

Your Options for an Unused RESP



It's true that life doesn't always unfold according to plan. In fact, as the saying goes, life is what happens when you're busy making other plans.

One example is post-secondary education. While you may have envisioned your child heading off to university or college, sometimes they don't. Everyone takes a different path through life and your child's path might not include post-secondary education.

However, if you enrolled your child in a Registered Education Savings Plan (RESP) as a way to save for their schooling, you need to know what choices you have for that account if they decide not to pursue post-secondary education.

Four options to consider

Which alternative you choose for the unused RESP depends on your personal and financial circumstances. If you're not sure, please consult with your advisor.

Option 1: Keep the plan open

An RESP may remain open for up to 36 years, so even if your child doesn't attend post-secondary school at a younger age, they have many years to explore the opportunity. Sometimes they may change careers and need to pursue higher education to help facilitate this change, or maybe they simply needed a break in schooling before feeling ready for college or university. Many different programs qualify under the RESP rules – including full-time and part-time studies in academics and trades – so your child has a number of possibilities to consider.

Option 2: Transfer the plan

If you have another child who is under the age of 21, you may transfer the savings in an individual RESP plan, which includes any grants received, to that child on a tax-free basis. Taxes will apply if the recipient child is 21 or older, plus you may be required to return any grant money received. For family RESPs, you're permitted to use any earnings in the plan to help cover education costs of another child in that plan. Rules may vary for group RESPs, so check your plan to determine if it's possible to change beneficiaries or transfer an existing plan to another beneficiary.

Option 3: Transfer funds to your RRSP

If you reside in Canada and have contribution room in your Registered Retirement Savings Plan (RRSP), you may avoid taxes on investment growth when closing an RESP by moving up to \$50,000 from that RESP to your (or your spouse's) RRSP. Note that the RESP must have been open for at least 10 years and any beneficiaries listed under that plan must be at least 21 years old and not currently enrolled in a qualifying educational program. Grant money received in the RESP, plus whatever earnings the grant(s) received, must be returned to the federal government.

Option 4: Close the RESP

If you're certain your child will not pursue post-secondary education and neither of the other two options above are applicable or feasible for you, you may simply collapse the RESP. Upon closing the plan, you must pay taxes on any investment earnings. Also, unless another child of yours has room available in their RESP regarding the Canada Education Savings Grant, you must return grant money in the closed plan (funds received from the Canada Learning Bond cannot be transferred to another child). Any contributions you have made are returned to you, tax free.

If you wish to donate the RESP investment growth to a qualifying educational institution, you may donate the entire amount without paying tax. In addition, a registered college or university may be able to issue you a tax receipt for this donation.

Contact us to learn more about how we can build a suitable plan based on your needs, including the funding of post-secondary education.

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