Source: http://www.finance-investissement.com/nouvelles/developpement-des-affaires/reee-le-risque-de-la-cotisation-des-grands-parents/a/42528

Grandparents Contributing to RESPs Face Risks

06/14/2012 - 09:24 - GUILLAUME POULIN-GOYER

IQPF CONGRESS – Grandparents contributing directly into a Registered Education Savings Plan (RESP) for their young grandchildren will be faced with a tax risk should the child end their education early.

Grandparents should instead give the money to the parents, who can make the RESP contributions for their children and thereby avoid the risk. This advice was given by Sylvain Chartier, tax specialist and financial planner at National Bank Private Wealth 1859, at the Congress of the *Institut québécois de planification financière* (Quebec Financial Planning Institute / IQPF).

This situation is due to the tax rules that apply to RESPs. When a child named as a beneficiary on an RESP stops studying and no change of beneficiary is made, the funds accumulated in the RESP must be redistributed. Contributions are returned to the subscriber (the grandfather, for example), while governments collect the grant money.

Income from investment can be returned to the subscriber without tax consequences under certain conditions: the subscriber may transfer up to $50,000 into their RRSP or donate the income to an educational institution.

“But by the time the grandson turns 16 and decides not to pursue post-secondary studies, it may well be the case that grandpa is already over 71 and is no longer permitted to make RRSP contributions,” Chartier explains.

If grandpa opts not to donate the investment income, he will be required to pay a supplementary tax on top of his regular tax rate that amounts to 12% federally and 8% provincially. “At the highest marginal tax rate, this additional tax of 20% can raise the overall tax rate to an enormous 68%!” Chartier says.

To avoid this tax risk, Chartier suggests that grandparents give the education money to their sons or daughters, who can then contribute the funds to their children’s RESP. This means that if a child decides to end their studies at age 16, the child’s mother or father would be able to transfer the accumulated investment income into their RRSP.

“So if at age 14 or 15 I see that my son doesn’t seem like someone who will pursue post-secondary studies, I know I have the right to transfer the funds into an RRSP. I can then take the investment portion in my RRSP,” Chartier notes.

Source: http://www.finance-investissement.com/nouvelles/developpement-des-affaires/reee-le-choix-de-l-heritier-importe/a/42540

RESPs – Choosing the Right Successor Subscriber Matters

06/15/2012 - 08:50 - GUILLAUME POULIN-GOYER

IQPF CONGRESS – A poorly-prepared will can significantly deplete the funds your clients have set aside for their children in a Registered Education Savings Plan (RESP).

This warning was given by Caroline Marion, Account Manager of Estate Settlements at National Bank Trust, at the Congress of the *Institut québécois de planification financière* (Quebec Financial Planning Institute / IQPF).

This situation comes down to a lack of knowledge about the legal ownership of RESP subscriptions. "Many people do not consider naming a specific person to inherit the RESP. They believe that the money belongs to the beneficiary. But that is not the case. In an RESP, the money from contributions continues to belong to the initial subscriber," Marion explains.

When the subscriber dies, only the income and grants are paid to the child. The savings from contributions go to the successor subscribers, who are not necessarily the RESP's beneficiaries. "I need to think about whom I want to inherit the savings when I pass away—either the child, or someone who will ensure that the funds are used to the child's benefit. But very few people consider naming a specific person to inherit the RESP. The RESP often ends up in the residue of the estate and gets passed on to people who may have no relation the RESP's beneficiary."

Since the RESP's successor subscriber is able to withdraw the funds when the subscriber passes away, it is important to choose this person wisely. The best option is to choose an trusted adult who isn't in financial difficulty. "Regardless of whom I choose, this person will be able to withdraw the funds or be forced to do so by their creditors. If they become bankrupt, the funds in the RESP will be seized by trustees," Marion explains.

But before deciding to name the RESP's beneficiary as the successor, Marian offers these words of caution: "If the children are minors, that can cause more problems than passing it on to the surviving spouse."

If a child receives an inheritance of $25,000 or more, the government will be poking its nose into your clients' finances. "Upon death, the executor of estate has an obligation to inform the Public Curator of the fact that over $25,000 has been passed on to a minor. The surviving parent will then be forced to put together a family council and appoint members to form a tutorship council. This council will monitor how the surviving parent manages their child’s assets until the child turns 18. This process must take place in the presence of a notary or lawyer, and costs between $2,500 and $3,000,” says Marion.

Three people are appointed to the tutorship council—often, the child’s grandparents, uncles or aunts. “The surviving parent will be required to provide a security to the effect that they will not steal the child’s money. This security often takes the form of a freezing of funds or a mortgage on their property. They then have to submit a management report every year to the Public Curator’s Office detailing how they have been managing the child’s assets. This process goes on until your children turn 18, at which point the spouse is required to surrender the funds to the children, and the curator contacts the children to ensure that they have fully understood,” adds Marion.

All this hassle can be avoided by carefully modifying the provisions of the will that deal with RESPs.

Source: http://www.finance-investissement.com/nouvelles/produits/un-reee-de-26-000-enti-rement-financ-par-l-tat-ou-presque/a/43166

How to Build a $26,000 RESP Financed Entirely by Government (Kind of)

08/07/2012 - 08:14 - GUILLAUME POULIN-GOYER

POST-SECONDARY FUNDING – With the help of government, the parents of newborns can build up a Registered Education Savings Plan (RESP) that will be worth over $26,000 when their child turns 18, without having to pay a single cent—or nearly so.

All they have to do is to take the $100 they receive monthly from the federal government (until the child turns six) thanks to the Universal Child Care Benefit (UCCB) and transfer it into an RESP, says Fabien Major, who recently detailed a strategy along these lines on his blog.

For each dollar contributed by the parent, the federal and provincial governments add grant money amounting to $0.20 and $0.10, respectively. For the total contribution of $7,200 ($100 times 12 months, multiplied by 6 years) invested in this manner, the governments will contribute $1,440 and $720, respectively, for a total of $9,360.

Lower-income families may even be eligible for an additional grant, the Canada Learning Bond (CLB), up to a maximum of $2,000, Major explains.

Let's say your clients are not eligible for this grant but they receive the other ones. If they invest the amount from the UCCB into an RESP every month between the child's birth and age six and allow the funds to grow at an annual rate of return of 7%, Major's calculations suggest these will accumulate to $26,553.

"A reader of my blog wrote to me and told me I was taking it too far with the 7% figure. It's true that there won't be a lot of investments paying 7% this year. But looking at the long term, I found a fund package that has generated annual returns of 7% over 15 years. For example, the TD Canadian Bond Fund has paid 7.75% per year, net of fees, over the past 20 years," Major explains.

The idea came to Major from conversations he'd had with parents he knew. "Over 75% of them tell me they intend to put the $100 monthly payment into a bank account and give it all to their child at age 18. In my view, that was wasteful."

Plan for taxes

Fabien Major's strategy doesn't explicitly account for taxation. The UCCB is a form of taxable income that gets added to parents' income and benefits. "The parent has to accept the tax, but it's a negligible amount on the total. What also needs to be understood is that if the accumulated funds are handed over to the child and the child then spends the money within a three-year span, the child will not have to pay tax [if they have little or no other income]," Major says.

Dany Provost, tax specialist and Vice President of Planium financial services firm, has two comments about Major's strategy. First, unlike the commonly spread myth, the money withdrawn from the RESP by a student is not without tax consequences. "If the child has high enough income when cashing out their RESP, they may lose some refundable tax credits. These include Quebec's work premium and Solidarity Tax Credit and the federal government's GST Credit. Even if there's no tax to pay, some money will be lost. If the student has no income but receives large tax credits, they may see these diminish. It's not a tax, but a loss of [credit] transfers, in the same way that funds from the Guaranteed Income Supplement are withheld," Provost says.

Second, the UCCB is taxed at the parent's marginal tax rate, Provost explains in an e-mail.

Nonetheless, certain approaches can be taken to reduce this tax bill. The UCCB can be declared by a spouse with lower income, both federally and in Quebec, Provost says. The benefit can also be declared for a dependent child in a single-parent family, but only on the federal level.

Be aware of inflation

Before offering this to a client as a cure-all solution, advisors should inform clients about the erosion of purchasing power entailed by this strategy. Let's take the example of a parent who starts an RESP today. In 18 years, the $26,553 accumulated will be worth $18,590 in today's dollars, assuming an annual inflation rate of 2%.

An error appeared in an earlier version of this article. Information on the impact of UCCB transfers on variations in tax-related items, such as the GST Credit and the Solidarity Tax Credit, was inaccurate and has therefore been removed. We apologise for the error.

Source: http://www.finance-investissement.com/nouvelles/developpement-des-affaires/reee-que-faire-si-junior-cesse-d-etudier/a/43310

RESPs – What to Do if Junior Stops Studying

08/17/2012 - 08:05 - GUILLAUME POULIN-GOYER

POST-SECONDARY FUNDING — Your client started a Registered Education Savings Plan (RESP) for their child, but the child is not pursuing post-secondary studies. Before worrying about the tax penalties, your client should be made aware of their options:

Wait

RESPs generally have a maximum life of 35 years. The beneficiary of an RESP can use the funds set aside for them until that period expires, says Robert Viau, a financial security advisor in Laval. “A significant portion of those who decide not to pursue post-secondary education at age 16 or 18 end up studying later on when they realize it’s in their interest to do so. I myself went back to school at 26, so I know what I’m talking about. Also, RESPs are accepted for a number of vocational diplomas.”

Change the beneficiary on the RESP

If the child is dead set against pursuing post-secondary studies, the client may change the beneficiary on their RESP. A number of tax rules apply in these scenarios, and it is best to consult with a specialist.

There is no tax on contributions when the new beneficiary is a sibling of the former beneficiary and is under the age of 31 before the transfer.

Outside of these conditions, a different set of rules applies: upon the change of beneficiary, the contributions paid in the name of the former beneficiary are regarded as having been paid in the name of the new beneficiary on the initial contribution date. If the new beneficiary already has an RESP, this can result in an excess contribution—for example, when the contribution limit of $50,000 per beneficiary is exceeded.

Transferring money between beneficiaries is a simple process if the RESP is a family plan. These plans allow for multiple beneficiaries, on the condition that the beneficiaries are related to the subscriber by blood or adoption.

Additionally, assets can be transferred between RESPs. Once again, a number of rules similar to those outlined above apply.

Cash out the RESP

If the child does not pursue post-secondary studies and no change of beneficiary is made, the contributions are returned tax-free to the subscriber and the grant money is taken back by the governments. “There is no interest payable on grant money returned to the government,” explains Sylvain Chartier, tax specialist and financial planner at National Bank Financial.

The investment income generated by contributions and grants, which the tax authorities call Accumulated Income Payments (AIPs), can be transferred into an RRSP belonging to the subscriber or the subscriber’s spouse, subject to a transfer limit of $50,000.

“If a parent sees that post-secondary education isn’t likely to be in their child’s future, they can terminate their RESP subscription to generate unused subscription rights,” explains Julie Doyon, Senior Director of Tax Services at PwC.

If the client does not have unused contribution room on their RRSP, of if they have an AIP exceeding $50,000, they can expect to pay a supplementary tax of 20% (12% federal and 8% provincial). “At the highest marginal tax rate, this additional tax of 20% can raise the overall tax rate to an enormous 68%!” Chartier explains.

Donate the money to a foundation

If the client wants to avoid this tax on the AIP, they can always make a tax-free donation to a designated educational institution in Canada.

Source: http://www.finance-investissement.com/nouvelles/developpement-des-affaires/reee-r-gles-retenir-lors-du-retrait/a/43350

RESP Withdrawal Rules You Should Know About

08/21/2012 - 08:23 - GUILLAUME POULIN-GOYER

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.