

# The Long-term Benefits of RESPs

## *Post-secondary educational opportunities for youth with developmental disabilities*

by KENNETH C. POPE, LLB

As parents, we do our best to help open doors that will provide our children with opportunities to continue learning. Children with developmental disabilities may not be interested in or able to attend university or college, however this does not preclude their ability to develop other interests and skills through post-secondary educational opportunities. Registered Education Savings Plans (RESPs) facilitate a method of saving for such opportunities by allowing you to earn investment income in a tax deferred environment.

Individual plans can be set up for the benefit of an individual beneficiary while family plans accept contributions for more than one beneficiary. While there is no longer a maximum *annual* contribution to an RESP, the maximum *lifetime* contribution per beneficiary cannot exceed \$50,000. These contributions are not tax deductible. The Federal government provides a grant of 20 cents for each dollar contributed, up to a maximum of \$500 each year and a lifetime limit of \$7,200. These Canada Education Savings Grants (CESG) are only paid on the first \$2,500 contributed each year and only if an annual



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contribution is made. A large lump sum contribution might compromise these grants, but the interest accumulating tax free on a lump sum of \$50,000 (presuming for example that grandparents decided to endow this amount as an “early” inheritance) would generate much more tax-free growth than the grants provide. This option may be useful for some families.

Recently the Federal government announced that there will be an

additional grant for families with an income below \$74,000. The grant on the first \$500 contributed will be 40% for families with incomes below \$37,000 and 30% for families with incomes between \$37,000 and \$74,000. Contributions can be made for a period of 21 years.

An RESP must be terminated by the end of the year that includes the 25<sup>th</sup> anniversary of the plan.

### *Disbursing RESP funds: Which schools and programs apply?*

In order to disburse the funds from an RESP, a facility must be deemed a “designated educational institution” with a “qualifying educational program” under the Canada Student Loans plan. Alternatively, it can be certified by the Minister of Human Resources as an educational institution that provides courses related to the development or improvement of skills in a given occupation or vocation.

A “qualifying educational program” cannot span less than three consecutive weeks. Full-time students must spend at least 10 hours weekly on program-related courses or work, while part-time students must devote

at least 12 hours monthly of their time. The in-class portion of a recognized apprenticeship can also count as time spent. Part-time students can access up to \$2,500 of RESP funds per 13-week semester, or greater amounts if approved by plan administrators.

While a variety of courses offered at post-secondary schools currently meet these criteria, curricula can be created specifically to meet the special needs of adult children. For example, a group of exceptional families in Ottawa recently arranged a series of approved continuing education classes designed for their 25 children at Algonquin College in Ontario, all of whom had graduated high school at age 21.

In order to make post-secondary studies more attainable to exceptional people, students with disabilities now have the options of attending school on a part-time basis, accessing distance education courses through correspondence, participating in on-line learning opportunities, or studying via a variety of apprenticeship programs.

Once the money from the RESP has been distributed to the beneficiary, the income earned in the plan plus the amount of federal contributions are taxed as income of the beneficiary. As a student, your child likely

will not have much other taxable income and will be eligible for tuition and education tax credits, therefore he or she will have little to pay in taxes.

RESP funds should only be used to pay for education-related expenses such as tuition, books and



tutors. If a residential or meal plan comprises a component of your child's program, it is very important that the plan not be paid with RESP funds. Similarly, RESP money should not be used to pay for things that are covered by provincial disability benefits, such as shelter, clothes or food. Separate paperwork should be kept in order, otherwise there may be a deemed overpayment of provincial disability benefits and a surprise claw back of "overpayments" due to

simple misapplication of funds for the wrong use.

### *If your child chooses not to pursue post-secondary education*

Parents have always had the assurance that if their child decides not to pursue post-secondary education, their capital contributions to the savings plan would be returned to them tax-free. They now have the additional assurance that up to \$50,000 of the income that accumulates in the RESP can be transferred into their RRSPs, to the extent that they have unused contribution room available.

Alternatively, parents can withdraw the RESP income and pay tax at their marginal rate plus an additional 20%, to offset the interest earned on the grant. The grant portion is returned to the federal government.

It is now also possible to roll over or transfer the educational assistance payments, without tax implications, to another family member, so long as the beneficiary is under 21 years of age and is related by blood or adoption. In the case of an RESP in the family plan format, educational assistance payments can be paid out to another family member as long as the same qualifying criteria are followed. ■

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