

Taking Money Out of an RESP

As the new school year begins, many students are preparing to 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.

This article provides you with some considerations on how and when to withdraw funds from an RESP, as well as information on qualifying educational institutions. Even if the RESP beneficiary decides not to continue their studies beyond high school, or elects to leave before completing their post-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.

Educational Assistance Payments

An Education Assistance Payment (EAP) is a payment 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. 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 runs for a minimum of 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 runs for a minimum of three consecutive weeks, and requires the student to spend not less than 12 hours per month on courses in the program.

Qualifying 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 Employment and Social Development Canada (ESDC) as offering non-credit courses that develop or improve skills in an occupation; or
- 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 runs for a minimum of 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 set up after 1998

For RESPs set up after 1998, the maximum EAP that can be made to a student upon qualifying to receive such payments 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 EAP is \$5,000. After completing 13 consecutive weeks, there is no limit on the amount of the EAP, 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. Annual EAP requests that exceed \$22,794 must be accompanied with receipts totalling the amount requested.

ii. For students enrolled in a **specified educational program**

The maximum EAP 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 does not 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 the AIP conditions (ii) or (iii), 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 after which it was originally set up.

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 (12% in Quebec). 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 this 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 tax.

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 the grants received.

You may not want to be too hasty with respect to a decision to collapse your RESP, as it's possible that the child – the beneficiary – may return to school at a later date. It is also important to note that you can keep the RESP 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.

The table below provides a summary of the three types of payments that can be received from an RESP. In addition, the **Appendix – RESP Withdrawal Checklist** provides helpful information for requesting an Educational Assistance Payment from your BMO Nesbitt Burns RESP.

RESP payments to a designated educational institution

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



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

RESP Payment Types

Type of Payment	Source of Withdrawal	Timing of Withdrawal	Who Receives 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 within first 13 weeks of full-time enrolment. Limit of \$2,500 within 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% (12% in Quebec) tax is applied (calculated on Form T1172). Tax may be avoided if the subscriber has sufficient RRSP contribution room available (for amounts transferred up to \$50,000).
Withdrawal of Contributions	Capital – (Money or securities directly contributed by the subscriber)	Anytime	Subscriber	Not taxable	If the beneficiary is not eligible for an EAP at the time of the withdrawal of contributions, this may trigger a requirement to repay CESG.

Appendix: RESP Withdrawal Checklist

To ensure your withdrawal request is approved, be sure to review this Checklist before contacting your Advisor to request an Educational Assistance Payment (“EAP”) from your RESP.

Qualifying post-secondary institution

Confirm the beneficiary of the plan (i.e., the child) is attending a qualifying post-secondary institution, which may include:

- A university, college, CEGEP, trade school, or other designated educational institution in Canada.
- An educational institution in Canada certified by Employment and Social Development Canada (“ESDC”) as offering non-credit courses that develop or improve skills within an occupation.
- A university, college, or other educational institution outside Canada that provides courses at the post-secondary school level, and where your child is enrolled on a full-time basis.

Qualifying program of study

Confirm the beneficiary is registered in one of the following qualified educational programs including long distance education courses, such as correspondence courses, provided by qualifying post-secondary institutions:

- Qualifying educational program (i.e., full-time)** – A program at the post-secondary school level that runs a minimum of three consecutive weeks,¹ and that requires a student to spend no less than 10 hours **per week** on courses or work in the program.
- Specified educational program (i.e., part-time)** – A program at the post-secondary school level that runs a minimum of three consecutive weeks, and that requires a student to spend no less than 12 hours **per month** on courses or work in the program. The student must be at least 16 years of age to attend a specified educational program.

Proof of enrolment

Ensure you have valid proof of enrolment² from the qualifying post-secondary institution.

- Official documentation should use the institution’s letterhead or be readily identifiable as a document printed from the institution’s secure student web site. The document should take the form of an enrolment letter, course confirmation, receipted invoice, or a combination of these documents. Letters must be signed and certified by the Office of the Registrar or Department Head and clearly provide the following information:
 - Student name
 - Name of educational institution
 - Enrolment in a qualified educational program
 - Initial start and end dates of the program
 - Current year of registration
 - Enrolment course load (full-time or part-time)
 - Tuition amount that has been paid (if invoice is provided)

Qualifying expenses

A qualifying expense is defined as an amount paid to help the beneficiary further his/her post-secondary education, and generally includes the following:

- Education costs (e.g., tuition, compulsory fees, books, and supplies);
 - Living expenses (e.g., shelter, food, clothing, and transportation); and
 - Special needs (e.g., note takers, interpreters, and special equipment required to participate in the program).
- Calculate the cost of your child's expected post-secondary expenses, so you can determine the amount of funds required from the RESP.
- If requesting an Educational Assistance Payment that exceeds the annual threshold (\$23,460 for 2018), an **Itemized List of Expenses** totalling the EAP amount being requested is required. In addition, be sure to retain your expense receipts as reserves the right to request receipts at any time to ensure the reasonableness of expenses pertaining to an EAP.

Withdrawal type

Determine the type of withdrawal(s) required from the RESP. Generally, the subscriber will be requesting an Educational Assistance Payment, and/or a Post-Secondary Education Payment.

- Educational Assistance Payment – An EAP consists of the Canada Education Savings Grant (“CESG”), the Canada Learning Bond (“CLB”), amounts paid under a designated provincial program, and the earnings generated on the contributed funds within the RESP. EAPs are taxed in the hands of the beneficiary and requests must be submitted within six months from the end date of the school term.³
- Post-Secondary Education Payment (“PSE”) – If the beneficiary's education expenses exceed the amount available through an EAP, you may want to request a PSE to supplement the Educational Assistance Payment. A PSE is a withdrawal of your original RESP contributions, which is made while the beneficiary is eligible to receive EAPs. There are no tax consequences on a PSE, whether paid to the subscriber or beneficiary.

Ensuring that you have all required information before applying for a withdrawal from your RESP will speed up the process and make certain the expense reimbursement is made in a timely fashion. For more information about RESP withdrawals, please contact your Advisor.

Please note, portions of this article have been sourced from the Canada Revenue Agency internet site:

<http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/resp-reee/>

¹ If studying outside of Canada at a college or other educational institution, the beneficiary must be enrolled on a full-time basis in a course that runs no less than 13 consecutive weeks. (Three weeks for full-time attendance at university programs.)

² Proof of enrolment is considered valid for a period of up to six months from the end date of the course(s) or the school term.

³ If this is the first EAP request for the beneficiary, the withdrawal is limited to \$5,000 for qualifying educational programs (\$2,500 for specified educational programs) for the first 13 consecutive weeks of study. These limits may be increased by having your RESP administrator submit a written request to Employment and Social Development Canada.