RBC Dominion Securities Inc.

Westside Viewpoints

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ACCUMULATE PRESERVE TRANSFER

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Estate Planning for Your RRSPs/RRIFs

Throughout your life, many opportunities and choices will arise that have financial implications – both for the short and long term. One such opportunity is deciding how to designate your registered funds and the tax implications for these plans 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 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.

How to Designate a Beneficiary

You can designate a beneficiary of your RRSP/RRIF by naming them on the plan documentation or in your Will. Naming them on the plan is the simplest and most tax-effective strategy and is preferable to naming them in the Will.

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Designating Your Spouse

Designating your legally married spouse or common-law partner is perhaps the most common beneficiary designation. When this is done, your RRSP/RRIF will be wound up on your death and your spouse may transfer the plan assets directly to their RRSP/RRIF as a tax-deferred rollover. The tax on the amount transferred is deferred until your spouse withdraws the money.

Please note that in some circumstances it might 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. Or if you have minimal income in the year of your death or have unused losses carried forward from prior years, it may be more advantageous to report some or all of the RRSP/RRIF proceeds as your income in the year of death. In these circumstances, your lawyer can choose the 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.

Your Spouse as Successor Annuitant

If you have a RRIF, you can choose to name your spouse as successor annuitant. In this circumstance, 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 spouse is younger than you, they can use their age to calculate the minimum RRIF payments going forward. In some cases, this will work as a tax deferral strategy.

Designating Your Child or Grandchild

Other lesser common beneficiaries are children or grandchildren. Tax planning strategies exist for financially dependent children or grandchildren, as well as disabled children. 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.

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 annuity payments must be made to your minor beneficiary by the end of the year they turn 18.

Designating a Third Party

You are allowed to designate any individual or registered charity as a beneficiary of your RRSP/RRIF. If you designate anyone other than your spouse, child or grandchild your RRSP/RRIF will be deregistered on your death and the full FMV will be transferred to your named beneficiary.

Be aware that 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.

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.

If you are unsure about how your RRSP/RRIF is designated, give us a call and we can let you know.

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. Always obtain professional advice from a qualified tax and legal advisor before acting on any of the information in this article.

The Pension Income Tax Credit

If you are 65 or older and receive income from sources such as a pension plan, certain annuities, a RRIF or locked-in RRIF, you may be eligible to claim a tax credit on amounts up to $2000 of that income. The federal tax credit is 15%, resulting in a maximum federal tax savings of $300. There are also provincial pension income tax credits depending on your marginal tax rate.

The pension income tax credit is non-refundable, meaning that you only receive the credit if you owe federal income tax. It reduces your federal taxes payable. OAS and CPP benefits do not qualify for the pension income tax credit.

Should You Structure Your Investments to Qualify for the Credit?

If you are between the ages of 65 and 71 with no pension income, you might consider converting a portion or all of your RRSP funds to a RRIF. This will allow you to use the pension income tax credit on the withdrawals from the RRIF. We often recommend transferring $10,000 to a RRIF and withdrawing $2000 per year until age 71 when you must convert all your RRSP funds to a RRIF.

Keep in mind that the maximum amount of the federal annual tax savings is limited to $300. This benefit must be weighed against the value of the tax-deferred growth within your registered plan.

The table below calculates your net federal taxes owing on the first $2000 of pension income, depending on your tax bracket.

If you have any questions about this strategy or are wondering if it makes sense for you, please do not hesitate to give us a call.

	Low	Middle	Upper-middle	High
Federal tax rate	15%	22%	26%	29%
Eligible pension income	$2000	$2000	$2000	$2000
Federal tax before credit (A)	$300	$440	$520	$580
Pension tax credit ($2000 x 15%)(B)	$300	$300	$300	$300
Net federal tax rate (A) minus (B)	0	$140	$220	$280

Tax Reminders

On our website, **www.westsidewealthmanagement.ca**, you will find a link to our handy **Tax Reporting Guide**, which details tax mailing updates, tax information checklists, and frequently asked questions.

Not Sure Whether You Have All the Tax Slips You Need to File Your Return?

Be sure to check your Tax Information Checklist that came with your T5 tax package from RBC Dominion Securities. It lists all possible tax slips and supporting documents you may receive related to investments held with RBC Dominion Securities. If you will be receiving subsequent tax package mailings, you will find a report included in your T5 package called "Important Information Regarding Outstanding Tax Documents." This report lists all of the mutual funds, income trusts, limited partnership units or split corps for which you should expect to receive an additional tax slip.

Still not sure? Give us a call and we can check for you.

Fraud Alert

Please beware of fraudulent text messages and emails purporting to be from your bank.

These messages will ask you to click on a link to verify your information. Even if you click on the link without providing any personal information, your computer or phone could be compromised.

Please know that the bank (RBC or any other) will never use texts or emails as a way to verify your identity.

If you do receive this type of request, please report it to your financial institution.

Lessons Learned from Feng Shui

1. Give people more than they expect and do it cheerfully.
2. Marry a person you love to talk to. As you get older, their conversational skills will be as important as any other.
3. When you say, "I love you," mean it.
4. When you say "I'm sorry," look the person in the eye.
5. Be engaged at least six months before you get married.
6. Believe in love at first sight.
7. Never laugh at anyone's dreams. People who don't have dreams don't have much.
8. Love deeply and passionately. You might get hurt but it's the only way to live life completely.
9. Talk slowly but think quickly.
10. Don't judge people by their relatives.
11. Make peace with your past so it won't screw up the present.
12. When someone asks you a question you don't want to answer, smile and ask, "Why do you want to know?"
13. Remember that great love and great achievements involve great risk.
14. When you lose, don't lose the lesson.
15. Remember the 3 R's: Respect for self, Respect for others, and Responsibility for all your actions.
16. Don't let a little dispute injure a great friendship.
17. When you realize you've made a mistake, take immediate steps to correct it.
18. Smile when picking up the phone. The caller will hear it in your voice.
19. Don't believe all you hear, spend all you have or sleep all you want.
20. Time heals almost anything. Give time time.

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