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The Do's and Don'ts of RESPs

Written by Janine Purves, CFP, CPCA

As frequently many clients want a quick rule book, I've created this list of Do's and Don'ts.

Do: Take advantage of getting your \$7200 of grant money for each child.

Do: Contribute early, and make a contribution every year, no matter how much. This helps to ensure you are able to maximize the amount of grant received. Since you can only contribute 2 years at a time, and still qualify for grant money, you cannot catch up if you fall too far behind.

Do: Recognize that the grant and growth is taxable to the child. Therefore, it's important to manage the RESP withdrawals to keep any taxable income as low as possible.

Do: Allow some of the principal to be returned to the subscriber. Since the principal was contributed with no tax break, it can be returned with no implications once all beneficiaries have completed school.

Do: Have the fund set up in both parents' names when it makes sense to do so. This allows more flexibility should the funds not all be used for the beneficiaries.

Don't contribute more than \$50,000 for any child during the life of the RESP, as that is an over-contribution.

Don't keep the RESP in 100% equities when you approach the first withdrawal date. The market risk must be considered, especially when the RESP is often used over a shorter-term period, often completely withdrawn within 5-7 years.

Don't leave Grant and growth money in the RESP too long, as there's risk of repaying the grant, and the growth may have a penalty if it cannot be withdrawn when a beneficiary is in a post-secondary program.

Don't miss any grant opportunities. When there are multiple siblings, having a "family RESP" can allow you to be withdrawing for the older sibling at the same time as you are contributing for the younger ones. In effect, you can contribute funds for the younger child to get grant money, and then withdraw funds for the older sibling within the same period.