

Future Generation Education Expenses

Do you wish to contribute financially to your future grandchildren's education expenses? Many of us would like to help fund private school or post-secondary schooling, but it can be difficult if we don't know exactly how many grandchildren there might be, and when they might be born. Here are a number of options that you may wish to consider.

1. Make an outright gift

You can take the "wait and see" approach and pay your grandchildren's expenses as they arise. This lets you assess each grandchild's individual situation while still keeping the assets in your name. If you pay tuition fees directly to an educational institute, there will be no income attribution concerns. However, if you plan to give money directly to a grandchild under 18 years of age and that money subsequently earns interest or other investment income, the tax liability may be attributed back to you. Financial gifts to grandchildren age of 18 and over will not be attributed back to you, and will be taxed at the child's presumably lower rate of taxation. If the child uses the money to pay tuition, they may also be able to transfer unused tuition and education tax credits to a parent or to you. The outright gift approach makes sense for private school tuition fees, since RESPs can only be used to fund post-secondary education.

2. Contribute to a Registered Education Savings Plan (RESP)

Once the grandchildren are born, you can apply for a Social Insurance Number for them, and open an RESP. Although contributions to a registered education savings plan are not tax deductible, there is a tax deferral opportunity as the contributions accumulate tax-free within the plan. Upon withdrawal, the payments will be taxable in the hands of your grandchild, provided that your grandchild is enrolled full time in a qualifying educational program at a qualifying post-secondary educational institution. Your grandchild will likely be in a lower tax bracket than you at the time of withdrawal, and will be able to offset some of the tax liability with tuition and education tax credits, lowering the overall tax burden on these funds.

- The total annual RESP contribution limit for any beneficiary is \$4,000 up to a lifetime maximum of \$42,000. Contributions can be made until the beneficiary has reached the age of 21. A penalty of 1% per month is imposed on excess contributions for each month they remain in the plan.
- Income earned by the RESP can be tax sheltered for up to 25 years. Your capital contributions can be withdrawn at any time, however, you cannot withdraw the income of the RESP without tax consequences.
- Under the Canada Education Savings Grant (CESG) program, the federal government will pay a grant of 20% on the first \$2,000 of your annual contributions. The maximum annual grant of \$400 is payable for each year the beneficiary is under the age of 18 to a maximum of \$7,200 per beneficiary.

