TAX MATTERS

These five lesser-known tips will help you ensure you get the most out of RESPs

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If you're the parent or grandparent of a minor child, I'd encourage you to start saving for the child's education today, if you haven't already. In addition to an education, there are life experiences that go along with postsecondary school that are important to develop the character of a person.

Just ask the 21-year old man from California who, in 2011, made a $100 bet with his friends that he could fit into a baby swing. After lubricating himself with laundry detergent, he managed to squeeze into the swing – and became stuck. His friends left him there overnight and a groundskeeper heard him screaming at about 6 a.m. Firefighters cut the swing's chains and took him to a local hospital where doctors cut the swing off his rear end with a cast cutter. In the end, he was fine (pardon the pun). Many lessons are learned at that age, and most of them while attending postsecondary school.

Registered education savings plans are generally the vehicle of choice for saving for a child's education. There are some good reasons to use RESPs, not the least of which is the free government money in the form of Canada Education Savings Grants paid into the plan when you contribute for an eligible child. Today, I want to share five lesser-known tips about RESPs.

1. Ensure the RESP has flexibility. Not all RESPs are created equal. Some come with restrictions that may take you by surprise later (some group, or scholarship, plans are like this). Ask these questions (and get the answers in writing) before opening an RESP: Can you control the timing of payments out of the plan when your child begins postsecondary school? Can the full value of the plan be withdrawn in the first year of school if you choose? Can you claim a full refund of your contributions to the RESP any time you want? Can you control the investment decisions for assets inside the plan? What administrative fees apply to the plan, and when? Can you stop making contributions at any time, for as long as you want, without having fees or charges applied? Can you transfer the RESP assets to another institution later, free of fees or charges?

2. Choose the subscriber carefully. The subscriber of an RESP is the person(s) who contributes to the plan. It's usually the parents or grandparents. The person with the highest marginal tax rate may benefit most from contributing to the RESP since the income earned on the assets in the plan will grow tax-free (that income might otherwise be taxable in the subscriber's personal hands). If your child decides not to pursue a postsecondary education, it may be possible to transfer the accumulated income in the RESP (up to $50,000) to the subscriber's RRSP. If a grandparent is the subscriber, there's a good chance he or she will be over the age of 71 and may no longer have an RRSP, so thought should be given to making the parents the subscribers, even if it means the grandparents give the money to the parents to then make the contribution.

3. Designate a successor subscriber in your will. There's no place on most RESP account opening forms to designate a subscriber to the plan in the event you pass away. The question as to who should replace you as subscriber is an important one since the subscriber is entitled to a refund of all contributions at any time. Your will is the place to identify who that successor will be.

4. Consider separate plans for large age differences. An RESP is only allowed to be around for 35 years. Suppose you set up a plan for your oldest child when she is born, then add your other children to the plan when they are born. If the youngest is more than six years younger than the oldest, it's possible the plan may need to be wound up before the youngest even reaches postsecondary school.

5. Ask for a waiver of penalties. It's possible that the taxman may levy penalties on a subscriber for making excess contributions to an RESP (a maximum of $50,000 in the lifetime of a child is allowed). This can happen easily if different people are contributing to different RESPs for the same child and the amount of contributions is not co-ordinated. If penalties are assessed, you can ask the Canada Revenue Agency to waive or cancel the penalties when overcontributions were made as the result of a reasonable error. Just tell them you're requesting a waiver under subsection 204.91(2) of the Income Tax Act.

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Editor's Note: Funds in an RESP can be used for 35 years after the account is opened. An earlier version of this column incorrectly stated this was 25 years.