Your Guide to Understanding the

RESP

REGISTERED EDUCATION SAVINGS PLAN

2023/2024

This booklet has been created by Central 1 Credit Union to provide general information regarding the Registered Education Savings Plan (RESP) as a courtesy of your financial institution and is based on legislation in effect as of April 2023. Information in this booklet may not reflect legislative changes after the publication date. Refer to the Government of Canada's website for current information.

All examples provided are hypothetical and for illustrative purposes only. Please contact your investment representative at your branch to obtain personalized advice on your financial plan.

Further information related to the RESP and other registered products may be obtained by phone at 1-800-959-8281. Information related to the Canada Education Savings Grant or Canada Learning Bond should be directed to Employment and Social Development Canada (ESDC) at 1-888-275-3624 or through their website: **https://www.canada.ca/en/services/benefits/education/education-savings.html**

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What is a RESP?

A Registered Education Savings Plan (RESP) is a government assisted education savings account used to help individuals and families save for post-secondary education. The owner of the account, known as the subscriber, makes contributions to the RESP and must have a valid Social Insurance Number (SIN) when the account is opened.

Who can be the subscriber?

A RESP can be owned solely by an individual or jointly with their spouse or common-law partner.

A public primary caregiver, such as a department, agency or public trustee, may also be the subscriber if they are responsible for the care of a beneficiary.

Replacing a subscriber

Once the RESP is opened, you, as the subscriber, may update the subscriber information by adding or removing a joint subscriber. In this scenario, the joint subscriber can be your spouse, common law partner, or a divorced or separated partner.

In the case of divorce, RESPs are not required to be divided. You can maintain a joint RESP with your ex-spouse and continue to make contributions. Divorced or separated parents are permitted to open joint RESPs for one or more of their children or to move an existing joint RESP to another promoter.

The subscriber can be replaced in the event of the death of the original holder.

Beneficiary Information

The beneficiary is a Canadian resident with a valid SIN that you designate to receive Educational Assistance Payments (EAP) from the RESP when they are enrolled, as a student, in a post-secondary education institution. The beneficiary can be any individual, including your children, grandchildren, nieces, nephews, family, friends or even yourself.

Information on applying for a SIN can be obtained from a Service Canada Centre or on the government site.

https://www.canada.ca/en/employment-social-development/services/sin/apply.html

Replacing a beneficiary

You can replace the beneficiary in the RESP after the account has been opened. Once a beneficiary has been replaced, the government will transfer the former beneficiary's entitlements to the new beneficiary. If the new beneficiary already has a RESP this could result in an over contribution and grant repayment. This rule does not apply if the replacement beneficiary is under the age of 21 and is the brother or sister of the original beneficiary.

For a family plan, the replacement beneficiary must be under the age of 21 and a sibling to the original beneficiary. **There are no age or relationship restrictions on a single plan.**

Residency restrictions

There are no residency restrictions for opening a RESP. **It is strongly advised that you seek independent international tax advice** from a qualified specialist to determine if a RESP is the appropriate savings vehicle for you, due to the tax implications that may arise if you are currently, or subsequently become, a non-resident of Canada. **The named beneficiary must be a resident of Canada with a valid SIN at the time the designation is made.**

Contributions and Taxable Earnings

RESP contributions are non-tax-deductible deposits that are subject to a lifetime limit of $50,000 per beneficiary.

All contributions you make to the RESP belong to you. Government incentives and income earned in the RESP are sheltered from tax until they become available to the beneficiary when an Educational Assistance Payment (EAP) is made on their behalf. Although the EAP withdrawal is taxable income to the student, the good news is that they are usually in a low tax-bracket resulting in little to no tax paid on the EAP withdrawal.

Eligible Investments

A RESP can hold the same investments that you purchase in a RRSP or TFSA. This includes cash, credit union shares, guaranteed investment certificates and mutual funds. Mutual funds are only available through a licensed dealer. You will need to speak with your credit union to determine if they offer this type of investment. **Effective March 22, 2017, the government will impose a penalty tax on you, the subscriber, if your RESP holds a non-qualifying investment.** The penalty tax is equal to 50% of the value of the non-qualified investment when it was purchased. Additionally, there is an advantage tax equal to 100% of the income and gain earned on a prohibited investment if not immediately withdrawn. **Your credit union restricts RESPs to hold qualified investments only.**

Over contributions

If you exceed the $50,000 lifetime contribution limit for the named beneficiary, you will be subject to a monthly penalty in the amount of 1% of the overcontributed amount until it is withdrawn from the RESP. It is very important to keep track of contributions made on behalf of a specific beneficiary to avoid any penalties. This includes contributions made to any other RESP by a subscriber on behalf of the specific beneficiary.

How long can you contribute to a RESP?

You can make contributions to a RESP for up to 31 years after it is opened, while the plan must be closed 35 years after it was opened. An exception to these time limits is available for students who qualify for the disability tax credit. In this case, contributions can be made for up to 35 years and the account must be closed 40 years following the year the plan was opened.

Sally opened a RESP on January 2, 2023. She can make contributions (up to the lifetime limit) until December 31, 2055, which is 31 years after the plan was opened. And, the plan must be closed on or before December 31, 2059, which is 35 years after the plan was opened.

Types of RESPs

There are two main types of RESPs available at your credit union: Family and Individual Plans.

A grandfathered plan may exist for accounts opened prior to the existence of the Canada Education Savings Grant (CESG) in 1998. This type of RESP is subject to different rules.

A Group RESP is a pooled type of savings plan also known as a scholarship trust offered by scholarship or group plan dealers. These types of plans have various restrictions and fees. It is important to review the contract prior to selecting this type of plan. Group Plans are not offered by financial institutions.