

Canada Education Savings Grant: The Benefit of Registered Education Savings Plans

A Registered Education Savings Plan (RESP) is a tax deferred plan designed to help build a child's education fund. At one time there were many restrictions on the use of RESP investment income that often outweighed the benefits of the tax deferral. With legislative changes in 1998, and more recently, 2007, it is now a more attractive education savings vehicle.

This article will provide an overview of the Canada Education Savings Grant (CESG).

Overview

In 1998 the federal government established the Canada Education Savings Grant (CESG) to enhance the benefit of establishing an RESP.

Under this program, every Canadian resident under the age of 18 began to accumulate CESG eligibility beginning in 1998. The CESG is equal to a percentage of the annual contributions made to an RESP (subject to an annual maximum) and is paid directly into the child's RESP.

The amount of the CESG (both basic and enhanced) is based on net family income. The basic CESG, for which most individuals are eligible, is equal to 20% of RESP contributions made, to a maximum of \$ 500 per beneficiary. For lower-income families, an additional grant is available (see "**Special Provisions for Low Income Families**").

As soon as the child named in an RESP is enrolled in a qualifying educational program, he or she can start receiving money from the RESP. The CESG, along with income earned by the money in the RESP, is paid to the beneficiary as Educational Assistance Payments (EAPs). Each EAP includes a specific amount of the CESG.

Lifetime and Annual CESG Limits

There are annual and lifetime limits on the amount that a child can receive as CESG.

The annual CESG limit has been increased from \$400 to \$500 as a result of the 2007 Federal Budget. The maximum lifetime CESG is unchanged, at \$7,200.

Note: If there is more than one beneficiary in the family plan, the lifetime CESG limit for each child is still \$7,200.

For example, if the total amount of CESG paid into a family plan with two beneficiaries is \$10,000 and only one child continues to pursue post-secondary education, only \$7,200 may be paid to that child. The remaining \$2,800 in the RESP must be repaid to the government.



Eligibility for CESG

The beneficiary of an RESP will be eligible for CESG on contributions made on or before Dec 31st in the year that he or she turns 17.

To qualify for the grant, the RESP beneficiary must:

- Be a resident of Canada at the time of the contribution and
- Have a Social Insurance Number (SIN).

Contributions to an RESP must be new in order to be eligible for the CESG. This means they cannot be withdrawn from the plan and re-contributed. If contributions are withdrawn, any subsequent contributions to the RESP for the beneficiary will not be qualified for CESG for the rest of that year or the two subsequent years.

Special Rules for 16 and 17 year olds

Contributions made for beneficiaries in the year they turn 16 or 17 will only receive a CESG if:

- Contributions to all RESPs for the child must total at least \$2,000 before the calendar year the child turned 16; or
- There must be contributions of at least \$100 per year, in any four years before the calendar year the child turned 16.

How the CESG Works

Regardless of whether they are beneficiaries under an RESP plan or not, all children who are Canadian residents accumulate CESG room up to and including the year they turn 17.

CESG room accumulates at a rate of:

- \$400 per year for years 1998-2006.
- \$500 per year for years 2007 and later.

When a contribution is made to an RESP, the CESG program pays a 20% grant on contributions. The maximum CESG is \$500 based on the first \$2,500 in contributions. If the beneficiary has CESG carry forward available, the maximum annual grant payable in any year is \$1,000 (based on \$5,000 in contributions).

A contribution of \$5,000 per year will attract the maximum grant (\$1,000), provided that the beneficiary has accumulated CESG Carry Forward. Contributions over \$5000 per year WILL NOT attract any additional grant even if there is accumulated unpaid beneficiary grant.

Year	Grant accumulated	Contribution	Grant Paid	CESG Carry Forward (CF)
2004	\$400	\$1000	\$200	\$200
2005	\$600 (\$400 + \$200 CF)	\$1000	\$200	\$400
2006	\$800 (\$400 + \$400 CF)	\$1000	\$200	\$600
2007	\$1100 (\$500 + \$600 CF)	\$5000	\$1000	\$100
2008	\$600 (\$500 + \$100 CF)	\$4000	\$600	\$0
2009	\$500 (\$500 + \$0 CF)	\$2500	\$500	\$0
2010	\$500 (\$500 + \$0 CF)	\$2500	\$500	\$0

Note: Until 2007 there was an annual maximum contribution limit of \$4,000 a year and a lifetime contribution of \$42,000 for each beneficiary. In 2007 the annual maximum was eliminated and the lifetime maximum was increased to \$50,000.

Special Provisions for Low Income Families, Canada Learning Bond (CLB), Alberta Centennial Education Savings Grant (ACES)

Note: TD Waterhouse has decided not to add these additional optional programs to its current RESP and associated CESG offerings. However, TD clients will be able to take advantage of these new programs through a TD Canada Trust RESP.

1. Special Provisions for Low Income Families

In an effort to further support families in providing an education fund for their children, the government provides additional benefits for lower income households as follows:

- For families with a household income of \$39,065 (2010) or less, the “enhanced” CESG rate is 40% on the first \$500 in RESP contributions and 20% on the remaining contribution amount. Maximum annual CESG available would be \$600.
- For families with a household income of more than \$39,065 (2010) but less than \$78,130 (2010), the CESG rate is 30% on the first \$500 in RESP contributions and 20% on the remaining contribution amount. Maximum annual CESG available would be \$550.
- Unlike regular CESG, the “enhanced” CESG cannot be carried forward to future years.

2. Canada Learning Bond (CLB)

Another initiative introduced in 2004 was the CLB. This is also a special provision for families receiving the National Child Benefit Supplement. The federal government will:

- For children born on or after January 1, 2004, contribute an initial \$500 into an RESP account and then \$100 a year thereafter until the child is 15 years old.
- Contribute an additional \$25 to the initial \$500, to help cover the cost of opening an RESP.

As a result the CLB could potentially provide an additional \$2,025 to an eligible child's RESP.

3. Alberta Centennial Education Savings Grant (ACES)

This is a provision eligible to children born to or adopted by Alberta residents on or after January 1, 2005. The government of Alberta will deposit a one-time grant of \$500 upon opening of an RESP. In addition, grants of \$100 are available to Alberta students who turn 8, 11 and 14 on or after January 1, 2005. These grants require a minimum of \$100 invested in an RESP within one year prior to application.

Families who are eligible to receive any of the above grants will need to apply through their RESP providers. Qualified ACES amounts will be accumulated until parents apply to have these amounts transferred to an eligible RESP.

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