



Retirement, Death, and Taxes: A Conundrum

It is that time of year again; no not Christmas - RRSP season! In February, like clockwork, (and driven by a deadline) TV stations start talking about the benefits, financial institutions blast out advertisements and offers, and many others begin the rhetorical sales pitch. Tis the season for Canadians to start thinking about contributing to a Registered Retirement Savings Plan, and reducing their taxes payable.

Someone said RRSPs were great for retirement

What is this mysterious entity that gives us so many benefits yet is used by so few? According to Statistics Canada, fewer than 6 million tax-filers contributed to an RRSP in 2013, virtually unchanged from 2012. The percentage of tax-filers who contributed to an RRSP edged down from 23.7% (2012) to 23.4% (2013).

A Registered Retirement Savings Plan (RRSP) is a type of Canadian account for holding savings and investment assets in a tax deferred vehicle. RRSPs have various tax advantages compared to investing outside of tax-preferred accounts. Eligible investors can contribute to an individual RRSP if they have employment or business income or unused contribution room, up until December 31 of the year they turn 71.

2016 facts:

- RRSP contribution deadline for tax year 2015 is February 29, 2016.
- RRSP contribution limit is the lesser of \$24,930 (for 2015) or 18% of earned income from your previous tax year, minus any pension adjustments, plus unused contribution room from previous years.

RRSP vs RRIF

Think of a Registered Retirement Income Fund (RRIF) as an evolution of your Registered Retirement Savings Plan (RRSP). Your RRSP is used to save for your retirement while a RRIF is used to withdraw income during your retirement. At an age no later than 71, you must convert your RRSP into a RRIF and start drawing an income and paying tax on that annual income.

A major difference between an RRSP and a RRIF is that with an RRSP, you can make annual contributions as long as you have earned income and contribution room available. Withdrawals are optional and will be taxed. With a RRIF, contributions are not allowed and you must make minimum mandatory withdrawals each year. According to StatsCan, in 2012 there were 8.6 million families in Canada with an RRSP, RRIF, or similar registered savings plan.

Death and Registered Products

Should you die while you still own an RRSP or RRIF, its entire value must be included in your income in the year of your death, unless your spouse or common-law partner or your financially dependent child or grandchild is entitled to the funds.

If you designate your spouse or common-law partner or financially dependent child or grandchild as beneficiary of your RRSP, the proceeds from the plan will be taxable in your beneficiary's hands in the year they are received, unless they are transferred into his/her own tax-deferred plan. Through these rollover exceptions, taxes are deferred until these beneficiaries start withdrawing from their tax deferred plans.

When a beneficiary receives RRSP or RRIF funds directly, without the rollover provisions, that beneficiary becomes liable with the deceased for the amount of taxes owing in respect to the proceeds received. If the deceased person's estate is incapable of paying the tax liability from the deemed disposition of the RRSP/RRIF then Canada Revenue Agency (CRA) has recourse to ask the beneficiary for payment of taxes on their portion of the RRSP/RRIF funds inherited.

This comes as a surprise to many that CRA has the right to seek tax compensation from beneficiaries under these circumstances. It is one of the many reasons we advise our clients to take the time to have proper financial and estate planning in place before potential problems occur

A Charity as a Specific Beneficiary

Recent polls indicate that charitable giving by Canadians is on the rise and is expected to increase year after year. Charitable gift planning involves taking the time to think about how a gift will be given, the purpose, and how to maximize the after tax value.

Until recently, where an individual designated a charity as a beneficiary under their RRSP or RRIF, the gift to the charity upon the individual's death did not qualify for the charitable tax credit. The credit upon death was formerly available only with respect to donations that were made under the deceased taxpayer's Will; direct designations under RRSPs and RRIFs did not meet this requirement.

Fortunately in 2000, the Government changed the rules and the tax credit is now available for gifts to charities that are made under a direct plan designation within an RRSP or RRIF contract. As a result, the credit in these circumstances will be available in the year of death or in the preceding year.

The amount of the donation for these purposes will generally be the fair market value of the gift from the RRSP or RRIF, determined as at the time of the deceased's death. The Estate could then claim the gift up to 100% of net income in the final two tax years.

Summary

The purpose of this article is to illustrate that every financial instrument, such as an RRSP or RRIF, can have pros and cons in their set-up, administration, and closure. To be used and gifted effectively, these instruments require proper planning. This planning demands specialized knowledge and often a team of advisors to facilitate the process.

You can start by asking yourself:

- How much money do I need to retire comfortably?
- At what age will I be able to retire comfortably?
- What is my tax bill if I pass on before I retire?
- What is the value of my estate that I pass on to my wife and children?
- What happens to my business if I pass away tomorrow?

If these are questions that are nagging in your mind, we can help you find answers and put the strategic planning in place.



To have a deeper conversation about how this subject will affect you or your business, please contact us directly:

Mandie La Montagne MA, CHRP
mandie@theintuerigroup.com
C: 604 644 0177

Sean Farrell BA, CFP, CHS
sean@theintuerigroup.com
C: 604 760 7205

www.theintuerigroup.com