



RESP Contribution Limit 2021: All You Need to Know

Description

The Registered Education Savings Plan (RESP) is an excellent tool to save money for a child that you care about. The idea is to save and invest money tax-free for years so that when the child grows up, they'll have a big sum for their post-secondary education. Anyone can open an RESP for a child — parents, grandparents, guardians, aunts, uncles, friends, etc.

What's the RESP contribution limit in 2021?

Here's the surprising news! There's no RESP contribution limit in 2021, or any year, for that matter. However, you probably want to contribute about \$2,500 annually (or approximately \$208 per month). Here's why. First, the RESP lifetime contribution limit is \$50,000 per beneficiary. Second, the government will only provide a grant (the Canada Education Savings Grant (CESG)) on the first \$2,500 per year. The maximum CESG amount the government will give is \$7,200.

The CESG provides a grant of 20% on the contribution. So, if you contribute \$2,500 to an RESP in 2021, the CESG provides a grant of \$500. It would be as if the RESP got a guaranteed 20% return on the RESP contribution.

The RESP age limit

There's no real RESP age limit, but the younger the child is when you start an RESP for them, the better, because then, the education fund can compound for a longer time. If you contribute the amount (\$2,500 per year) to be eligible for the full CESG grant amount of \$500 per year when the child is one year old, the RESP will receive the maximum grant amount of \$7,200 by the 15th year. Notably, when the child is 15, you'll only need to contribute \$1,000 (instead of \$2,500) to get the last grant of \$200.

How the RESP works

The money accumulated in an RESP is meant for paying for a child's education after high school — full-

time or part-time studies for apprenticeship programs, trade schools, colleges, or universities. You can contribute to an RESP until 31 years after you open it. Then you have until the end of the 35th year to use the funds. Otherwise, the [RESP](#) will expire.

Notably, if the child does not use the RESP money because he or she doesn't continue education after high school, you will get your RESP contributions back in full, but the returns on the contributions will be taxed according to your income tax bracket, plus an additional 20%. Alternatively, you can switch the RESP beneficiary. Discuss with your financial institution how switching the beneficiary affects your contributions.

Are RESP contributions tax deductible?

You do not get a tax deduction for making RESP contributions. However, there are other tax advantages. The money grows tax-free in an RESP until it is withdrawn to pay for a child's education after high school. When the student withdraws from the RESP as an Education Assistance Payment, it will most likely be a tax-free withdrawal because the student has little or no income. You also get back the money you contributed to the RESP tax-free.

Investing for the best returns in an RESP

Ideally, you would have started an RESP for a child when he or she is little. For the kind of long-term investing the RESP is meant to be, it makes good sense to invest in solid [dividend stocks](#). For example, **Fortis** is a robust dividend stock that will deliver a stable rate of return of about 7-10% in the long run. If you invest \$3,000 a year for 14 years (\$2,500 your money and \$500 grant money) for a 7-10% rate of return in an RESP, the account will grow to \$67,651 to \$83,925. Personally, you would have put in \$35,000 in the period.

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