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PROFICIENCY IN ACCOUNTING

NEWSLETTER

IS A REGISTERED EDUCATION SAVINGS PLAN A GOOD DEAL?

Whenever I work with clients to conclude their tax business for one year, inevitably questions come up about the next season.

One of these is often about Registered Education Savings Plans (RESP) and whether or not they are a good idea as an investment.

If you are not familiar with them, an RESP is a contract between an individual (subscriber) and a person or organization (the promoter). In this contract, the subscriber names one or more beneficiaries of the plan and agrees to make contributions for them.



In turn, the promoter agrees down the road to pay educational assistance payments (EAPs) to the beneficiaries. You can purchase one of two different types of RESPs: a family plan or a specified plan.

Family plans are the only RESPs that allow the subscribers to name more than one beneficiary. Each beneficiary must be connected by blood relationship or adoption to each living subscriber or have been tied in that way to a deceased original subscriber.

A lot of people confuse the RESP with the Registered Retirement Savings Plan, a different plan where your contributions are deductible on your income tax return.

You do not get any deduction at tax time for contributing to your RESP. But they still represent a good investment, in my opinion.

Their best benefit is that they take advantage of a 20 percent government contribution known as a Canada Education Savings Grant (CSEG).

There is also an enhanced rate of 40 percent on the first \$500 of contribution for families whose net income is under \$45,282, or 30 percent for families with income between \$45,582 and \$90,563.

There is a lifetime limit of \$7,200 and to qualify, you must invest in the RESP before the intended beneficiary turns 15. Also, the income earned by the plan is allowed to grow tax-free within the plan. In other words, you do not have to pay tax on the income that is earned by the contributions you make.

However, when the beneficiary receives the income when they start college or university, they do have to declare it as income, but because they are a student, they likely have little or no other taxable income.

Over a lifetime, you can put \$50,000 into an RESP, although there is no yearly limit.

The Canada Savings Grant amounts to 20 percent of your annual RESP contribution up to a maximum of \$500.

If you have young children and are worried about how they will be able to afford to a higher education as university tuition keeps rising year after year, starting an RESP when they are born is an excellent strategy. It is amazing how even small contributions like \$25 to \$30 a month add up over 18 years.

Contact us for advice!

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