6 Tips before withdrawing from your RESP

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So it's time to withdraw funds from your child's Registered Education Savings Plan ("RESP"). Depending on if your child attends post-secondary or not; we have compiled 6 tips that will help you get the most out of your RESP withdrawals.

Scenario 1: When your child goes to school

Tip #1: Proof of enrollment

In order to withdraw funds from an RESP you will need to provide proof of enrollment for your child. Proof of Enrollment consists of a letter/document on educational institution's letterhead, containing the institution's name and complete address (including postal code), date of issue (must be currently dated), student's name (and student number, if available), confirmation that the student is currently enrolled in the program at the educational institution and the enrollment status (full-time or part-time). If the letter/document as described cannot be obtained, an invoice from the educational institution may also be accepted if all of the listed information is on the invoice.

Tip #2: Withdraw tax efficiently

A main benefit of an RESP is allowing a portion of the RESP withdrawal to be taxed in your child's hands. Typically, your child will have low income and coupled with tuition and education tax credits, they should pay little or no tax. Let's review the two portions of an RESP and how they are taxed:

1. <u>Post-Secondary Education Payments ("PSE")</u>

   The PSE is simply your contributions into the RESP and can be withdrawn tax-free. There is no limit to how much can be withdrawn at a time.

2. <u>Education Assistance Payment ("EAP")</u>

   The EAP is everything else and comprised of investment income, capital gains and government grants/ bonds earned in the RESP. The EAP is taxed in the student's hands. Again, with your child's low income and tax credits, withdrawing EAP may help in reducing taxable income.

   Note: the maximum withdrawal of EAP during the first 13 weeks of school is $5,000 ($2,500 for part-time students). Thereafter, there is no limit. Should more than the above limit be needed, payments can be made from the PSE.

Tip #3: Time your withdrawals

You want to withdraw EAP in the years when your child's income is low. Depending on summer jobs and co-op programs, their income may fluctuate year-to-year. Consider withdrawing more in low income years to take advantage of tax credits. Ultimately ensure the entire RESP is withdrawn while the student is in school, or additional taxes may apply when collapsed.

Scenario 2: When your child does not go to school

If your child does not attend post-secondary, the government will retract all grants/ bonds if the RESP is collapsed. As discussed above, your contributions can be withdrawn tax-free from the RESP. What remains in the RESP now is the investment income, called the Accumulated Income Payment ("AIP").

Tip #4 – Move AIP to an RRSP

If you simply withdraw the AIP from the RESP, it would be taxed at your marginal tax rate + 20%. To avoid this, you can transfer this amount tax-free into your RRSP or your spouse's RRSP up to your available contribution room, with a maximum limit of $50,000. If you do not have enough RRSP room then you can postpone the transfer to the year after.

#5 – Transfer to another RESP

If you have multiple children with RESPs, you can transfer the full RESP amount to a sibling's RESP as long as the sibling is under the age of 21. However, if the sibling already received the maximum Canada Education Savings Grant (CESG) of $7,200, then the excess grant would have to be returned to the government.

#6 - Make use of the 6-month grace period

There is a six-month grace period available after the beneficiary ceases to be enrolled in a post-secondary education program. Within this time frame beneficiaries are allowed to withdraw excess RESP savings in the form of EAP. There are some limitations to this as you might get audited by the CRA if you make exceptionally large EAPs and the penalties could be severe.

Your Scotia Wealth Management contact would be happy to assist you with further information.