



"Dollars & Sense"

RESP's, Why you Should Have Them!

Registered Education Savings Plans (RESP's) are a fabulous tool for the planning and savings for your children's post-secondary education.

With the growing necessity for higher education in the workplace to the ever increasing costs of continuing education, the need for professional, strategic planning becomes even more relevant. Most parents will likely agree, ensuring our children have the necessary skills and education to have a fulfilling life is a top priority. However, over the past few years, the cost of education has spiraled upwards at an alarming rate.

With proper planning, foresight and the benefits of RESP's parents can ensure funds are available to give their children the education they need to carry on in a prosperous lifestyle.

RESP's have been around for many years, however, in 1998, the Federal Government introduced the Canada Education Savings Grant (CESG), further enhancing the benefits of the RESP program.

The CESG program matches RESP contributions at a rate of 20% to a maximum of \$400 per year. This is a primary benefit of a RESP, where else does the government (or any investment) pay a guaranteed 20% rate of return?

There are also some very significant tax advantages to the earnings within the RESP; although contributions to a RESP are not tax deductible, the earnings are also not taxable to the contributor, providing the funds are used for their specific purpose - education.

When your child or children (in a family plan) reach post-secondary education, the cash accumulated within the RESP can be withdrawn in the form of Education Assistance Payments (EAP) and used to fund the costs of education, namely: Tuition and books, Room and board, Other education related costs

There are of course a few stipulations to the eligibility of the expenses, but in most cases, all full-time college or university education costs would be eligible.

When considering the tax advantages of an EAP, you should realize how CRA will treat the payments; The funds withdrawn are fully taxable as income to the beneficiary of the funds (child), and not the contributors (parents). When you think about the basic personal tax exemptions, along with the federal/provincial tuition and education credits available to students, they could withdraw and/or earn income in excess of \$15,000 with little or no tax liability whatsoever. On the other hand, if the parents were to have to pay the taxes on the withdrawals, the burden could be as much as \$6,000 on \$15,000 in earnings.

Another consideration is how much (or little) one needs to contribute in order to ensure that there is enough money available to pay for the education costs down the road... Of course, with the power of compounding interest as well as the benefits of time, small contributions can add up to quite a lot.

For example, if you contributed only \$167 per month from the time your child was 12, to the time they turned 18, you could have in excess of \$18,000 in funds available. If you started making the same contributions from the time your child was 5 to the age of 18, you could have in excess of \$53,000 in savings. (both examples based upon compounded interest of 8% per annum)

Of course, if you made higher contributions, the amount available would be higher.

There are limits to contributions, \$50,000 per child, (lifetime), however, there are no minimum or maximum annual contribution requirements.

If you are a small business owner, you could, with planning make the contributions to a RESP a tax deductible expense for your business, further enhancing the benefits of the program.

If you want to know how, email sales@ledgers.com



Ledgers Canada
4-17705 Leslie St.
Newmarket, ON
L3Y 3E3
tel: (888) 470-0772
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