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Case Study: Gifts of RRSPs/RRIFs

Nicola · Saturday, December 10th, 2011

Donating RRSPs/RRIFs

Retirement plan assets are one of the most heavily taxed estate assets to pass to heirs.

The recipient would normally be taxed at their highest marginal rate. However, since 2000 it has been possible to make a direct designation of an RRSP or RRIF plan to a charity (except in Quebec where a beneficiary must be a person). The charity must be named as beneficiary on the plan. On the date of death of the donor or the second spouse, the plan assets are valued for the tax receipt. This can be a portion of or the whole value of the plan. Like with life insurance proceeds, the executor will transfer proceeds directly to the charity avoiding probate. Then the estate could claim the gift up to 100% of net income in the final two tax years.

Example – Donating RRSP assets

Mrs. C wants to help her favorite charity and wants to minimize her taxes at death. She has a RRIF worth $200,000. She lives in a province with high probate fees and she has concerns that her heirs may try and disrupt her estate plans – especially if proceeds are paid to a charity. Her financial advisor recommends naming her charity as the beneficiary of her RRSP. Here is how it would look assuming the RRIF did not change in value.

	No Designation	**Designation**
Other Income	$250,000	$250,000
RRIF income	$200,000	$200,000
Taxable income	$450,000	$450,000
Income tax (45%)	(202,500)	(202,500)
Donation tax credit (45%)	n/a	90,000
Taxes Paid	202,500	112,500
Tax Savings	n/a	90,000

By naming the charity as a beneficiary, Mrs. C has reduced her estimated tax bill by $90,000, reduced her probate costs, and ensured that her heirs cannot contest her intentions.

The important things to remember when clients are donating a RRSP/RRIF are:

- It is appropriate for any committed donor with RRSP/RRIF, regardless of age;
- The most recently signed documents normally overrule previous instructions, so it is important that the charity be named beneficiary on plan documents and that this is outlined in the Will too;
- The tax credit on donor's final income tax return is based on value of gift from the plan ;
- The amount of the gift creditable on final tax return is 100% of income (not 75% like when donor is alive);
- There is a one year carry-back if the gift is in excess of 100% final year income;
- A direct designation gift is good for donor advised fund endowment donations;
- The gift is not subject to probate;
- It is most appropriate on death of 2nd spouse (RSP rollover tax free between spouses).[1]

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[1] *A Charitable Guide to Planned Giving*, DeWayne Osborne, CGA, CFP, Lawton Partners Financial Planning Services Limited, 2009

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