paid out of the plan. To qualify for EAPs, the beneficiary must be enrolled at the time the EAP is processed, or within six months of the final enrolment date, in a qualifying educational program or be 16 and enrolled in a specified educational program at a post-secondary educational institution.

In order for Invesco to process EAPs, proof of enrolment from the beneficiary's school is required. The following information must be indicated on the proof of enrolment:

- Current date
- Beneficiary's name
- Name of institution and address
- Name of program
- Full-time or part-time (if part-time, the number of hours per week are required)
- Length of program (in years)
- Current year enrolled (e.g., 1st, 2nd, 3rd)
- Current semester start and end dates

The post-secondary institution will normally provide this information on a standard "proof of enrolment" form with its letterhead.

Q. What type of school and program may my child attend using RESP money?

A. The school and program must meet certain requirements. The program must meet one of the following conditions:

A qualifying educational program is defined as a post-secondary-level program at a post-secondary institution of at least three consecutive weeks and that requires each student taking the program to spend at least 10 hours per week on courses or work in the program.

OR

A specified educational program is defined as post-secondary-level program at a post-secondary institution of at least three consecutive weeks and that requires each student taking the program to spend at least 12 hours per month on courses in the program.

A post-secondary educational institution is defined as either:

1) a designated educational institution in Canada (e.g., university, community college or CEGEP),

2) an educational institution in Canada that is certified by the Minister of Human Resources and Skills Development, or

3) An education institution outside Canada that is:

   i) a university, college or other educational institution that provides courses at a post-secondary level at which the beneficiary is enrolled in a course of not less than 13 consecutive weeks, or

   ii) a university at which a beneficiary is enrolled on a full-time basis in a course not less than three consecutive weeks.†

† This definition has not received Royal Assent at the time of writing and promoters are required to update their contracts before this option can be offered.

Q. Can I withdraw any amount for a beneficiary EAP?

A. CRA defines an EAP as funds which further the beneficiary's education. The amount of an EAP (grant and growth/income portion) requested must be for the beneficiary's education expenses and is also subject to the following limits:

If the beneficiary is enrolled in a qualifying educational program:

- In the first 13 consecutive weeks of enrolment, the EAP limit is the total of education expenses, up to a maximum of $5,000, whichever is less
- After the first 13 consecutive weeks of enrolment, the EAP limit is the total of education expenses. If the beneficiary is not enrolled in a qualifying educational program for 13 consecutive weeks during a 12-month period, the $5,000 maximum limit applies again

If the beneficiary is enrolled in specified educational program:

- In each 13-consecutive-week period, the EAP limit is the total of education expenses, up to a maximum of $2,500, whichever is less

The $5,000 and $2,500 limits may be increased in certain cases. The beneficiary must provide reasons for the increase in writing to the promoter, who will forward the request to HRSDC. The subscriber may contact the promoter for further information.

Q. May I withdraw money from one RESP account and use it to contribute to an account that is eligible for Basic and Additional CESG?

A. No. The government wants to encourage the contributions of new money into education savings plans, not the recycling of existing savings.

If more than $200 of contributions made prior to 1998 are withdrawn from an existing RESP, all the beneficiaries of the plan will not be eligible for Basic CESG for the remaining year and for the following two years. In addition, Basic CESG carryforward room does not accumulate for those two calendar years.

If any contributions that received a CESG are withdrawn after March 22, 2004, the beneficiaries will not be eligible to receive the Additional CESG for the remainder of the year and the two subsequent calendar years.

Contributions are always redeemed in the following order:

1) Assisted contributions – contributions that received CESG
2) Unassisted contributions from January 1, 1998 to current – contributions that did not receive CESG
3) Unassisted contributions before January 1, 1998 – contributions that did not receive the CESG because they occurred before the CESG program started

Q. How is the money taxed?

A. Income accumulates in the plan tax-free. There are only two withdrawals from an RESP that have taxable implications:

1) EAP – The government grants and the accumulated earnings on both the contributions and government grants, when paid out as EAPs for the beneficiary, are taxed in the hands of the beneficiary
2) Accumulated income payments (AIPs) to the subscriber is allowed only under certain conditions. AIPs are taxable in the hands of the subscriber at his or her marginal rate plus a penalty tax of 20%. The penalty tax can be avoided provided the subscriber has RRSP contribution room. There is a lifetime maximum of $50,000 per subscriber for AIPs transferred to an RRSP

A refund of contributions, usually paid to the subscriber, is not a taxable event because the contributions to an RESP are made with after-tax funds. If none of the beneficiaries in the RESP are eligible for an EAP when contributions are redeemed, a CESG and QESI repayment is calculated and processed from the account.

Q. What happens if the beneficiary or beneficiaries do not pursue a post-secondary education or if the subscriber needs to withdraw funds for another purpose?

A. The following are available options:

Replace and/or transfer to a new beneficiary

The replacement beneficiary can be anyone; however, if the replacement beneficiary does not meet certain conditions for an eligible replacement, all the government grants must be repaid and all the contributions are deemed to be made for the new beneficiary on the original dates. This may cause an overcontribution for the new beneficiary, for which penalties must be calculated and paid by all the subscribers. The CLB can only be used by the beneficiary that received it, so a CLB repayment is processed with any beneficiary replacement.

Currently, an RESP transfer between plans for different beneficiaries who are siblings and the beneficiary of the receiving plan is under 21 years of age is considered an eligible beneficiary replacement.

The 2011 federal budget proposes that penalties and repayments (other than CLB) will not occur on the transfer between RESPs that each have an individual as a beneficiary, where the beneficiaries are siblings and the receiving RESP was established before the replacement beneficiary turned 21 years of age.

Example:
Separate RESPs were opened for Monique, Suzie, John and Randy, who are siblings:

Name	Current age	Age when the RESP was opened
Monique	15	1
Suzie	18	3
John	22	5
Randy	23	21

Currently, property can only be transferred between Monique's and Suzie's RESPs and from the RESPs of John and Randy to their sisters' RESPs without adverse consequences as both John and Randy are over 21 years of age.

Under the proposed rules, property could also be transferred between John's and his sisters' RESPs with no adverse consequences as these RESPs were established when the beneficiaries were less than 21 years of age. Since Randy's RESP was established after he turned 21 years of age, the new rules do not apply to transfers to his RESP; however, transfers from his RESP to his brother's and sisters' RESPs can be made without adverse consequences because, in each case, the RESP of the receiving beneficiary was established before they turned 21 years of age.

If the subscriber is blood-related to the beneficiary, a separate Family RESP would eliminate this issue as long as the siblings are designated as beneficiaries of each plan before each sibling turns 21 years of age.

Add a beneficiary

Under the Family RESP, any new beneficiary must be under 21 when designated to the plan and be related to the subscriber by blood or adoption. If the plan received the Basic CESG only, it may be shared by all beneficiaries to each beneficiary's lifetime maximum of $7,200. Any unused excess CESG is repaid to the government.

If the family plan received an Additional CESG, CLB and/or ACES Grant, the new beneficiary must be a sibling of all the existing beneficiaries. The CLB can only be used by the beneficiary who received it and is repaid before the account is terminated.

If a beneficiary who is not a sibling (e.g., a cousin) is added to the family plan that received an Additional CESG, CLB and/or ACES Grant, then ALL the government grants are repaid at that time, including the Basic CESG.

Withdraw contributions (refund of contributions)

You may redeem your contributions from the plan tax-free, paying back any CESG and QESI. The CLB and ACES Grant may remain in the account in case a beneficiary does become eligible in the near future. Enough funds must remain in the account to cover any balance remaining for the CLB and ACES Grant. Repayment of the CLB and ACES Grant is made if the account is terminated.

If there is a beneficiary eligible for an EAP when a contribution withdrawal is processed, there is no CESG or QESI repayment processed. This is called a post-secondary education (PSE) contribution withdrawal and proof of enrolment is required to validate the beneficiary's EAP eligibility. The funds from a PSE contribution withdrawal do not have to be used for education expenses.

Withdraw growth (AIP)

You are eligible for an AIP if you are a Canadian resident and one of the following three conditions is met:

1) The plan has been in existence for 10 years and all the beneficiaries, past and present, are over 21 and not eligible for an EAP
2) All beneficiaries, past and present, are deceased
3) The payment is made in the 35th year following the year of the plan's inception date

AIPs are taxable in the hands of the subscriber at his or her marginal rate plus a penalty tax of 20%. The penalty tax can be avoided provided the subscriber has RRSP contribution room. There is a lifetime maximum of $50,000 per subscriber for AIPs transferred to an RRSP.

Any remaining government grants in the RESP are repaid first when an AIP is requested.

Withdraw growth (payment to a Designated Educational Institution)

Alternatively, you may choose to give the accumulated investment income to a Canadian educational institution of your choice; however, you will not receive a donation receipt or receive an income tax slip. For non-Canadian residents, this is the only option for accumulated investment income when an RESP is terminated.

Any remaining government grants in the RESP are repaid first when a payment to a Designated Educational Institution is requested.

For more information, please see our Tax & Estate InfoPage *Registered education savings plans.*

Transferring in-trust assets to an RESP

Q. Can in-trust assets be transferred to an RESP?

A. It is possible to transfer in-trust assets as a contribution in-kind to an RESP, but there could be potential tax and legal implications. You are strongly advised to speak to a tax and/or legal advisor regarding such transfers.

Setting up an Invesco RESP

Q. How do I set up an Invesco RESP?

A. You must determine if you require an individual (one beneficiary or a non-related beneficiary) or family plan (one or more related beneficiaries and under 21 years old) and duly complete the corresponding Invesco ESP application.

Q. Does the beneficiary require a SIN?

A. As per the Income Tax Act (Canada), Invesco requires that the SIN be provided for all subscribers and beneficiaries at the time the plan is opened in order to register the plan with the CRA.

Q. How do I apply for a SIN?

A. Most municipalities have an HRSDC office (look in the blue pages of your telephone directory for the nearest location) where you can pick up a SIN application form. You can also download the form from HRSDC's website at **www.hrsdc.gc.ca** under FORMS. You will need to provide an original birth certificate (or notarized copy) for each beneficiary. You do not need to mail in these documents if you present them at an HRSDC office. There is no fee for the initial SIN card.

Q. Who makes the application for the government grants?

A. Invesco, as administrator of the plan, will apply for the government grants on behalf of the subscriber upon receipt of the duly completed government grant application.

Q. Is the government grant added directly to the RESP account?

A. Yes. The government grant is sent directly to Invesco, and additional units of the fund(s) are purchased on behalf of the subscriber.

Q. Can I contribute to an RESP via a pre-authorized chequing (PAC) plan?

A. Yes. The minimum monthly amount is $50, although Invesco will also set up a less frequent PAC plan for a larger amount. It is also recommended the subscriber choose a PAC amount that can be evenly divided between the beneficiaries.

Q. What fees are associated with setting up an Invesco RESP?

A. There are no fees other than those normally charged by your advisor.

Contact us

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The *Income Tax Act* (Canada), the *Canada Education Savings Act*, the *Canada Education Savings Regulations*, the *Alberta Centennial Education Savings Plan Act, Alberta Centennial Education Savings Plan Regulation* and the *Taxation Act* (Quebec) take precedence over information contained in this article in event of discrepancies.

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