

THE GLOBE AND MAIL

CANADA'S NATIONAL NEWSPAPER • FOUNDED 1844 • October 9, 2004



CESTNICK

TAX MATTERS

Grant strategy can provide immediate education cash

Gerry's a great neighbour. He's a procrastinator, but a great neighbour.

He has three kids, ages 18, 14, and 12. His 18-year-old son, Jared, is attending university for the first time next fall. When I asked Gerry if he had saved for Jared's education, he simply told me that they had been meaning to get around to saving, but procrastinated.

"Tim, as a chronic procrastinator, I live by a creed: I shall meet all important deadlines directly in proportion to the amount of bodily injury I can expect to receive from missing them."

"Are you going to find it tough to pay for Jared's education?" I asked.

"Sure," Gerry replied, "but there's a second part to my creed: I shall never forget that the probability of a miracle, though infinitesimally small, is not exactly zero."

Well, at least Gerry's optimistic.

I then shared with Gerry a clever strategy using a registered education savings plan (RESP) that can provide a tidy sum of cash, almost immediately, to help pay for Jared's education costs.

The grants

By now, you may be familiar with the Canada Education Savings Grant (CESG) — a grant paid by the government to an RESP when RESP contributions are made for an eligible child. The CESG is equal to 20 per cent of the RESP contributions, provided the child has CESG "room." (The CESG for low- and middle-income families could be slightly higher since the CESG rate is higher on the first \$500 of RESP contributions when family income is \$70,000 or less.)

Your child, if he's resident in Canada, will accumulate CESG "room" of \$2,000 each year after 1997, up to and including the year in which he turns 17. The CESG is payable on contributions made to an RESP, but only as long as your child has CESG room and the contributions to the RESP are made in or before the year in which the child turns 17. If you don't use up the CESG room available in a year by making sufficient contributions to an RESP, the unused room can be carried forward. In addition, for kids who are 16 or 17, CESGs will be paid into an RESP only where one of two conditions is met before the end of the year in which the child turns 16: (1) contributions of \$2,000 or more had been made to an RESP for the child, or (2) contributions of \$100 in at least four separate years had been made to an RESP for the child.

The strategy

Now, for the clever idea. Suppose Gerry were to contribute \$4,000 (the annual maximum) for each of his three children to a family plan RESP in 2004. This would be \$12,000 in total in 2004. CESGs of 20 per cent would be paid on the contributions for the two younger kids, for a total of \$1,600. This amount would be paid into the plan the month after this contribution (assume each of Gerry's younger kids has sufficient unused CESG room; Jared is already 18 years old, so no grants can be paid into the plan for him).

Suppose that Gerry is able to come up with another \$12,000 for contributions in January, 2005. This will result in another \$1,600 of CESGs paid into the RESP a month later in February. So, by February, there will have been \$3,200 of total grants paid into the RESP, and these funds will be immediately available for payment to Jared to help with his costs of education.

This \$3,200 is free money from the government, and will help in paying Jared's tuition for his first school year. It will also give Gerry a head start in saving for the education of his other kids.

This idea is possible because the CESG money paid into an RESP for a particular child doesn't have to be paid out of the plan to that beneficiary. In the case of an RESP that is a family plan, the grants can be shared with other beneficiaries of the plan, as long as no beneficiary receives more than \$7,200 of total CESG money out of the plan in a lifetime.

Tim Cestnick, FCA, CPA, CFP, TEP is author of *The Tax Freedom Zone* and *Winning the Tax Game*, among other titles, and is Managing Director of Tax and Estate Planning, at AIC Limited.