

What Happens to My RRSP When I Pass Away?

For most of us, RRSP's are one of our single largest assets. What happens to these on death is worth paying careful attention to. This article outlines some of the important considerations.

Taxes Are Due

When the planholder of an RRSP dies, the government is entitled to the income tax that has been deferred since the plan was started. The only exception to this is when the RRSP assets are left to a surviving spouse.

The total value of the RRSP is included in the planholder's terminal tax return (the last one filed after a person dies) and the tax payable can be substantial. These RRSP proceeds will be taxed at the planholder's marginal (highest) rate and the taxes must be paid out of the estate.

Naming Beneficiaries

The first thing to remember is that if you die without naming a beneficiary for your RRSP, the proceeds will become part of your estate and as such will be subject to probate. It is important to realize that it may still be possible to have these assets pass to a surviving spouse if the proper tax election is made.

Naming your Spouse - RRSP assets can be passed to your spouse or common law spouse (a person who is, and has for the past one year, co-habitated in a conjugal relationship with the taxpayer) without any immediate tax due. The assets can be transferred to his/her own registered plan (or a new plan can be setup) under what Canada Customs and Revenue Agency refers to as a "refund of premiums." The RRSP assets are brought into the spouse's income and offset by a tax receipt for the same amount. This allows these funds to continue accumulating with their tax deferred status and does not effect the spouse's own RRSP room.

Dependent Child or Grandchild - You can name a financially dependent child or grandchild as the beneficiary of your RRSP. CCRA's definition of "financially dependent" is: "A person whose income in the preceding year did not exceed the basic personal exemption amount." If the child is a minor, these funds must be used to purchase an income-producing annuity that pays the full amount until the child is 18. You should note that dependence on grandparents would not qualify if it was by way of gifts or support that merely enhance the child's "already adequate lifestyle." This would be especially true if the child was living with another individual, such as a parent, who was already providing support.

Children of Any Age - A child of any age who was dependent on the planholder can receive the proceeds of your RRSP as a "refund of premiums" and the tax will be paid at the child's rate.

Disabled Dependent Child - If the child is of any age, and financially dependent on the planholder by reason of physical or mental infirmity, then the RRSP proceeds can be rolled over tax free into his/her own RRSP. It is important to weigh any tax savings against the practical issues related to having funds go into the hands of an infirm child.

Others as Beneficiary - It is important to consider who pays the tax bill of your RRSP. If you were to name someone as the beneficiary of your RRSP who does not qualify for preferential tax treatment it could cause a significant problem for the other beneficiaries of your estate. An example would be naming your father/mother as the beneficiary of your RRSP and your children as beneficiaries of the balance of your estate. In this case the tax bill would have to be paid by the estate (out of your children's share) and your father would get the full RRSP assets.

RRSP Home Buyers' Plan at Death

If you have participated in the RRSP home buyer's plan, the outstanding balance will be included as income on your final income tax return unless your spouse was named as beneficiary and had taken out a home buyer's amount at the same time. When a Home Buyers' Plan liability exists, the beneficiary has two options:

- the outstanding amount can be added to the final tax return of the deceased spouse or,
- the entire RRSP, including the Home Buyers' Plan balance, can be rolled over to the beneficiary's RRSP.

RRIF's

In the case of a RRIF, a spousal beneficiary can receive continuing payments if they are named as "successor annuitant." Alternatively, the amount can be transferred to their RRIF or they can convert the RRIF back into an RRSP if they are under age 70.

Planning is Important

As you can see there are ways in which RRSP assets can be left to beneficiaries which will result in minimizing any taxes due. It is important to keep these designations up to date and, as always, to consider these assets individually as well as in context with your other estate goals. With careful planning you can reduce the impact of taxes on your estate and your RRSP's.

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