
RESPs and estate planning

Scotiastrust®, The Bank of Nova Scotia Trust Company

Registered Education Savings Plans (RESPs) have become a popular savings vehicle for a child or grandchild's post-secondary education, and for good reason.

RESPs offer three key benefits:

1. Income tax deferral: income earned inside the plan is "sheltered" and not subject to annual taxation
2. Income splitting opportunities: when withdrawals are made, income inside the RESP is taxed in the hands of the beneficiary (the student) who is generally in a low tax bracket
3. Government grants: Canada Educational Savings Grants (CESGs) of up to \$500 for each year contributions are made for an eligible child

What many parents/grandparents fail to consider is what will happen to the plan should they (the subscriber) die before the plan has been exhausted. While the nomenclature is similar, at death, RESPs are not treated the same way as an RSP or RIF.

Unlike an RSP or RIF, RESP assets **do** fall into the deceased's estate for distribution as the deceased's Will prescribes even though a beneficiary has been named. This means probate fees are payable and the asset may be exposed to any creditors of the estate. In addition, any government grants may have to be repaid from the Plan.

Planning Options

If the subscriber's Will is silent in respect of the RESP, the assets will form part of the residue of the estate to be dealt with as per the terms of the Will and in most cases the only option may be to terminate the plan. This will result in all contributions being refunded to the subscriber's estate. All CESGs (but not the accumulated income on the CESGs) that have not been paid out as education assistance payments must be refunded to the government. The subscriber's estate may also face tax on accumulated income (but not on the original contributions).

This result - the collapse of the plan - is not what most subscribers intended or would want. The better option is for the subscriber to specifically deal with the RESP in his or her Will by naming a successor subscriber. Upon the death of the subscriber, the appointed successor subscriber will have the authority to preserve and continue the plan.

Sole (or last) subscriber grandparents may wish to consider naming the parent of the beneficiary as the successor subscriber. It may also be possible to establish a testamentary trust - with sufficient assets to continue making contributions - as successor subscriber for the plan.

To learn more about how Scotiastrust can help you plan for life, speak with your Scotia Wealth Management relationship manager or visit www.ScotiaWealthManagement.com.



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