Taking Money Out of An RESP

High school graduation is a day of pride for both students and their families. With secondary school studies now behind them, many high school graduates will take the next big step in their educational journey by heading off to college, university or another continuing education program aligned with their career aspirations. Fortunately, if you've planned properly and contributed to a Registered Education Savings Plan (RESP), your child, grandchild – or another qualifying beneficiary of the plan – will have the means to fulfil their post-secondary goals and can start to withdraw funds from the RESP. Even if the RESP beneficiary decides not to continue their studies beyond high school, or elects to leave before completing their secondary school education, you – as the subscriber of the plan – will still have to make decisions on how to withdraw the funds that have accumulated in the RESP. This report provides you with some considerations on how and when to withdraw funds from an RESP, as well as information on qualifying educational institutions.

Education Assistance Payments

An Education Assistance Payment (EAP) is essentially a redemption from an RESP that is used to finance the post-secondary education of an RESP beneficiary. An EAP consists of the growth on the principal contributions to the RESP, as well as the Canada Education Savings Grant (CESG), the Canada Learning Bond (CLB) and any other amounts paid under a designated provincial program – such as the Alberta Centennial Education Savings Plan Grant and the Quebec Education Savings Incentive. EAPs are reported on the beneficiary's T4A slip (Box 42) in each year they attend a qualifying post-secondary program and receive payments from the RESP.

Educational Assistance Payments can be paid to the beneficiary of an RESP when:

- They are enrolled in a **qualifying post-secondary educational program** – at a qualifying post-secondary educational institution. This includes long-distance education courses – such as a correspondence course – that is provided by such institutions; or
- The student has reached the age of 16 and is enrolled in a **specified educational program**

Qualifying vs. specified educational programs

A **qualifying educational program** is a post-secondary school level program that lasts at least three consecutive weeks, and requires the student to spend not less than 10 hours per week on program courses or curriculum work.

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

Post-secondary educational institutions include:

- A university, college, CEGEP, trade school or another designated educational institution in Canada.
- An educational institution in Canada certified by Human Resources and Skills Development Canada (HRSDC) as offering non-credit courses that develop or improve skills in an occupation.
- A university, college, or other educational institution outside Canada that has courses at the post-secondary school level, and that allow the student to be enrolled in a course that lasts at least 13 consecutive weeks. (Three weeks for university programs.)

A beneficiary is entitled to receive EAPs for up to six months after ceasing enrolment in a post-secondary educational institution, as long as the payments to be received would have qualified as EAPs had they been made immediately before the student's enrolment ceased.

Limit on EAPs

For RESPs set up after 1998, the maximum EAP that can be made to a student upon qualifying to receive EAPs is:

i. **For students enrolled in a qualifying educational program**
For the first 13 consecutive weeks of enrolment in a qualifying educational program, the maximum is $5,000. After completing 13 consecutive weeks, there is no limit on the amount of the EAP that can be redeemed, as long as the beneficiary continues to qualify to receive payments. If, at any time, there is a 12-month period in which the beneficiary is not enrolled in a qualifying educational program, the $5,000 maximum for the first 13 weeks of enrolment will again apply. An annual EAP request exceeding $20,000 must be accompanied with receipts totalling the amount requested.

ii. **For students enrolled in a specified educational program**
The maximum is $2,500 for the 13-week period,, whether or not the student is enrolled in such a program throughout the 13-week period.

Accumulated Income Payments

An Accumulated Income Payment (AIP) is a withdrawal of accumulated income from the RESP – usually by the subscriber – in situations where the beneficiary of the RESP elects not to attend a qualifying or specified educational program.

The subscriber may withdraw the income that has accumulated in the RESP if the following conditions are met:

i. The subscriber is a Canadian resident;

ii. The RESP has existed for at least 10 years; and

iii. All beneficiaries under the plan are 21 years of age or older, and not pursuing a post-secondary education.

The accumulated income may be withdrawn by the subscriber without meeting conditions (ii) or (iii) above, if all of the RESP beneficiaries are deceased.

The Canada Revenue Agency may also allow an accumulated income payment to the subscriber without meeting (ii) or (iii), if the beneficiary will be unable to pursue post-secondary studies due to a severe and prolonged mental impairment, or if the plan is being closed at the end of the 35th year.

When the accumulated income is returned to the subscriber, it is taxed in the subscriber's hands as ordinary income at their normal tax rate, plus an additional tax levy of 20 per cent. The income tax can be deferred and the 20 per cent tax avoided if the subscriber (excluding someone who became a subscriber as a result of the death of the original subscriber) has sufficient contribution room in their Registered Retirement Savings Plan (RRSP). In which case, up to $50,000 of the income may be used to make a regular or Spousal RRSP contribution. As a result, if $50,000 of RRSP contribution room is available, only the growth in excess of $50,000 would be immediately taxed as income and assessed for the 20 per cent penalty.

Withdrawing RESP contributions

Your original RESP contributions can be withdrawn at any time, with no tax consequences. Generally, parents use the RESP contributions, along with EAPs, to pay for educational expenses. If the original beneficiary of the RESP does not pursue post-secondary studies and another beneficiary is not named to replace the original beneficiary, all contributions to the RESP can be returned to the subscriber with no tax consequences. However, this may trigger a requirement to repay grants.

You may not want to be too hasty with respect to a decision to collapse your RESP, as it's possible that your child – the beneficiary – may return to school at a later date. It is also important to note that you can keep the account open for a maximum of 35 years. In addition, the Canada Education Savings Grant can be shared with other siblings if they have grant room available. Otherwise, it must be returned to the Government of Canada.

RESP payments to a designated educational institution

Generally, if any amount is left in the plan and the conditions for an EAP or AIP are not met, the balance can be paid (i.e., bestowed) to a designated educational institution in Canada.

Please contact your BMO Nesbitt Burns Investment Advisor for more information on how to make a withdrawal from your RESP.

For reference, the following summarizes the three RESP payment types:

Type of Payment	Source of Withdrawal	Timing of Withdrawal	Who Recieves Withdrawal	Taxation	Additional Information
Educational Assistance Payment (EAP)	Income earned on growth, contributions and grants (CESG+CLB+other provincial incentives)	While beneficiary is attending a qualified educational program	Beneficiary or subscriber (to be used for the benefit of the beneficiary)	Taxable to beneficiary (reported in Box 42 on T4A)	Limit of $5,000 in first 13 weeks of full-time enrolment. Limit of $2,500 in first 13 weeks of part-time enrolment.
Accumulated Income Payment (AIP)	Income earned	When beneficiary no longer qualifies for an EAP	Subscriber	Taxable to subscriber (reported in Box 40 on T4A)	Applicable income tax is based on individual total taxable income, plus an additional 20% tax applies (calculated on Form T1172). Tax may be avoided if the subscriber has sufficient RRSP contribution room available (for amounts up to $50,000).
Withdrawal of Contributions	Capital – contributions or money directly contributed by the subscriber	Anytime	Subscriber	Not taxable	If a beneficiary is not eligible for an EAP at the time of the withdrawal of contributions, this may trigger a requirement to repay CESG.
		While beneficiary qualifies for an EAP	Beneficiary or subscriber	Not taxable	

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Please note, portions of this article have been sourced from the Canada Revenue Agency internet site http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/resp-reee/

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