RESP Options and Procedures

How to use the RRSP if your child does not go to college or university

Your child may initially choose a post-secondary education path or career that doesn't require a college or university degree. If you've been saving by investing in a Registered Education Savings Plan (RESP) on their behalf, you do have options for keeping all your contributions and a substantial amount of your investment growth.

1. Wait and see

Before you do anything, consider whether your child may change his or her mind. If you opened an RESP the year your child was born, it can stay open until the end of the year your child turns 35. A lot can happen between age 18 and 35, and your child may decide to use the money for a wide range of full-time or part-time qualifying educational programs.

2. Check for RRSP room

Fortunately, there's an easy way to avoid paying taxes on at least some of your RESP investment growth. You can move up to $50,000 into your Registered Retirement Savings Plan (RRSP) or your spouse's RRSP if there's enough contribution room. This could potentially save you a significant amount in taxes and give a big boost to your retirement savings.

3. Transfer to another child

If you have more than one child, you have the option of transferring RESP savings, including grants, into your other children's RESPs without tax consequences if they are under the age of 21. If they're over 21 years old, you may have to pay taxes and return Canada Education Savings Grants (CESGs) and Canada Learning Bonds (CLBs).

4. Make a donation

If your alma mater or another educational institution is close to your heart, you can also donate your RESP investment growth. No taxes are due—the whole amount can benefit the college or university and its students. If you're donating to a registered university or college, they may also be able to issue you a donation receipt for tax purposes.

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Rules to Transferring RESP to RRSP

The first thing to consider is the rules that are in place when it comes to RESP to RRSP transfers. To complete the transfer, you must meet the following conditions

- **each child who is or was a beneficiary of the plan must be at least 21 years of age and not currently enrolled in a post-secondary education.**
- **The RESP account must have been open for at least 10 years.**
- **You must have enough RRSP contribution space available.**

You can also initiate this transfer if the payment is made in the 35th year after the Plan was entered into, or each individual who was a beneficiary under your Plan has died.

Don't forget that an RESP can remain open for 35 years. Even if your child isn't currently continuing their education, you could keep the account open and see what happens, or even wait to build more contribution room in your RRSP. Remember, grants and earnings are tax-sheltered for as long as they're in your RESP.

How to transfer your RESP funds to RRSP

If you're sure that your child won't be pursuing continuing education and you want to transfer the RESP funds to your RRSP, you will take the following steps:

1. **Confirm that you've met the conditions to transfer the funds in the RESP to your RRSP.**
2. **Check to see if you have enough RRSP contribution room.**
3. **Gather the necessary documents, such as your account number.**
4. **I will contact the promoter and get the necessary forms to apply and will facilitate the transfer of income and return any federal and provincial grants to the government.**
5. **Once the funds are in your RRSP, we can start investing.**

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Even though the process of transferring funds from your RESP to RRSP is pretty straightforward, there are a few things to consider:

- **Your RESP promoter may charge a transfer fee.**
- **Your RESP promoter may charge an administration fee to close the account.**
- **You may not be able to transfer your investments in-kind. Some financial institutions may require you to sell your investments, so the transfer is done in cash.**
- **It could take a couple of weeks or months for the transfer to complete**.

Even though funds from your RESP are sent directly to your RRSP, it's considered an indirect transfer. That means you would report the transfer amount as income but also claim an equal amount as an RRSP contribution. To be clear, an RESP transfer to an RRSP does not lower your taxable income like a traditional RRSP contribution does. That's because the amount you claim will offset the added income.

RESP straight Withdrwal Rules

Whether you're transferring your RESP funds to your RRSP or withdrawing money for other reasons that aren't education-related, there are a few rules to consider:

- **You can withdraw any contributions you've made tax-free.**
- **Any Canada Education Savings Grant (CESG) or Canada Learning Bond (CLB) funds must be returned to the government if they are not withdrawn as an Education Assistance Payment (EAP).**
- **Any income withdrawn for non-educational purposes counts as your taxable income. You would be taxed at your regular tax rate, plus 20%.**

RESP are Tax Deferred Accounts , meaning you only pay taxes when you withdraw the funds. Tax consequences aren't usually a big deal when the money is used for education since most students are generally in a low tax bracket. However, you could face a meaningful tax bill if you use the money for any other reason. You can transfer the funds from your RESP to your RRSP to minimize this tax burden

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