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Estate planning for your RRSP/RRIF

Throughout your life, many opportunities and choices will arise that have financial implications — both for the short and long term.

Looking at these opportunities in the context of your overall financial situation and plan will help you ask the right questions so you can better understand the issues and make the best financial choices. This article discusses some of the advantages and disadvantages of naming one or more beneficiaries of your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) and the tax implications for these plans at death. Beneficiary designations discussed in this article include:

- Designating your spouse
- Designating your child or grandchild
- Designating a third party
- Designating a non-resident

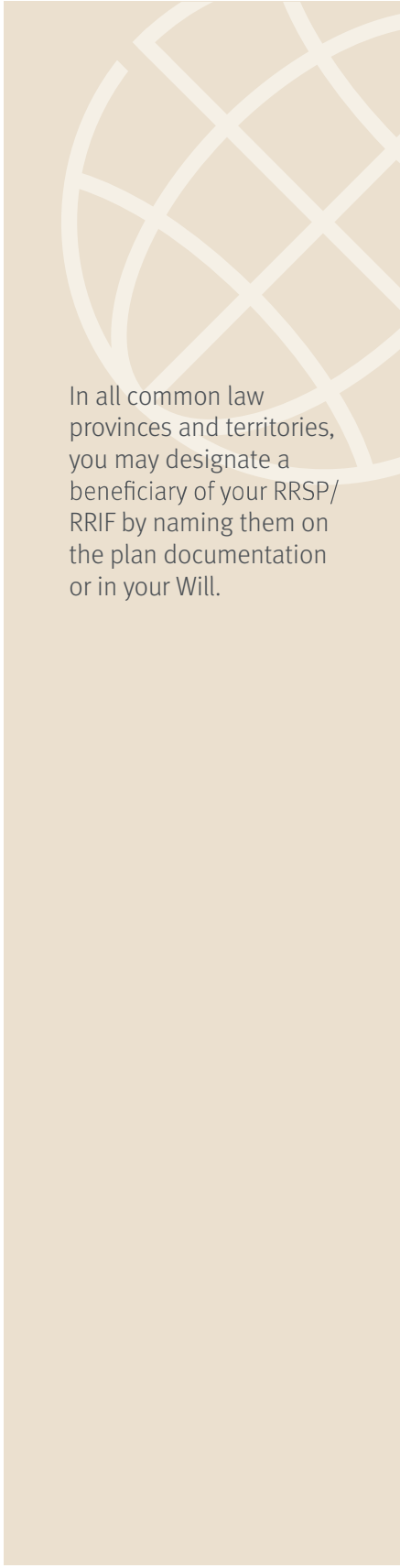
This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and legal advisor before acting on any of the information in this article.

Taxation of your RRSP/RRIF at death

As a general rule, on your death, the fair market value (FMV) of your RRSP/RRIF is included as income on your final tax return and taxed at your marginal rate. Any income earned in your RRSP/RRIF after the date of death will be taxed in the hands of the beneficiaries named in your plan or

your estate (if no beneficiary is named on the plan) in the year it is paid.

There are exceptions to these rules when you designate certain persons as the beneficiary of your plan. In these circumstances, the tax on your RRSP/RRIF proceeds may be deferred and/or taxed in your beneficiary's hands. These exceptions are discussed in the following sections.



In all common law provinces and territories, you may designate a beneficiary of your RRSP/RRIF by naming them on the plan documentation or in your Will.

How to designate a beneficiary

In all common law provinces and territories, you may designate a beneficiary of your RRSP/RRIF by naming them on the plan documentation or in your Will. If you live in Quebec, you cannot name a beneficiary on your plan documentation – you must do so in your Will. If you name a beneficiary on the plan documentation, this may simplify the tax reporting and minimize probate taxes. You may also be able to minimize probate taxes by naming a beneficiary in the non-dispositive section of your Will. The non-dispositive section is outside the body of the Will. Please consult your legal advisor if you are considering making a beneficiary designation in your Will.

If you name a beneficiary on your plan documentation, it is important to ensure that the designation is consistent with any designation you may have made in your Will. In general, if there is a conflict between the designation on your plan and the designation in your Will, your later designation revokes the earlier one. If the financial institution holding your plan is unaware of a later designation you may have made in your Will, on your death, the institution will pay the assets directly to the beneficiary listed on the plan. This could lead to conflicts between your heirs who may seek legal remedies and incur unnecessary expenses.

Designating your spouse

You may choose to name your spouse as a beneficiary of your RRSP/RRIF. For your RRIF, you are also given the option of naming your spouse as the successor annuitant. A spouse can be a legally married spouse or a common-law partner.

Your spouse as beneficiary

When you designate your spouse as beneficiary on the plan documentation, your RRSP/RRIF will be wound up on your death and your spouse may transfer the plan assets directly to their RRSP or RRIF as a tax-deferred rollover. If your spouse transfers the plan assets to their RRSP, they must be 71 years of age or younger at the end of the year the transfer is made. Alternatively, your spouse may transfer the funds in your RRSP/RRIF to an issuer to purchase an eligible annuity. In each of these cases, the tax on the amount transferred is deferred until your spouse withdraws the money from their RRSP/RRIF or receives a payment from the annuity. Your spouse must make these direct transfers by December 31 of the year following the year of your death. If you owned a RRIF and the RRIF minimum payment for the year was not made to you before your death, it will be paid as income to your spouse. The minimum payment is not eligible for the tax-deferred rollover.

There is no requirement for your spouse to transfer all of the RRSP/RRIF proceeds into their own RRSP/RRIF. In fact, there are certain situations in which it may make sense for your spouse not to do a direct transfer and instead receive the RRSP/RRIF proceeds outright. For example, if your spouse has an immediate need for cash or does not need further retirement savings, they may want to receive the plan proceeds directly.

In addition, for tax purposes, if you have minimal income in the year of death or have unused losses carried forward from prior years, it may make sense for your spouse not to do the direct transfer to their RRSP/RRIF. In these circumstances, your legal representative can choose the

When you name your spouse as a successor annuitant, your RRIF continues to exist after your death and your spouse becomes the annuitant.

amount of the RRSP/RRIF proceeds to be taxed on your final tax return or in your spouse's hands in order to effectively minimize the tax burden. Please refer to Appendix A for a more detailed discussion of the tax reporting options available to your legal representative.

If you do not name your spouse as a beneficiary of your RRSP/RRIF on the plan documentation, but they are a beneficiary of your estate and are entitled to some or all of the RRSP/RRIF proceeds, there may still be an opportunity for them to transfer these proceeds into their RRSP/RRIF on a tax-deferred basis. Please refer to Appendix A for a more detailed discussion of the tax reporting options available to your legal representative and beneficiary.

There may also be an opportunity for tax deferral if some or all of your RRSP/RRIF proceeds pass to a Lifetime Benefit Trust (LBT) set up under your Will for the benefit of your mentally infirm spouse. More details on LBTs can be found later on in this article.

Your spouse as successor annuitant

You are given the additional option of naming your spouse (and only your spouse) as the successor annuitant of your RRIF. When you name your spouse as a successor annuitant, your RRIF continues to exist after your death and your spouse becomes the annuitant. All payments made out of the RRIF after your death are taxed in your spouse's hands.

If your RRIF minimum payments were based on your age, and you have a younger surviving spouse, your spouse will be able to collapse the RRIF and open a new one with payments based on their age. This will reduce the minimum payment they are required to receive each year.

Administratively, it is much easier to transfer your RRIF to your spouse by designating them as a successor annuitant rather than a beneficiary. All that is required is a name change. In addition, your spouse can maximize the tax-deferral and time the collapse of the RRIF.

If you do not end up designating your spouse as a successor annuitant prior to your death, your spouse can still be considered a successor annuitant if your legal representative consents to the designation and your financial institution agrees. Please refer to Appendix B for a brief summary of the differences between appointing your spouse as a beneficiary or a successor annuitant of your RRIF.

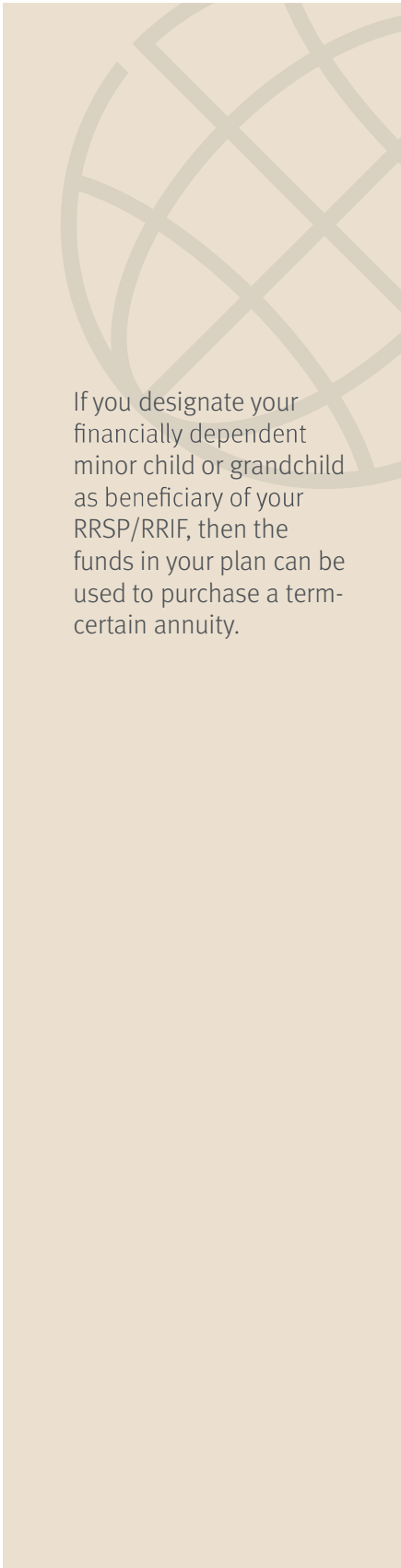
Designating your child or grandchild

If you name your child or grandchild as the beneficiary of your RRSP/RRIF, you will need to include the FMV of the plan at the date of death on your final tax return. This rule is subject to certain exceptions.

Financially dependent child or grandchild

If your child or grandchild is financially dependent on you, regardless of their age, the FMV of your RRSP/RRIF on death can either be taxed in your beneficiary's hands or on your final tax return. This allows for a redistribution of some or all of your income to your child or grandchild that received the funds. Since your beneficiary likely has minimal income, this is generally advantageous.

In order for your child or grandchild to be considered financially dependent on you, they must have lived with you and depended on you prior to your death. As well, their net income for the year before your death



If you designate your financially dependent minor child or grandchild as beneficiary of your RRSP/RRIF, then the funds in your plan can be used to purchase a term-certain annuity.

must have been less than the basic personal exemption for that year. If your child or grandchild is a person with a disability, their net income for the year before death must have been less than the basic personal exemption plus the disability amount for that year. If your child or grandchild's net income is above these thresholds, they may still be considered financially dependent if they can prove their dependency with facts and circumstances.

Aside from being able to minimize the tax burden on your death, if you name your financially dependent child or grandchild as the beneficiary of your RRSP/RRIF, it may be possible to defer the taxation of your RRSP/RRIF if your beneficiary is a minor or disabled.

Minor child or grandchild

If you designate your financially dependent minor child or grandchild as beneficiary of your RRSP/RRIF, then the funds in your plan can be used to purchase a term-certain annuity. The payments from the annuity must start no later than one year after the purchase and all payments must be made to your minor beneficiary by the end of the year they turn 18.

Your child or grandchild will pay tax on the annual annuity payments at their marginal tax rate in the year they receive the payment. Since your child or grandchild likely has nominal income, this can minimize the overall taxes payable on your RRSP/RRIF proceeds. Also, since the taxation of your RRSP/RRIF proceeds can be spread over a number of years, this provides for a tax-deferral opportunity.

The disadvantage of purchasing an annuity is that your minor child or grandchild could receive a substantial annual income stream while they are young. You could be transferring your wealth and corresponding tax burden to your child or grandchild who may lack the needed maturity in managing their finances. Also, by the time your beneficiary is legally an adult, your bequest to them may potentially be depleted.

If you do not name your financially dependent minor child or grandchild as a beneficiary of your RRSP/RRIF on the plan documentation, but they are a beneficiary of your estate and are entitled to some or all of the RRSP/RRIF proceeds, there may still be an opportunity for their legally appointed guardian, trustee or legal representative to use these proceeds to purchase a term-certain annuity and defer the tax. Please refer to Appendix A for a more detailed discussion of the tax reporting options available to your legal representative and beneficiary.

Leaving property to a minor

If you name your financially dependent minor child or grandchild as beneficiary of your RRSP/RRIF, provincial or territorial laws that govern children's property may prevent them from directly receiving the RRSP/RRIF proceeds. This is because a minor child does not have the legal capacity to receive the RRSP/RRIF proceeds paid to them as beneficiary or provide a valid discharge to the financial institution administering the RRSP/RRIF.

Depending on the value of your RRSP/RRIF on death and the applicable provincial or territorial

If your financially dependent child or grandchild is a beneficiary of, or is eligible to open a Registered Disability Savings Plan (RDSP), upon your death, they can rollover the RRSP/RRIF proceeds they receive to their RDSP on a tax-deferred basis.

laws, the RRSP/RRIF proceeds will generally need to be paid to a parent on behalf of the minor child or grandchild, a court appointed guardian of property for the minor child or grandchild, the Public Guardian or Trustee, or into court. For example, in Ontario, if you name a minor child or grandchild as the beneficiary of your RRSP/RRIF, and the value of your plan on death exceeds \$10,000, the proceeds will either need to be paid into court and held there until your beneficiary turns 18 or to a court-appointed guardian of property for your minor child or grandchild.

If the RRSP/RRIF proceeds must be paid into court, there will be limited access to these funds until your child reaches the age of majority. As well, the opportunity to defer the taxation of the RRSP over a number of years may be lost as the court may not be willing to purchase an annuity for your minor child or grandchild.

Applying to the court to be appointed as guardian of the minor child or grandchild's property can also be a time-consuming and expensive process. Consider whether the potential probate and tax savings associated with naming your minor child as the beneficiary of your RRSP/RRIF outweigh the costs and complexities involved with a guardianship application.

To avoid having a guardian of property appointed for your minor child or grandchild or having the RRSP/RRIF proceeds paid into court, you may choose to name your estate as the beneficiary of your RRSP/RRIF. In this case, with proper planning your RRSP/RRIF proceeds may pass

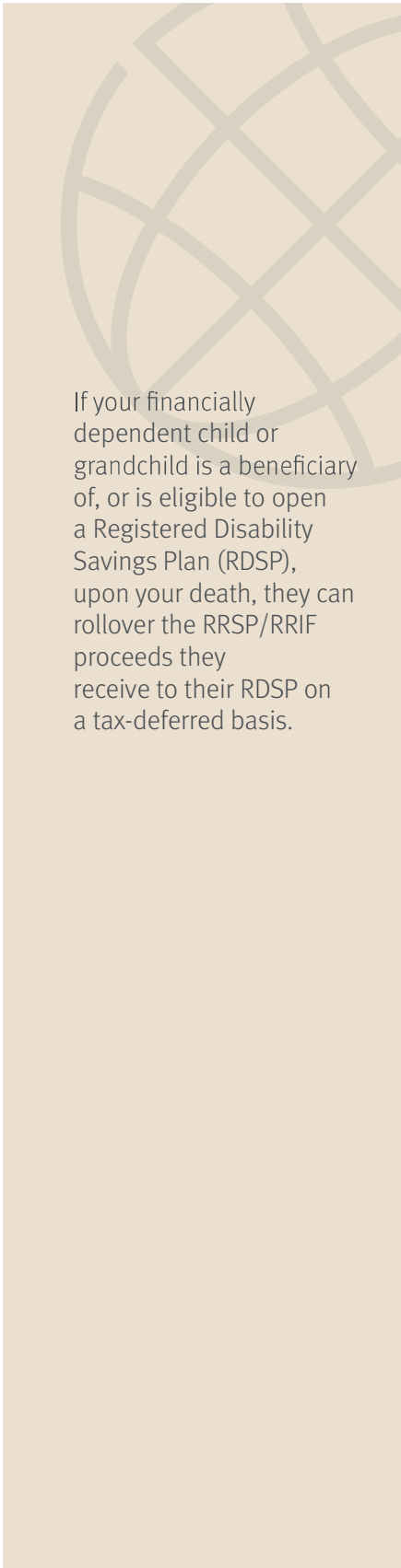
to a testamentary trust created under your Will for the benefit of your minor child or grandchild. If you set up a trust in your Will, you can specify the timing of the gift or define the precise circumstances in which your child or grandchild will receive the funds.

You should note that by utilizing this strategy, you may forgo the probate and tax savings that result from naming your minor child or grandchild as the beneficiary of your RRSP/RRIF. Your RRSP/RRIF will generally be subject to probate. As well, you will likely need to include the FMV of your RRSP/RRIF as of the date of death on your final tax return. However, if the testamentary trust is properly structured and the RRSP/RRIF proceeds are used to purchase a term-certain annuity to age 18, there may be an opportunity to defer the taxes on your RRSP/RRIF.

You should seek the advice of a qualified legal advisor in your province or territory before naming a minor beneficiary for your RRSP/RRIF.

Child or grandchild with a disability

If you name your financially dependent child or grandchild, who is dependent on you because of a physical or mental disability, as the beneficiary of your RRSP/RRIF, they can transfer your RRSP/RRIF proceeds to their own RRSP/RRIF. They can also use the proceeds to purchase an annuity, regardless of their age. These options effectively defer taxation of your RRSP/RRIF until your child or grandchild withdraws the funds from their RRSP/RRIF, or receives a payment from the annuity. Please note that this planning may still be possible if your



If your financially dependent child or grandchild is a beneficiary of, or is eligible to open a Registered Disability Savings Plan (RDSP), upon your death, they can rollover the RRSP/RRIF proceeds they receive to their RDSP on a tax-deferred basis.

financially dependent disabled child or grandchild is entitled to some or all of the RRSP/RRIF proceeds through your estate. Please refer to Appendix A for a more detailed discussion of the tax reporting options available to your legal representative and beneficiary.

Also, if your child or grandchild is dependent on you because of a mental disability, it may only be possible to implement this type of planning (as well as other planning opportunities discussed later) if the child has a power of attorney (mandate in anticipation of incapacity in Quebec) for property or court appointed guardian of property.

Before designating your disabled child or grandchild as a beneficiary of your RRSP/RRIF, consider the negative effects it may have on their eligibility to receive provincial or territorial disability related income support payments. Disability related income support programs generally stipulate income and asset limits for individuals who receive these benefits. These income and asset limits are generally quite low. Leaving even modest RRSP/RRIF assets to your disabled beneficiary upon your death could jeopardize their entitlement to receive support payments going forward.

Transfers to an RDSP

If your financially dependent child or grandchild is a beneficiary of, or is eligible to open a Registered Disability Savings Plan (RDSP), upon your death, they can rollover the RRSP/RRIF proceeds they receive to their RDSP on a tax-deferred basis. This option may preserve your child or grandchild's entitlement to government income support. In addition, your beneficiary will only be taxed on the funds at their marginal tax rate once they withdraw them from their RDSP, which in most

cases is spread over a number of years. This may both minimize and defer the overall taxes paid on your RRSP/RRIF proceeds. Please note that this planning may still be possible if your financially dependent disabled child or grandchild is entitled to some or all of the RRSP/RRIF proceeds through your estate. Please refer to Appendix A for a more detailed discussion of the tax reporting options available to your legal representative and beneficiary.

Your beneficiary has six months from your date of death to rollover the amount to their RDSP and the contribution can only be made up until the end of the year in which your beneficiary turns 59. The contribution is not eligible for any government grants.

Your beneficiary can only rollover an amount to their RDSP to the extent of their available maximum lifetime contribution limit of \$200,000. Consideration should be given to any contributions or transfers that were previously made to the beneficiary's RDSP since these will count towards their lifetime contribution limit. Your legal representative can choose to tax any RRSP/RRIF proceeds above the amount transferred to the RDSP on your final tax return or in your beneficiary's hands in order to minimize the tax burden. That said, any amount that your disabled child or grandchild receives from your RRSP/RRIF that is not contributed to their RDSP could still affect any provincial or territorial benefits they may be receiving.

If you have significant funds that you wish to provide to your disabled beneficiary, there are other planning opportunities available to ensure you do not jeopardize their government disability support payments. These planning opportunities are discussed below.

Consider having your RRSP/RRIF assets flow to your estate and setting up an absolute discretionary trust for your disabled child or grandchild in your Will.

Other planning opportunities

Henson Trusts

If opening an RDSP is not an option for your beneficiary and you are concerned about jeopardizing your beneficiary's entitlement to government disability related income support, there are other planning opportunities available to you. Consider having your RRSP/RRIF assets flow to your estate and setting up an absolute discretionary trust for your disabled child or grandchild in your Will. This type of discretionary testamentary trust is often referred to as a Henson Trust. In a discretionary trust, the trustee(s) has the absolute discretion to distribute income and capital from the trust to your beneficiary as they see fit. The beneficiary has no vested interest in the income or capital of the trust and cannot claim or demand payments from the trust. As a result, many government disability related income support programs do not consider this type of trust to be an asset of the beneficiary. Before utilizing this estate planning tool, it is important that you consult with a qualified legal advisor to determine whether an interest in a discretionary trust is excluded for the purposes of determining your beneficiary's eligibility for provincial or territorial disability related income support. For more information on Henson Trusts, please ask your RBC advisor for our article on "Henson Trusts."

Lifetime benefit trusts

If your child or grandchild is financially dependent on you because of a mental impairment (not physical impairment), it may be possible to defer the tax on your RRSP/RRIF proceeds by having them pass to an

LBT set up under your Will for the benefit of your child or grandchild.

An LBT is a personal trust under which a mentally infirm spouse of the deceased or a child or grandchild of the deceased who was financially dependent on the deceased because of mental impairment is the only person entitled to receive or use any of the income or capital of the trust during their lifetime. The trustees of an LBT must have the discretion to distribute amounts to the beneficiary and are required to consider the needs of the beneficiary in determining whether to pay amounts to the beneficiary.

The LBT must purchase a "qualifying trust annuity" (QTA) with the RRSP/RRIF proceeds and must be named as the annuitant of the QTA. The QTA must be for the life of the beneficiary or for a fixed term equal to 90 years minus the age of the beneficiary. Any amounts paid out of the LBT to the beneficiary will be taxable to the beneficiary. The FMV of the annuity at the time of the beneficiary's death will be taxable to the beneficiary upon their death. Any income remaining in the LBT after the beneficiary's death may be made available to other beneficiaries named in the LBT.

You may wish to discuss whether a standard Henson Trust would qualify as an LBT with your qualified tax and legal advisor.

Designating a third party

You can designate any individual or registered charity as a beneficiary of your RRSP/RRIF. If you designate anyone other than your spouse or financially dependent child or grandchild (as discussed in the sections above), your RRSP/RRIF

You can rollover your RRSP/RRIF assets to an RRSP/RRIF for your non-resident spouse or financially dependent child or grandchild as long as they have a valid Canadian social insurance number and it is done by way of a direct transfer.

will be deregistered on your death and the full FMV will be transferred to your named beneficiary.

Your estate will be responsible for paying the taxes on the FMV of your RRSP/RRIF at death which could reduce the amount any other beneficiaries named in your Will receive. For example, assume that on death you own \$600,000 of assets after-tax plus \$300,000 in an RRSP. You have three beneficiaries and wish to give each an equal share. If you designate one beneficiary to receive your RRSP of \$300,000, your other two beneficiaries will not receive their full share of \$300,000 from the remaining \$600,000. The income tax payable on your RRSP is about \$138,000 (assuming a combined federal and provincial tax rate of 46%). After your estate pays the tax, there will only be \$462,000 remaining to divide between your other two beneficiaries who are not receiving the RRSP proceeds. Each of them will receive \$231,000 while your beneficiary named on the RRSP plan will receive the full \$300,000.

If your estate has insufficient funds to pay the tax on your RRSP/RRIF, the Canada Revenue Agency (CRA) can seek payment of the tax owing from the beneficiaries who received your RRSP/RRIF proceeds.

Designating a non-resident

You can rollover your RRSP/RRIF assets to an RRSP/RRIF for your non-resident spouse or financially dependent child or grandchild as long

as they have a valid Canadian social insurance number and it is done by way of a direct transfer. Any amount not eligible for the rollover is generally subject to a 25% non-resident withholding tax, unless a reduced treaty rate applies. For example, the minimum payment from your RRIF would not be eligible for the rollover and be subject to non-resident withholding tax.

If you name any other non-resident individual as a beneficiary of your RRSP/RRIF, your plan will be deregistered on your death and the full FMV, as at the date of death, will be transferred to your named beneficiary. Your estate will be responsible for paying the taxes on the FMV of your RRSP/RRIF as at the date of death. Any income earned after the date of your death and paid to your non-resident beneficiary will be subject to non-resident withholding tax.

Conclusion

When creating your estate plan, it is important to consider the appropriate beneficiary to inherit your RRSP/RRIF. Making the right decision can often help minimize or defer the tax liability that may occur upon your death. You should always consider your personal situation carefully and make decisions based on your own unique circumstances. You should also review all of your beneficiary designations regularly to ensure that they are up to date and that they reflect any changes to your personal family situation.

Appendix A – Tax reporting options on death

General rule

As a general rule, on your death, the FMV of your RRSP/RRIF is included as income on your final tax return. Any income earned in your RRSP/RRIF after the date of death will be taxed in the hands of the beneficiaries named in your plan or your estate (if no beneficiary is named on the plan) in the year it is paid.

One exception to this general rule occurs where your spouse is named as successor annuitant of your RRIF. In such a case, the FMV of the RRIF is not included in your final tax return. The RRIF continues and all payments made out of the RRIF after your death are taxable to your spouse.

A second exception to this tax reporting occurs where your spouse is named as the sole beneficiary of your RRSP/RRIF on the plan documentation and the RRSP/RRIF proceeds are transferred directly to your spouse's RRSP/RRIF by December 31 of the year following the year of death. In this case, your spouse will include the total amount paid out of the RRSP/RRIF on their tax return and will claim an offsetting deduction for the amount transferred to their RRSP/RRIF. Please note that your spouse will not be able to transfer any unpaid RRIF minimum payment to their own RRSP/RRIF. This amount will be taxable to your spouse.

Optional reporting

If neither of the exceptions described previously applies, you may want to consider the following options:

Where your spouse or financially dependent child or grandchild is named as beneficiary on your RRSP/RRIF plan

If your spouse or financially dependent child or grandchild is named as the beneficiary of your RRSP/RRIF on the plan documentation, and they receive an amount from your RRSP/RRIF that qualifies as a “designated benefit”, your legal representative can choose to claim a reduction to the RRSP/RRIF amount reported in your final tax return. A “designated benefit” includes the FMV of your RRSP/RRIF at the date of death and any income earned in the RRSP/RRIF from the date of death to December 31 of the year after the year of death.

Your legal representative must attach a letter to your final tax return to explain how the RRSP/RRIF amount reported on your final tax return is calculated. If the reduction to the RRSP/RRIF amount you reported on your final tax return is claimed after the final tax return has been filed, your legal representative must write a letter to CRA and ask for an adjustment to your final tax return. Any reduction to the amount you claim as RRSP/RRIF income on your final tax return will increase the amount of RRSP/RRIF income reported on your spouse's or financially dependent child or grandchild's tax return.

If your spouse decides to transfer the RRSP/RRIF proceeds that qualify as a designated benefit to their own RRSP/RRIF or uses the proceeds to purchase

an annuity, your spouse can claim a deduction on their tax return for the amount transferred.

If your financially dependent minor child or grandchild uses the RRSP/RRIF proceeds that qualify as a designated benefit to purchase a term-certain annuity, your child or grandchild can claim an offsetting deduction on their tax return for the amount transferred.

If your financially dependent disabled child or grandchild transfers the RRSP/RRIF proceeds that qualify as a designated benefit to their own RRSP/RRIF or uses the proceeds to purchase an annuity, they can claim an offsetting deduction on their return for the amount transferred. If they transfer the RRSP/RRIF proceeds that qualify as a designated benefit to their RDSP, they will also be able to claim an offsetting deduction. CRA Form RC4625, Rollover to a Registered Disability Savings Plan (RDSP) Under Paragraph 60(m) must be attached to both your and your beneficiary's tax returns. The receipt indicating the amount rolled-over must also be attached to your beneficiary's return.

In all cases mentioned, the transfer or purchase has to be completed in the year the RRSP/RRIF proceeds are received by the beneficiary or within 60 days following the year end. Also, please note that your spouse or financially dependent child or grandchild cannot transfer the RRIF minimum payment for the year the proceeds are received to their RRSP, RRIF, RDSP or annuity. The

RRIF minimum payment for that year will be taxable to your spouse or financially dependent child or grandchild.

Where your spouse or financially dependent child or grandchild is the beneficiary of your estate

If you do not name your spouse or financially dependent child or grandchild as a beneficiary of your RRSP/RRIF on the plan documentation, but they are a beneficiary of your estate and are entitled to some or all of the RRSP/RRIF proceeds that qualify as a designated benefit, your beneficiary and your legal representative can jointly elect to tax these proceeds in your beneficiary's hands.

Your legal representative and your spouse or financially dependent child or grandchild will have to jointly file an election to designate some or all of the RRSP/RRIF proceeds paid to the estate as a designated benefit received by your beneficiary. The joint tax election can be made on CRA Form T2019, Death of an RRSP Annuitant – Refund of Premiums for 20__ (Revenu Quebec form TP-930-V) if you have an RRSP and on CRA Form T1090, Death of a RRIF Annuitant – Designated Benefit for Year 20__ (Revenu Quebec Form TP-961.8-V) if you have a RRIF. Your legal representative can then claim a reduction in the amount of RRSP/RRIF income included on your final tax return. Your spouse or financially dependent child or grandchild will have a corresponding income inclusion on their tax return.

If your spouse decides to transfer the RRSP/RRIF proceeds that qualify as a designated benefit to their own RRSP/

RRIF or uses the proceeds to purchase an annuity, your spouse can claim a deduction on their tax return for the amount transferred.

If your financially dependent minor child or grandchild uses the RRSP/RRIF proceeds that qualify as a designated benefit to purchase a term-certain annuity, your child or grandchild can claim an offsetting deduction on their tax return for the amount transferred.

If your financially dependent disabled child or grandchild transfers the RRSP/RRIF proceeds that qualify as a designated benefit to their own RRSP or RRIF or uses the proceeds to purchase an annuity, they can claim an offsetting deduction on their return for the amount transferred. If they transfer the RRSP/RRIF proceeds that qualify as a designated benefit to their RDSP, they will also be able to claim an offsetting deduction. CRA Form RC4625, Rollover to a Registered Disability Savings Plan (RDSP) Under Paragraph 60(m) must be attached to both your and your beneficiary's tax returns. The receipt indicating the amount rolled-over must also be attached to your beneficiary's return.

In all cases mentioned, the transfer or purchase has to be completed in the year the RRSP/RRIF proceeds are received by the beneficiary or within 60 days of year end. Also, please note that your spouse or financially dependent child or grandchild cannot transfer the RRIF minimum payment for the year the proceeds are received. The RRIF minimum payment for that year will be taxable to your spouse or financially dependent child or grandchild.

Appendix B – Successor annuitant vs. beneficiary of your RRIF

If you want your spouse to inherit your RRIF assets, you will need to decide whether to name them as a beneficiary or successor annuitant of your RRIF. The table below summarizes the implications of both options. Please keep in mind that your designation decision may be changed at any time, provided you have mental capacity. For purposes of this comparison, it is assumed that your beneficiary completes a direct transfer of your RRIF proceeds to their RRSP or RRIF by December 31 of the year following the year of your death.

	Successor annuitant	Beneficiary
At time of death	The RRIF continues to exist in the name of your surviving spouse, who becomes the annuitant.	The RRIF is deregistered and all assets may be rolled over on a tax-deferred basis to your spouse's RRSP/RRIF.
Minimum payments	<p>Following your death, minimum payments paid to your spouse will be based on the terms of the RRIF when it was originally set up. Any unpaid minimum amount for the year must be paid to your spouse before the end of the year.</p> <p>Your spouse can collapse the plan and move the assets into a new RRIF to use their younger age, if it is not already used.</p>	If your spouse transfers your RRIF proceeds to a RRIF, the minimum payments must be made based on your spouse's age. Any unpaid minimum amount for the year cannot be transferred to your spouse's RRIF on a tax-deferred basis and must be paid to your spouse before the end of the year.
Tax reporting at death	<p>Any income paid to you prior to your death will be taxed on your final return.</p> <p>There is no tax reporting at death. All that is required is a name change.</p> <p>All payments made out of the RRIF after your death will be taxed in your spouse's hands.</p>	<p>Any income paid to you prior to your death will be taxed on your final return.</p> <p>Your spouse will have to include the FMV of your RRSP/RRIF at the time of transfer in their income.</p> <p>Your spouse will receive an RRSP/RRIF contribution receipt for the amount transferred to their own RRSP/RRIF which will allow them to claim a corresponding deduction.</p>



Please contact us for more information about the topics discussed in this article.



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