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TAX MATTERS

The best strategies for withdrawing from a registered education savings plan

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One of my son's friends is studying veterinary medicine in university. He leaves this week for school, and I asked him what courses he's taking this year. "I'm taking all the courses I need to become a licensed vet, but I'm also doing a minor in taxidermy," he explained. "That's great!" I replied. "So, no matter what skills you apply, the customer is getting their dog back. That's good thinking."

This young man's education is being paid for by withdrawals from a registered education savings plan (RESP) that his parents set up for him many years ago. When it comes to RESPs, there should be a method to withdrawals made. Today, let me share some tips about this.

The cost of education

If you've been saving through an RESP for a child's education, it's important to sit down before the start of their first year of postsecondary school and do the math on the expected cost of that four-year (or whatever length) education. If your child has other sources of income or savings that can partly cover

this cost – maybe a scholarship or earnings from the summer – you might not need to withdraw as much from the RESP.

Having said this, you'll want to withdraw all the assets earmarked for the student in the RESP over the time the student will be in school. If your child is planning on university for four years, for example, then plan to withdraw the funds over four years. Why? If withdrawals are made from the plan outside of when the child is enrolled in a qualifying program, there could be penalties to pay.

Withdrawals from an RESP can be used to cover more than just tuition. You can pay for any expense related to a postsecondary education, including books, residence, living expenses and even trips home.

The tax on withdrawals

It's going to be smart to minimize the tax on any withdrawals from an RESP. There are different types of withdrawals, and they can be taxed differently. The most common withdrawals are those of

contributions that were made to the RESP over the years. These are called a “return of payments” (ROP) and are tax-free. As the subscriber to the RESP, you can make an ROP withdrawal any time, although if you withdraw an ROP before your child attends school, you’ll have to repay all or part of the government grants that were made to the plan.

Also common are withdrawals of the government grants and accumulated earnings in the RESP. These are called “educational assistance payments” (EAPs) and are taxable to the student when withdrawn. Most students don’t have much income, so they’ll typically pay little or no tax on the EAP withdrawals.

Each taxpayer is entitled to a basic personal credit of \$15,705 (in 2024; this amount is reduced if income is more than \$173,205) and your child will also be able to claim a tuition tax credit for tuition paid. The bottom line? The student will not likely pay any tax unless their income, including taxable EAP withdrawals, is in excess of about \$20,000 to \$25,000.

If you make a withdrawal of accumulated earnings in the RESP for yourself, as the subscriber, you’ll face tax plus a 20-percent penalty on those withdrawals, in addition to having to repay grants from the government. These are called “accumulated income payments” (AIPs) and should be avoided if you can. You can transfer funds in the RESP to your RRSP within your contribution limits if necessary, and this will avoid the tax and penalty.

[Damon Murchison: Maximizing the full potential of RESPs can help offset the rising cost of higher education](#)

The withdrawal strategy

The good news is that, for each RESP withdrawal, you can designate what type of withdrawal it is (an ROP, EAP or AIP). In the earlier years of the student’s academic career, their earnings will likely be lower. In the case of my son, Michael, for example, he began earning more income in his second year of university once he entered the co-op program at school and worked for four months every second semester. But in his first year, his income was lower, so we made higher taxable EAP withdrawals from the RESP in that year.

Also, be aware that any government grants paid into the RESP must be repaid if they’re not used, so you’ll want to make sure you’ve made EAP withdrawals (which include the grants) during the student’s years of enrolment.

To avoid tax on AIPs, make sure all the assets in the RESP earmarked for the student are withdrawn while they’re enrolled in a qualifying postsecondary program. And if your child doesn’t attend a qualifying program, consider transferring the RESP assets to your RRSP.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca