# Registered Education Savings Plans (RESPs) 2007

## What is an RESP?

A registered education savings plan (RESP) is a contract between an individual (the **subscriber**) and a person or organization (the **promoter**).

Under the contract, the subscriber names one or more **beneficiaries** and agrees to make contributions for them, and the promoter agrees to pay educational assistance payments (EAPs) to the beneficiaries.

More than one beneficiary can be named only in a RESP that is a **family plan**. In a family plan, each beneficiary must be related by blood relationship or adoption to each living subscriber or any deceased original subscriber.

The Canada Revenue Agency registers the education savings plan contract as an RESP, and limits are set by the *Income Tax Act* on the amount that can be contributed for each beneficiary (see the section called "RESP contribution limits" on the next page) The RESP has to be completed by the end of the year that includes the 25th anniversary of the opening of the plan, unless it is a specified plan (see on this page) which has 30 years for completion.

The **subscriber** (or a person acting for the subscriber) generally makes contributions to the RESP. Subscribers cannot deduct their contributions from their income on their tax return.

The **promoter** usually pays the contributions, and the income earned on those contributions, to the beneficiaries. The income earned is paid as educational assistance payments (EAPs). For more details on EAPs, see page 4.

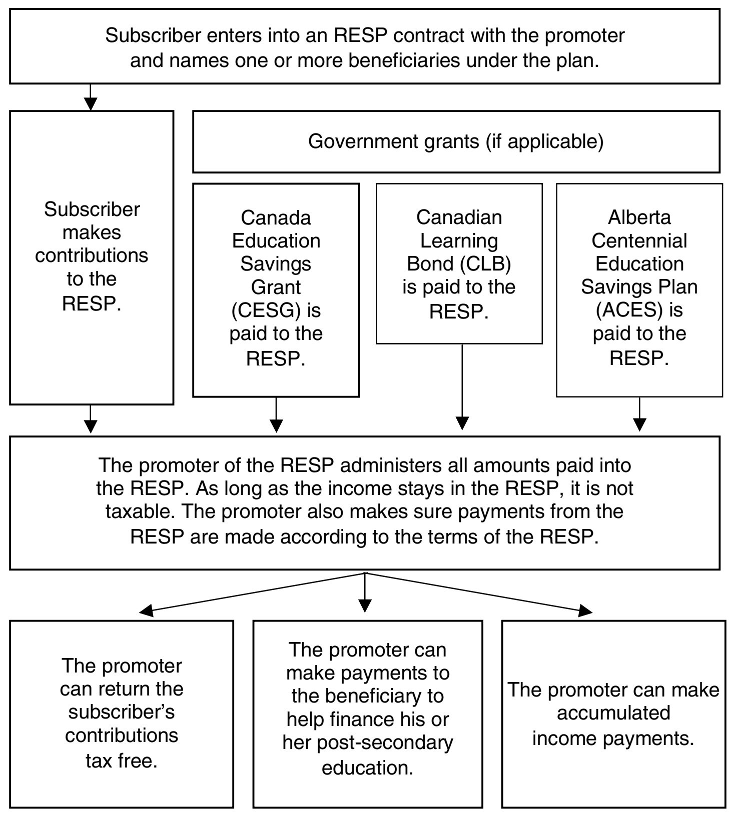
If the contributions are not paid out to the beneficiary, the promoter usually pays them to the subscriber at the end of the contract. Subscribers do not have to include the contributions in their income when they get them back.

**Beneficiaries** generally receive the contributions and the EAPs from the promoter. They have to include the EAPs in their income for the year in which they receive them. However, they do not have to include the contributions they receive in their income.

## Specified plan

A specified plan is essentially a single beneficiary RESP (non-family plan) under which the beneficiary is entitled to the disability tax credit for the beneficiary's tax year ending in the 22nd year of existence of the RESP. Further, at all times after the end of the 25th year after the plan was entered into, a specified plan must not permit another individual to be designated as a beneficiary under the RESP.

The following diagram gives an overview of how an RESP generally works.




RC4092(E) Rev. 08

La version française de cette publication est intitulée *Les régimes enregistrés d'épargne-études (REEE), 2007*.

## Who can be a subscriber?

Generally, there are no restrictions on who can be the **original subscriber** under an RESP:

- You and your spouse or common-law partner, as defined in our guides, can be joint original subscribers under an RESP.
- A public primary caregiver of a beneficiary under an RESP may also be an original subscriber. A public primary caregiver is one who receives a special allowance under the *Children's Special Allowances Act* and may be:
  – the department, agency or institution that cares for the beneficiary; or
  – the public trustee or public curator of the province in which the beneficiary resides.

If you are not the original subscriber, you can become a subscriber only in the following situations:

- you are a spouse or common-law partner, or former spouse or common-law partner, of a subscriber and you get the subscriber's rights under the RESP as a result of a court order or written agreement for dividing property after a breakdown of the relationship;
- you are another individual or another public primary caregiver who has, under a written agreement, acquired a public primary caregiver's rights as a subscriber under the RESP;
- you acquired the subscriber's rights under the RESP, or you continue to make contributions into the RESP for the beneficiary, after the death of a subscriber under the RESP; or
- you are the deceased subscriber's estate that acquired the subscriber's rights under the RESP, or that continues to make contributions into the RESP for the beneficiary, after the death of a subscriber under the RESP.

All subscribers under an RESP have to give their social insurance number (SIN) to the promoter before we can register the RESP.

## Who can become a beneficiary?

**Under proposed legislation**, you will be able to designate an individual as a beneficiary under the RESP only if:

- the individual's SIN is given to the promoter before the designation is made; and
- the individual is resident in Canada when the designation is made.

**Notes**
**Under proposed legislation**, the SIN may not be required if the beneficiary is a non-resident individual who has not received a SIN before the designation is made.

The residency requirement **does not apply** when the designation is made in conjunction with a transfer of property from another RESP under which the individual was a beneficiary immediately before the transfer.

A beneficiary under a family plan entered into after 1998, must be less than 21 years of age at the time he or she is named as a beneficiary. When one family plan is transferred to another, a beneficiary who is 21 years of age or older can still be named a beneficiary to the new RESP.

## RESP contributions

**Under proposed legislation**, you will be able to make contributions for a beneficiary only if:

- the beneficiary's SIN is given to the promoter before the contribution is made and the beneficiary is resident in Canada; or
- the contribution is made by way of a transfer from another RESP under which the individual was a beneficiary immediately before the transfer.

**Note**
**Under proposed legislation**, if the plan was entered into before 1999, the beneficiary's SIN will not be required. However, such contributions will continue to be ineligible for the Canada Education Savings Grant.

You can contribute to family plans entered into **after** 1998 only for beneficiaries who are under 21 years of age at the time of the contribution. However, transfers can be made from another family plan even if one or more of the beneficiaries are 21 years of age or older at the time of the transfer.

RESP contributions **cannot** be deducted from your income on your return. In addition, you cannot deduct the interest you paid on money you borrowed to contribute to an RESP.

### RESP contribution limits

Starting in 2007, there is no annual limit for contributions to RESPs. For each beneficiary, the lifetime limit on the amounts that can be contributed to RESPs is $50,000.

Payments made to an RESP under the Canada Education Savings Program or the Alberta Centennial Education Savings Plan are not included when determining if the lifetime limit has been exceeded.

### Canada Education Savings Grant (CESG)

Human Resources and Social Development Canada (HRSDC) provides an incentive for parents, family and friends to save for a child's post-secondary education by paying a grant based on the amount contributed to an RESP for the child. The CESG money will be deposited directly into the child's RESP.

No matter what your family income is, HRSDC pays a **basic** CESG of 20% of annual contributions you make to **all** eligible RESPs for a qualifying beneficiary to a maximum CESG of $500 in respect of each beneficiary ($1,000 in CESG if there is unused grant room from a previous year), and a lifetime limit of $7,200.

HRSDC will also pay an **additional** CESG amount for each qualifying beneficiary. The additional amount is based on your net family income and can change over time as your net family income changes.

For 2007, the **additional** CESG rate on the first $500 contributed to an RESP for a beneficiary who is a child under 18 years of age is:

- 40% (extra 20% on the first $500), if the child's family has qualifying net income for the year of $37,178 or less; and
- 30% (extra 10% on the first $500), if the child's family has qualifying net income for the year that is more than $37,178 but is less than $74,357.

The qualifying net income of the child's family for a year will generally be the same as the income used to determine eligibility for the Canada Child Tax Benefit.

Beneficiaries qualify for a grant on the contributions made on their behalf up to the end of the calendar year in which they turn 17 years of age.

However, since the CESG has been designed to encourage long term savings for post-secondary education, here are specific contribution requirements for beneficiaries who attain 16 or 17 years of age. RESPs for beneficiaries 16 and 17 years of age can only receive CESG if at least one of the following two conditions is met:

- a minimum of $2,000 of contributions has been made to, and not withdrawn from, RESPs in respect of the beneficiary before the year in which the beneficiary attains 16 years of age; or
- a minimum of $100 of annual contributions has been made to, and not withdrawn from, RESPs in respect of the beneficiary in at least any four years before the year in which the beneficiary attains 16 years of age.

This means that you must start to save in RESPs for your child before the end of the calendar year in which the beneficiary attains 15 years of age in order to be eligible for the CESG.

The CESG and accumulated earnings will be part of the educational assistance payments paid out of the RESP to the beneficiary.

If the beneficiary does not pursue post-secondary education, the CESG is returned to the government.

## Canada Learning Bond (CLB)

HRSDC provides an additional incentive of up to $2,000 to help modest-income families start saving early for their child's education after high school (post-secondary education). The CLB money will be deposited directly into the child's RESP.

For families entitled to the National Child Benefit (NCB) supplement for their child, the CLB will provide an **initial** $500 to children born on or after January 1, 2004. To help cover the cost of opening an RESP for the child, HRSDC will pay an extra $25 with the first $500 bond. Thereafter the CLB will also pay an **additional** $100 annually for up to 15 years for each year the family is entitled to the NCB supplement for the child.

If the beneficiary does not pursue post-secondary education, the CLB is returned to the government.

For more information on the Canada Education Savings Program, call 1**-800-O-CANADA (1-800-622-6232)**.

## Alberta Centennial Education Savings Plan Grant (ACESPG)

The ACESPG is a program designed to give Alberta parents an incentive to start planning and saving for their child's post-secondary education.

The Alberta Ministry of Advanced Education and Technology will contribute a **basic** grant of $500 to the RESP of every child born to Alberta residents in 2005 and after. To be eligible, you must first register your child's birth and obtain a SIN for your child. Then you have to open an RESP for the child.

**Additional** grants of $100 are available to children who turn 8, 11, or 14 after January 1, 2005, provided the children are attending school in Alberta or attending a school that is satisfactory to the Ministry of Advanced Education and Technology. These grants require a minimum $100 invested in an RESP within one year prior to applying.

If the beneficiary does not pursue post-secondary education, the ACESPG is returned to the Government of Alberta.

Residents of Alberta can call **1-866-515-ACES (2237)** toll free to learn more about the ACESPG.

## Tax on overcontributions

An overcontribution occurs at the end of a month when the total of all contributions made by all subscribers to all RESPs for a beneficiary is more than the lifetime limit for that beneficiary. We do not include payments made to an RESP under the Canada Education Savings Program or the Alberta Centennial Education Savings Plan when determining whether a beneficiary has an overcontribution.

Each subscriber for that beneficiary is liable to pay a 1% per-month tax on his or her share of the overcontribution that is not withdrawn at the end of the month. The tax is payable within 90 days after the end of the year in which there is an overcontribution. An overcontribution exists until it is withdrawn.

You have to inform us of your share of the overcontributions to all RESPs for a beneficiary. To calculate the amount of tax you have to pay on your share of the overcontributions for a year, complete Form T1E-OVP, *Individual Tax Return for RESP Overcontributions for* ____. The Appendix at page 7 has example for calculating the overcontributions and amount of tax payable.

You can get the form by visiting our Web site at **www.cra.gc.ca/forms** or by calling us at **1-800-959-2221**.

> **Note**
> You can reduce the amount subject to tax by withdrawing the overcontributions. However, in determining whether the lifetime limit has been exceeded, we include the withdrawn amounts as contributions for the beneficiary (even though they have been withdrawn).

## Special rules

### Changing the beneficiary

Generally, when you replace one RESP beneficiary with a new beneficiary, we treat the contributions for the former beneficiary as if they had been made for the new beneficiary on the date they were originally made. If the new beneficiary already has an RESP, this may create an overcontribution.

This rule **does not** apply in the following situations:

- The new beneficiary is a brother or sister of the former beneficiary and is under 21 years of age.
- Both beneficiaries are connected by a blood relationship or adoption to an original subscriber of the RESP, and both are under 21 years of age.

In these situations, we do not include the contributions made for the former beneficiary when we determine whether the new beneficiary's lifetime contribution limit has been exceeded.

### Transferring RESP property to another RESP

Most transfers from one RESP to another RESP will have no tax implications. This is the case when the transferring RESP and the receiving RESP have the same beneficiary. There are also no tax implications when a beneficiary under the transferring RESP has a brother or sister (under 21 years of age before the transfer is made) who is a beneficiary under the receiving RESP.

In any other case, transfers can result in an overcontribution. This is because the RESP contribution history for each beneficiary under the transferring RESP is assumed by each beneficiary under the receiving RESP. We treat each contribution as if it had been made into the receiving RESP. In addition, we treat each subscriber under the transferring RESP as a subscriber under the receiving RESP. This means that he or she is liable for any tax on overcontributions.

## Payments from an RESP

The promoter can make the following types of payments:

- refund of contributions to the subscriber or to the beneficiary;
- educational assistance payments;
- accumulated income payments;
- payment to a designated educational institution in Canada (for more information, see Information Circular 93-3, *Registered Education Savings Plans*); and
- payment to a trust to accommodate transfers of property between RESPs.

## Refund of contributions to the subscriber or the beneficiary

Subject to the terms and conditions of the RESP, the promoter can return your contributions to you tax-free when the contract ends or at any time before. Promoters do not issue T4A, *Statement of Pension, Retirement, Annuity, and Other Income* slips to report these payments. **Do not** include these payments as income on your tax return.

The promoter can also pay the contributions tax-free to the beneficiary. This is in addition to any taxable educational assistance payments, as described in the next section.

## Educational assistance payments (EAPs)

An EAP is the amount paid to a beneficiary (a student) from an RESP, or under a Canada Education Savings Program or any provincial program, to help finance the cost of post-secondary education. The promoter reports EAPs in box 42 on a T4A slip and sends a copy to the student. The student includes the EAPs as income on his or her return for the year the student receives them.

The promoter can only pay EAPs to or for a student if **one** of the following situations applies:

- the student is enrolled **full time** in a qualifying educational program (see explanations below) (this includes students attending an institution and those enrolled in distance education courses, such as correspondence courses) or
- the student has attained the age of 16 years and is enrolled **part-time** in a specified educational program (see explanations below)

A **qualifying educational program** is an educational program at post-secondary school level, that lasts at least three consecutive weeks, and that requires a student to spend no less than 10 hours per week on courses or work in the program.

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

A **post-secondary educational institution** includes:

- a university, college, or other designated educational institution in Canada;
- an educational institution in Canada certified by HRSDC as offering non-credit courses that develop or improve skills in an occupation; and
- a university, college, or other educational institution outside Canada that has courses at the post-secondary school level, as long as the student is enrolled in a course that lasts at least 13 consecutive weeks.

### Limit on EAPs

For RESPs entered into after 1998, the maximum amount of EAPs that can be made to a student as soon as he or she qualifies to receive them is:

**For full-time studies** – $5,000, for the first 13 consecutive weeks of full-time studies in a **qualifying educational program.** After the student has completed the 13 consecutives weeks, there is no limit on the amount of EAPs that can be paid if the student continues to qualify to receive them. If there is a 12-month period in which the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the $5,000 maximum applies again; or

**For part-time studies** – $2,500, for the 13-weeks period of enrollment in part-time studies in a **specified educational program** preceding the payment of an EAP.

Subject to the terms and conditions of the RESP, the promoter can supplement the $5,000 or $2,500 EAP by paying a portion of the contributions tax-free to the beneficiary.

HRSDC may, on a case-by-case basis, approve an EAP amount of more than the above limit if the cost of tuition **plus** related expenses for a particular program is substantially higher than the average. For information on how to request approval of an EAP of more than $5,000 or $2,500, promoters should call the CESG Program at **1-888-276-3624**.

## Accumulated income payments (AIPs)

An AIP is an amount, usually paid to the subscriber, of the income earned from an RESP. An AIP does **not** include:

- the payment of educational assistance payments;
- payments to a designated educational institution in Canada;
- the refund of contributions to the subscriber or to the beneficiary;
- transfers to another RESP; or
- repayments under a Canada Education Savings Program or any provincial program.

AIPs cannot be made as a single joint payment to separate subscribers.

An RESP may allow for AIPs when the following conditions are met:

- the payment is made to, or for, a subscriber under the RESP who is resident in Canada;
- the payment is made to, or for, only one subscriber of the RESP; and

**Any one** of the following three conditions must also apply:

- the RESP has existed for 10 years and each individual (other than a deceased individual) who is or was a beneficiary has reached 21 years of age and is not currently eligible to receive an educational assistance payment (see Note below);
- the RESP has existed for 26 years, unless the RESP is a **specified plan** (see the definition on page 1) in which case the RESP has existed for 31 years (see Note below);
- all the beneficiaries under the RESP are deceased.

**Note**
We may waive the first two conditions if it is reasonable to expect that a beneficiary under the RESP will not be able to pursue post-secondary education because he or she suffers from a severe and prolonged mental impairment. Such requests have to be made by the RESP promoter in writing to the following address:

Registered Plans Directorate
Canada Revenue Agency
Ottawa ON  K1A 0L5

An RESP must be terminated by the end of February of the year after the year in which the first AIP is paid.

### How AIPs are taxed

Promoters report AIPs in box 40 of T4A, *Statement of Pension, Retirement, Annuity, and Other Income* slips and send a copy to the recipient of the AIP. The recipient have to include the AIP as income on his tax return for the year he receive it. An AIP is subject to two different taxes: the regular income tax and an additional tax of 20% (12% for residents of Quebec).

**Regular tax** – This is the tax you calculate when you complete your return. It is based on your total taxable income.

**Additional tax** – You calculate this tax separately, using Form T1172, *Additional Tax on Accumulated Income Payments From RESPs*. Include a completed copy of Form T1172 with your return for the year you receive the AIP. You have to pay the additional tax by the balance due date for your regular tax, usually April 30 of the year that follows the year in which you received the AIP.

**Reducing the amount of AIPs subject to tax** – You can reduce the amount of AIPs subject to tax if you are the original subscriber or, where there is no other subscriber, the spouse or common-law partner of a deceased original subscriber and you meet **both** of the following conditions:

- You contribute an amount not more than the amount of the AIPs (to a lifetime maximum of $50,000 worth of AIPs) to your registered retirement savings plan (RRSP), or your spousal's or common-law partner's RRSP, in the year the AIPs are received or in the first 60 days of the following year.
- Your RRSP deduction limit allows you to deduct the amount contributed to your or your spousal's or common-law partner's RRSP on line 208 of your tax return. (Claim the deduction for the year in which any payments are made.)

You cannot reduce the AIPs subject to tax if you became a subscriber because of the death of the original subscriber.

By claiming an RRSP deduction, you reduce your taxable income, which reduces your regular tax. The RRSP deduction also reduces the amount of additional tax payable by reducing the amount of AIPs subject to tax (see Form T1172). If the amount of the RRSP deduction equals the amount of the AIPs, the taxes on the AIPs are zero.

Promoters usually have to withhold regular and additional taxes on AIPs. However, they do not have to withhold tax if **both** of the following apply:

- The AIPs are transferred directly to your or your spousal's or common-law partner's RRSP.
- Your RRSP deduction limit allows you to deduct the contribution in the year it is made.

Complete Form T1171, *Tax Withholding Waiver on Accumulated Income Payments From RESPs,* to ask the promoter to transfer the payment directly to your or your spousal's or common-law partner's RRSP without withholding tax.

**Example**
The RESP under which Mary is an original subscriber allows AIPs. In July 2007, Mary received an AIP of $16,000. She completed Form T1171 to have $14,000 transferred directly by the promoter to her RRSP. Mary's RRSP deduction limit for 2007 is $14,000. She did not make any other RRSP contributions during the year. She was a resident of Manitoba on December 31.

Mary completes Form T1172 to determine the amount of additional tax she has to pay for 2007 as follows:

| | | |
|---|---|---|
| AIP for 2007 ........................................................ | | $ 16,000 |
| Amount Mary deducts for 2007 for RRSP contributions from an AIP (this amount cannot be more than $50,000 for all years) .................... | – | 14,000 |
| Amount subject to the additional tax.................... | = | $ 2,000 |
| Rate ..................................................................... | × | 20% |
| **Additional tax payable** ...................................... | = | $ **400** |

Mary reports the AIP of $16,000 on line 130 and the additional tax on line 418 of her 2007 tax return. She also claims the RRSP deduction of $14,000 on line 208 and attaches a copy of Form T1172 to her return.

**Note**
If Mary had received the amount in January 2007 and transferred it to an RRSP, provided her RRSP deduction limit was sufficient, she could have decided to claim all or part of the deduction for the 2006 tax year. This would have been possible because the amount would have been transferred in the first 60 days of 2007.

However, had she done so, she would not have been allowed to reduce the additional tax because the amount transferred to her RRSP has to be deducted on the tax return for the year in which the amount is received.

That is, on her 2007 tax return, Mary would determine the additional tax payable based on the full $16,000 of the AIP. The additional tax is $3,200 ($16,000 × 20%).

# Appendix

You have to inform us of your share of the overcontributions to all RESPs for a beneficiary. To calculate the amount of tax you have to pay on your share of the overcontributions for a year, complete Form T1E-OVP, *Individual Tax Return for RESP Overcontributions for _____*.

You can get the form by visiting our Web site at **www.cra.gc.ca/forms** or by calling us at **1-800-959-2221**.

There is an annual limit and a lifetime limit on the amounts that can be contributed to RESPs for a beneficiary.

For each beneficiary, the **annual limit** for contributions to all RESPs is:

- for years before 1990, there is no limit;
- for 1990 to 1995, $1,500;
- for 1996, $2,000;
- for 1997 to 2006, $4,000; and
- for 2007 and subsequent years, there is no limit.

For each beneficiary, the **lifetime limit** for contributions to all RESPs is:

- for years before 1990, there is no limit;
- for 1990 to 1995, $31,500;
- for 1996 to 2006, $42,000; and
- for 2007 and subsequent years, $50,000.

Payments made to an RESP under the Canada Education Savings Program or the Alberta Centennial Education Savings Plan are not included when determining if the annual or lifetime limits have been exceeded.

**Note**
You can reduce the amount subject to tax by withdrawing the overcontributions. However, in determining whether the lifetime limit has been exceeded, we include the withdrawn amounts as contributions for the beneficiary (even though they have been withdrawn).

**Example (annual limit)**
In January 2006, Hugh established an RESP for his son Allan and contributed $1,500. At the same time, Allan's grandmother, Cathy, established another RESP for him and she contributed $1,000. In July, Hugh contributed $1,500 to Allan's RESP and Cathy contributed $1,000. In December, Hugh withdrew $500 to reduce his share of the overcontributions.

**Hugh's share of the overcontributions for 2006**

| | | | |
|---|---|---|---|
| Hugh's contributions to an RESP for Allan | | $ | 3,000 |
| Cathy's contributions to an RESP for Allan | + | | 2,000 |
| Total contributions to an RESP for Allan | = | $ | 5,000 |
| Maximum allowable for 2006 | – | | 4,000 |
| Overcontributions | = | $ | 1,000 |
| Hugh's share of the overcontributions ($3,000 ÷ $5,000) × $1,000 | | $ | 600 |

**Hugh's tax payable for 2006**

Tax is calculated for the months the overcontributions stay in the RESP.

| | | | |
|---|---|---|---|
| For July to November: $600 × 1% × 5 months | | $ | 30 |
| For December: ($600 – $500) = $100 × 1% | + | $ | 1 |
| Hugh's tax payable on the overcontributions (the tax had to be paid by April 2, 2007) | = | $ | 31 |

The overcontribution amount is shared by each contributor based on his or her percentage of contributions to the RESP, less any amounts withdrawn. Cathy calculates her share of the overcontributions and tax payable in the same way as Hugh, based on her total of $2,000 in contributions.

Unless Hugh and Cathy withdraw all of their overcontributions, they will continue to have to pay the 1% per-month tax on their respective part of the overcontribution that stays in the plan.

In future years, when determining whether Allan's lifetime contribution limit has been exceeded, Hugh and Cathy have to include the withdrawals as part of the total contributions they made for Allan.