

When Kids Don't Go To School

You may have saved diligently in the hope that your young'un would pursue a post-secondary education only to find Little Miss wants to walk a different path. So what do you do with all the money you piled up in the RESP?

Think of your RESP as a cake with three layers:

- The first layer is your contributions; you could put up to \$50,000 in for each beneficiary of the plan
- The second layer is the Canada Education Savings Grant (CESG); the most the government would have put in was \$7,200 per beneficiary
- The third layer is all the income earned on the previous two layers.

Remember that just because Number 1 Son doesn't choose to walk the halls of higher learning doesn't mean all is lost. Number 2 Son can take advantage of the all the money in the plan, provided said Number 2 Son is under 21 and has grant room available. Just transfer the individual plan to another RESP with the new beneficiary. Or make the plan a family plan to make the whole thing that much easier.

If there's no other child to make use of the RESP, or if it's the last child in line and there's money left, you can withdraw your contributions to the RESP without any tax consequences. However, any CESG money would have to go back to the government, and the income in the plan would be taxed at your marginal tax rate plus 20%. Ouch!

The way around this is to roll the accumulated income from the RESP to your RRSP or your spouse's RRSP, as long as:

1. You're a resident of Canada,
2. The recipient is the subscriber of the RESP,
3. The plan has been open for at least 10 years, and
4. All beneficiaries are over the age of 21 and not eligible for an educational assistance payment.

Of course, you have to have RRSP contribution room to make this work so if you think there's a chance that your kid's gonna bail from school, hold off on your contributions so you have the room you need.

Make sure when your child starts to pull educational assistance payments (EAPs) from the RESP that they take as much of the grant money and the income from the plan first to mitigate the rollover problems.

By Gail Vaz Oxlade
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Let us help you to understand the 'ins' and 'outs' of saving for your children's, or grandchildren's, post-secondary education.