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RESPs – Saving for Education

With the return of autumn, many families may be turning their attention to thoughts of school and the cost of education. For some, children are off to pursue post-secondary education programs. For others, slower economic activity and higher unemployment in parts of the country have prompted individuals to return to school and seek potential opportunities offered by advanced degrees such as the MBA.

Today's reality is that the cost of higher education continues to grow. As such, many students attending schools in both Canada and the United States have burdened themselves with relatively large debts over the course of their education. With no other sources of financial help, they have taken out student loans and may be counting on future earnings to eventually provide relief. Unfortunately, the road to fiscal balance is a tough one to travel particularly when starting out in a career.

As investors, we have the opportunity to assist children and grandchildren with education at all levels. For starters, we can provide advice about money, teaching them about the fundamentals of saving, investing and taxes. We can also choose to put aside our own financial resources in helping to pay for schooling.

Registered Education Savings Plan

A Registered Education Savings Plan, or RESP, is an excellent starting point. Under this federal plan, up to $50,000 can be contributed per child beneficiary. (Plans can be opened for an individual or a family.)

While contributions to an RESP are not tax-deductible, investment income within the plan is tax deferred — that is, no taxes are payable while the assets remain in the plan. When payouts to the student for approved educational purposes are made, only then will the income be subject to taxes and in the hands of the child. In most cases, the student will have a low marginal tax rate, so the taxes owing will also be low or non-existent. Approved educational purposes include most post-secondary programs offered by designated educational institutions in Canada or the U.S.

A key attraction of the RESP program is the Canada Education Savings Grant (CESG). The government will match 20 percent of annual contributions made to the RESP to a maximum grant of $500 per beneficiary per year (or $1,000 in grants if there is unused contribution room from a previous year), with a lifetime limit of $7,200 per beneficiary.

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Other federal enhancements are available for low-income families, and certain provinces have introduced additional programs for their own residents. Please call for further details or to set up an RESP for your family's needs.

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Other Assistance

• **Moving Expenses** — Make sure your student keeps good records when attending school. Remember that moving expenses may be deductible if the school is beyond 40 km from home. Moving expenses can offset any income that a child may have from employment, self-employment or scholarships and grants. If there is insufficient income to offset all of the associated moving expenses, excess amounts may be carried forward to offset any eligible income earned in the next year.

• **Lifelong Learning Plan** — Should you be thinking of going to school yourself, the Lifelong Learning Plan (LLP) may be helpful in saving or deferring taxes. Under this measure, Registered Retirement Savings Plan (RRSP) savings can be withdrawn to be used for eligible full-time education or training provided that certain conditions are met. Individuals can withdraw up to $10,000 per year (and up to a $20,000 maximum over four years) of RRSP assets. Withdrawals above this amount will be taxed as ordinary income. For those who are able to take advantage of this plan, any amounts drawn under the LLP must be returned back to the RRSP within 10 years, otherwise taxes will be owed on any amount that has not been re-contributed. The LLP also allows you to withdraw amounts to finance the education of your spouse/common-law partner.

As the LLP cannot be used by you to finance a child's education, it may be difficult for teenagers who are entering into post-secondary institutions to utilize their own LLP. Most teenagers have not had an extensive work history to contribute any significant amount to an RRSP, much less the $20,000 maximum allowed by the LLP. However, if the teenager does have a work history and has contributed to an RRSP, note that new contributions to an RRSP account must remain in the RRSP for a minimum of 90 days to avoid taxes at the time of withdrawal.

• **Basic Tax Breaks** —Don't forget that there may be basic tax breaks to which you are entitled as a result of higher education expenses. Tuition fees over $100 can be claimed as a tax credit for designated post-secondary college or university programs, as well as courses you may take at an accredited institution that contribute to improving your occupational skills. In addition to tuition, students may be eligible to claim an educational amount of $400 per month for full-time enrolment or $120 per month for part-time enrolment. Provincial tax credits may also be provided, depending upon the province of residence. Transit passes may also be eligible to be claimed by the student. Remember that any unused credits may be transferred to a parent or spouse, or carried forward to be used in future years.

Note that the federal Education and Textbook credit, a non-refundable credit that has generally allowed a student to claim an amount for each month in the year that they were enrolled in a qualifying education program, will be eliminated as of January 1, 2017. However, unused credit amounts carried forward from years prior to 2017 will remain available for subsequent years.