



CESTNICK

TAX MATTERS

Naming your estate, or charities, as beneficiary of your RRSP or RRIF

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Some things in life can be a challenge as you start to age. Just ask William Basil Armstrong who, at the age of 56, was charged with robbing a convenience store in Akron, Ohio, a few years ago. He was in the middle of the robbery when he asked the store clerk to run out to his car to retrieve his oxygen tank, which he needed for respiratory problems. The moral of the story? Consider giving up robbing stores by the time you're almost 60.

Aside from physical ailments, another challenge as you get older will be planning for your estate, including naming beneficiaries for your registered retirement savings plan or registered retirement income fund. Last week, I talked about naming your spouse or financially dependent children as beneficiaries. Today, I want to finish the conversation and share information about naming your estate, or charities, as beneficiary of your RRSP or RRIF.

Naming your estate

It's possible to name your estate as the beneficiary of your RRSP or RRIF. If you

do this, there will generally be tax owing on your final tax return on the value of your plan assets. Now, it's possible for your executor to make a joint election with your spouse, or a qualifying dependent child, to make a tax-deferred transfer of your plan assets to your spouse's or child's plan. You should also be aware that, where your province levies probate fees, the value of the plan assets will be subject to these fees if your estate is named as beneficiary.

It could make sense to make your estate the beneficiary if want to leave your plan assets to more than one person in unequal amounts, or where you want to set conditions for a beneficiary to meet before he or she inherits the assets. Or perhaps you want to have your RRSP or RRIF assets held in trust for a beneficiary rather than distributing those assets directly to him or her.

It could also be the case that leaving RRSP or RRIF assets to your estate could solve a potential problem that can arise when you name a specific individual as beneficiary. For example, suppose that your death results in a tax bill owing and

you own an RRSP or RRIF when you die. If you name an individual as a beneficiary of your registered plan, they'll receive those assets before any tax is deducted and remitted to the Canada Revenue Agency. So, who will pay the tax bill? The taxes will be paid out of the remaining assets of your estate, if there are sufficient assets to cover the taxes.

The end result is that your other beneficiaries (perhaps those who didn't receive your RRSP or RRIF) could be short-changed when the tax bill is paid out of their inheritance. This might not be your intention. Naming your estate as beneficiary solves the problem since the taxes owing will then be paid out of your estate assets, causing all the beneficiaries to effectively share the tax burden.

Naming charities

If you name a registered charity as beneficiary of your RRSP or RRIF, you'll be entitled to a donation tax credit on your final tax return for the value donated to the charity. This should eliminate virtually all the tax owing on the plan assets that are donated. If you want to leave just some of your RRSP or RRIF dollars to charity, consider setting up separate RRSP or RRIF accounts for each charity to hold those specific amounts, and name each charity as beneficiary of the respective account.

Naming nuances

You can name a beneficiary of your RRSP or RRIF on the plan application form itself, or in your will (in Quebec, you have to do this in your will). Naming your beneficiary in the plan documents will often simplify things. If you name your beneficiary in your will, your legal adviser will have to do this properly to ensure you won't face probate fees on your plan assets.

If the beneficiaries named in your will conflict with what's on the plan application, the later designation generally revokes the earlier one. And if your financial institution isn't aware of a later designation made in your will, it could pay the assets to the beneficiary name on the plan documents, which could lead to conflicts between heirs.

Finally, financial institutions won't generally allow you to name different beneficiaries on one RRSP or RRIF account application form if each beneficiary is going to receive different amounts. This comes too close to being a "testamentary disposition" and imposes duties on the institution that should more appropriately be carried out by your executor. Having separate RRSP or RRIF accounts for each beneficiary can help here or name the beneficiaries in your will instead.

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