Eight ways to make the most of your child's RESP

Registered Education Savings Plans (RESPs) have become more attractive in recent years as a result of education grants, higher contribution limits, and more flexible rules. Here are some pointers to help you get the maximum benefit from RESPs.

1. **Be tax-smart.** Contributions are not tax-deductible, but earnings grow on a tax deferred basis. When the beneficiary begins withdrawing education assistance payments, the money will be taxable in his or her hands. Since a student's income may be relatively low, there could be little or no tax to pay.

2. **Get the grant.** Take full advantage of Canada Education Savings Grants (CESGs) for children under 18. The government will add 20% to annual contributions of up to $2,500 for a maximum grant of $500 per year, per beneficiary ($7,200 lifetime maximum). For low-income families, an enhanced CESG of up to 40% is available on the first $500 contributed to an RESP each year.

3. **Carry forward.** If you don't contribute enough money to earn the full grant in one year, grant room can be carried forward to future years. For example, if you made no contribution last year and contribute $5,000 this year, you would receive an RESP grant of $1,000 (20% of $5,000).

4. **Be aware of special rules.** Special rules apply to the CESG if the child is 16 or 17, so it's important to make some RESP contributions before the child's 16th birthday to qualify for future grants.

5. **Choose the right plan.** A family RESP, which has several children as beneficiaries, may offer more flexibility than an individual RESP. Different amounts of money can be allocated to each of the children based on their respective needs. If one child does not go on to a post-secondary education, it's possible all the money could be used by the other children. Grants allocated to one child may be transferred to other beneficiaries, within the $7,200 limit.

6. **Let others help.** RESP contribution limits apply to the beneficiary, not the contributor. Grandparents, or other relatives, can open an RESP for your child.

7. **Invest wisely.** Match RESP investments to your time frame and comfort zone. If you start making contributions when the children are young, you can include growth funds in an RESP and ride out short-term market fluctuations. As your children get closer to starting university or college, adjust the asset mix accordingly.

8. **Coordinate RESPs and RRSPs.** Plan so that you'll have the flexibility you need, if one or more of your children do not go on to a post-secondary education. As much as $50,000 in RESP earnings may be rolled over into an RRSP, if you or your spouse has sufficient contribution room. Name both spouses as plan subscribers, so that RESP money can be rolled over into either of your RRSPs.

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