



Financial Planning Quick Tip

July 30, 2004

SUBJECT: Tax Implications of RSP/RIF Upon Death

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You may be aware that if a deceased's RSP/RIF is transferred to a surviving spouse's RSP/RIF then these assets "roll over" on a tax-deferred basis. However, here are some other important tax rules for RSP/RIF assets upon death.

- If the beneficiary of the RSP/RIF is blank or named as "Estate" and the Will states that the spouse is to receive the RSP/RIF assets and if a special tax election is made, then these assets can still rollover to the spouse's RSP/RIF on a tax-deferred basis. However, probate taxes may now be applicable on the RSP/RIF assets if there is no named beneficiary.
- If the beneficiary of the RSP/RIF was a child/grandchild of the deceased who was truly **financially dependent** on the deceased, then the value of the RSP/RIF assets can either be taxed in the hands of the financially dependent child/grandchild (regardless of their age) or on the deceased's final income tax return. A child/grandchild is generally considered financially dependent on the deceased if their annual income for the year preceding the year of death was less than the basic personal exemption for the year (\$8,012 for year 2004) and they were truly financially supported by the deceased (i.e. food, clothing, shelter, etc). A child with income above this level could still be considered financially dependent if dependency can be proved based on facts and circumstances.

Therefore, a child who is living with his/her parents and is being financially supported by the parents would not be considered financially dependent on their deceased grandparent who named them as their RSP/RIF beneficiary.

- If the child/grandchild was truly financially dependent on the deceased and is a minor, then the RSP/RIF assets can be used to buy a term certain annuity with a term not exceeding the child/grandchild's 18th year. The benefit of this rule is that the annual annuity payments are taxed in the child/grandchild's hands in the year they receive the annuity payment thereby deferring and minimizing the tax payable (due to the use of the child's marginal tax rate) on the RSP/RIF assets at death.
- If the child/grandchild was truly financially dependent on the deceased and is mentally or physically handicapped (regardless of age), then the RSP/RIF assets can be rolled over to the child/grandchild's own RSP/RIF on a tax-deferred basis. In the case of a disabled child/grandchild they are considered financially dependant on the deceased if their annual income for the year preceding the year of death was less than \$14,270 (2004 value).

However, if considering this option then note that the RSP/RIF assets now in the disabled child/grandchild's name could potentially disentitle them to provincial disability benefits, so you should speak to a qualified tax or legal advisor on this matter.

- If the beneficiary is a child/grandchild who was not financially dependent on the deceased or if the beneficiary was someone else (non-spouse), then the market value of the RSP/RIF on the deceased's date of death is included on the deceased's final tax return.
- Note that although a spouse or financially dependent child or grandchild may be a beneficiary of an RSP/RIF, there may be an income splitting advantage for the executor to have some of the RSP/RIF taxed on the deceased's terminal tax return. That is, the executor can choose to have a portion of the RSP/RIF taxed on the terminal tax return and the remaining portion to be taxed on the qualified beneficiary's tax return by completing a CRA Form T2019 (RSP) or CRA Form T1090 (RIF).

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.

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