

Making the most of your RESP contributions

With the new school year just underway, education is on the minds of many. What better time than now to consider how you will fund your children's (or grandchildren's) post-secondary education.

A **Registered Education Savings Plan (RESP)** is a tax-effective, government-supported savings vehicle designed to help you accumulate funds for your child's education. RESPs ultimately enable your child to receive government educational grants while also taking advantage of the interest income, dividends and capital gains from the principal invested.

Despite what many people assume, your contributions to RESPs are *not* tax-deductible. However, the money your investments *earn* in the RESP through investment income and government grants are not taxable until withdrawn from an RESP. Upon withdrawal, it is taxed in the student's hands at their marginal tax rate, which is typically much lower than the contributor's. The principal amount invested into an RESP can be withdrawn by the contributor or 'gifted' to the child when they enroll in a post-secondary institution.

One of the best advantages of putting money towards an RESP is government grants given to the fund – essentially "free" money – that can be interpreted as an automatic "return" of up to 20% on annual contributions. The most widely applicable, the **Canada Education Savings Grant (CESG)**, is the federal grant applied to RESP contributions.

Changes to RESP policies

Recently several changes were made to RESP policies, thanks to last spring's federal budget, that make contributing to your child's RESP fund much more flexible and beneficial.

CHANGES TO RESP LIMITS FROM THE 2007 FEDERAL BUDGET:

	Pre-Budget 2007	Post Budget 2007
Maximum Contribution Limit	\$42,000	\$50,000
Annual Contribution Limit	\$4,000	\$50,000
Annual Canada Education Savings Grant Limit	\$400	\$500

The **annual limit and lifetime maximum contribution** per beneficiary was increased to \$50,000. Most importantly, this change means that families who come into large sums of money at one time (say from an inheritance or the sale of a business) can now place a large amount of capital in their children's RESP in one deposit, to let their investments start growing as early as possible.

The 2007 Federal budget also changed who can withdraw RESP funds. Now many part-time students may also be able to draw from them, providing more flexibility for those who may choose to work while attending classes or who have other family obligations.

How the Canada Education Savings Grant (CESG) is applied

The annual amount eligible for the **Canada Education Savings Grant (CESG)** has been increased from \$2,000 to \$2,500. This grant provides 20% on the first \$2,500 of annual contributions made to all eligible RESPs for a beneficiary, to an annual maximum of \$500, until the end of the year in which the beneficiary turns 17. Unused CESG eligibility may be carried forward to a maximum of \$1,000 per year. The lifetime maximum CESG amount per beneficiary remains at \$7,200.

In addition to the Canadian Education Savings Grant, your children may also qualify for other educational grants, depending upon which province you live in and your family's income level.

Helping your children further their education may be one of the best investments you make. If you haven't started an RESP, it may be time to consider one. If you have an RESP, don't forget to top up this year's contribution with the additional \$500 room created by the 2007 budget.

For more information about RESPs and how they can work for you, please contact your Investment Advisor. ■

It is important to note that due to government processing, it may take several months to receive the new additional portion of the CESG. This delay is only anticipated for contributions made prior to January 2008.

