

## **Proposed RESP rules a double-edged sword**

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The soaring cost of tuition, books, accommodation and food has fired up the debate over how best to structure registered education savings plans, a popular way for families to set aside money so their kids can go to college or university.

The future of RESPs has also become a political football in Ottawa as the Liberal opposition tries to pass a law – opposed by the Conservative government – that would make the education investment vehicle more like an RRSP.

RESPs are "quite popular" these days, said Gena Katz, executive director of tax at Ernst & Young, given that a four-year program at a university could set back a family by as much as \$100,000.

But, said Katz, many people are questioning whether you can "really save enough through RESPs and are people saving enough for education in particular with the rising post-secondary costs."

The cost of going to college is "really going up quickly," she said.

Craig Alexander, deputy chief economist at TD Bank, says "it's challenging to save for post-secondary education and many students are graduating with large debts."

As "we are basically in a knowledge-based, skills-based economy, education is absolutely critical ... Students that stop going to school after high school have extremely high unemployment rates."

Statistics Canada figures show that college and university tuition today costs \$2,000 to \$8,000 annually, while supplies, equipment and books can cost up to \$5,000, depending on the program. And there are living costs, especially if the student lives away from home.

In an effort to make post-secondary education more affordable, Ontario Liberal MP Dan McTeague recently introduced a private member's bill in the House of Commons that would see RESPs operate much like RRSPs.

The legislation, passed by the Commons, is now before the Senate. But the Harper government has vowed to kill it because it says it is too expensive.

Canadians currently have about \$23 billion invested in RESPs, according to financial services industry figures. Last year, about \$500 million was paid out in grants to RESP plans.

With the current RESP system, there is no annual contribution limit. There is, though, a life-time contribution limit per beneficiary of \$50,000.

Ottawa also matches 20 per cent of contributions to RESPs up to a maximum \$7,200, or \$500 annually per child through the Canada Education Savings Grants plan.

Lower income families can get as much as 40 per cent in grant money if they contribute less than \$500 a year to an RESP.

If a student decides not to go to college, parents can take the money out of an RESP and put it in an RRSP, if there's contribution room.

Students also don't have to go to university immediately to benefit from an RESP, as the life of RESPs has been extended to 35 years.

Under the proposed RESP system before Parliament, the deductability of RESP contributions could see students having to pay tax on the entire amount of money they take out, said Katz. Currently, they pay taxes only on investment gains and government grant money.

Finance Canada has estimated that the new program could cost the treasury \$900 million a year.

Katz said now that a tax deduction is being provided on the way in, presumably there should be some taxation of that capital contribution on the way up.

Don Drummond, chief economist for TD Bank, has estimated that the impact of the legislation could be double what Finance Canada is predicting, making the cost closer to \$2 billion.

Would the new legislation give more help to low and middle income families? When all factors are taken into account, said Alexander, the current system is probably more favourable for them than the proposed system.

"It's going to proportionately benefit the higher income families," who have the savings to put aside.

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