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RESP Withdrawal Rules You Should Know About

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POST-SECONDARY FUNDING – When it comes time to withdraw the funds accumulated in a Registered Education Savings Plan (RESP), clients are required to follow certain rules. This article sheds light on some of these rules.

The first thing to note is that the funds accumulated in a client's RESP mainly fall into one of two categories. One of these represents the subscriber's contribution payments—for instance, the money that a parent has put into the plan for their child. These funds can be reimbursed to the subscriber tax-free. The money can also be handed over to the child without the child incurring any tax penalties.

The other category represents the total income from an RESP as well as various government grants, called Educational Assistance Payments (EAPs) by the federal government. The student is required to include EAPs as income in their tax return for the year they receive them.

Fiduciary duty

As a result of a recently-introduced rule, students now have fiduciary duty over the first \$20,000 withdrawn from an EAP, explains Sylvain Chartier, financial planner and tax specialist at National Bank Financial. "The fiduciary must ensure that the funds really go towards education. It had become too complicated to check if every receipt for the purchase of a pencil was really meant for education. The Ministry therefore weighed in and decided that the first \$20,000 would be the individuals' responsibility."

This doesn't mean, however, that a client can withdraw \$20,000 from their RESP and use it for other purposes. The Ministry can still check and ask the client to prove their educational spending. "If I take out \$20,000 and go travelling with that money, and the Ministry does an inspection and finds out the money wasn't spent on education, there will be a problem," Chartier says.

Furthermore, for RESPs set up after 1998, the amount a student can take out from the plan once they begin studies in a qualifying educational program is limited to \$5,000 for the first 13 consecutive weeks.