

## IN BRIEF: WITHDRAWING FROM THE RESP

With the return of autumn, many families may be turning their attention to school. If you have a (grand)child who has headed to college or university this fall, congratulations! Now is the time to take action and tap the fruits of your labour: the Registered Education Savings Plan (RESP). Here are some considerations, in brief:

**Understand the three components of the RESP.** Track RESP balances according to their source: i) grants, ii) contributions and iii) accumulated income (AI) — income or gains made on contributions and grants. Grants and AI may be paid out to the beneficiary as an Education Assistance Payment (EAP), taxable in the student's hands. Generally, any unused grants will be clawed back and unused AI may be potentially subject to a penalty tax. Original contributions can be withdrawn, tax free, at any time, or paid tax free to a qualifying beneficiary. When withdrawals are made, you will need to specify how much comes from each bucket.

**Give thought to how you will time your withdrawals.** Consider drawing EAPs early when a child's income is low (depending on summer jobs and co-op programs). It may be beneficial to spread EAPs over several years to make use of tax credits, such as the basic personal amount and tuition tax credit.

**Deplete the account while the beneficiary is enrolled in an accredited program.** While you can

only withdraw \$5,000 of EAPs in the first 13 weeks, there is generally

little restriction after that period while enrolled. Be aware that for payments received after a beneficiary is no longer enrolled, unused grants may need to be repaid and AI payments will be subject to additional taxes potentially. There is a six-month grace period after enrolment has ceased that allows for RESP withdrawals to qualify as EAPs.

**Explore alternatives if a child does not go to school.** The RESP can remain open until the end of the calendar year that includes the 35<sup>th</sup> anniversary of its opening. If plans have changed, consider the option to transfer the RESP to a sibling or transfer AI to the parent's Registered Retirement Savings Plan, both subject to various conditions.

For more information, see: <https://canada.ca/en/revenue-agency/services/tax/individuals/topics/registered-education-savings-plans-resps.html>

