Another way to donate from an

RRSP or RRIF

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It has become a common estate planning technique to provide for a gift to charity upon death, of some or all of the unused assets in an RRSP or RRIF, usually through a direct beneficiary designation.

However, donors looking for opportunities to make a philanthropic impact during their lifetime often overlook their RRSP/RRIF assets because of the complexities and seemingly high tax burden that premature withdrawals might produce. **Donating unused or excess assets in an RRSP or RRIF to charity can enable a donor to realize an immediate impact without triggering tax, as long as the donation is carefully planned.** For high income donors, the tax on the RRSP/RRIF withdrawal may be entirely offset by the donation tax credit resulting from the gift to charity. Further, the estate will be left with fewer RRSP/RRIF assets that will trigger tax at death.

The tax benefits of *inter vivos* (in life) contributions from an RRSP or RRIF account are even more significant if the donor has other investments and sources of income and the donor's income from all sources during the year remains below approximately $89,000 or, even better tax benefits if income is below $75,000. This is because the donor will be able to claim a donation tax credit calculated at the highest rate for any donations made in excess of $200 per year, and this credit will exceed the tax imposed on the RRSP withdrawal, allowing the donor to use the remaining donation tax credit to offset other income.

Table 1:
Withholding Tax Rates for RRSP/RRIF Withdrawals

	Quebec	All Other Provinces
Up to $5,000	21%	10%
$5,001 – $15,000	26%	20%
Over $15,001	31%	30%

For example, if Linda wanted to donate $10,000 of assets from her RRSP or RRIF to a Canadian registered charity, the donation would be considered a withdrawal from the registered plan and the full amount of the withdrawal would be included in Linda's taxable income and taxed at her highest marginal tax rate. Further, there is a CRA withholding tax (see Table 1) that applies and the financial institution holding the RRSP/RRIF assets would normally withhold $2,000 and report the withdrawal and withholding on a T4RSP (we discuss how to avoid the tax withholding below). Once the $10,000 is donated to a registered charity, a donation tax receipt will be issued, resulting in a tax credit calculated at the highest applicable combined marginal tax rate. Table 2 shows the approximate calculations if Linda receives taxable income of $60,000 a year from other investments and sources (pensions, CPP, etc.) and if her taxable income is $150,000 and the donation is increased to $20,000.

Table 2: Illustration of tax implications of RRSP/RRIF gift in life

	Income = $60,000	Income = $150,000
Withdrawal from RRSP/RRIF	$10,000	$20,000
Tax Withheld by Institution	$2,000 (20%)	$6,000 (30%)
Marginal tax rate (Ontario combined rate)	29.65%	47.97%
Taxes paid	$2,965	$9,594
Donation to charity (Value of Tax receipt)	$10,000	$20,000
Tax credit[1]	$4,800	$9,600
Net tax credit available after tax paid	$1,835	$6.00

In both instances Linda is able to withdraw the funds "tax-free" from her RRSP/RRIF accounts and, if her taxable income is below $150,000, she will retain some donation tax credit that can then be used to reduce taxes on her other taxable income (an additional amount of $1,835 if her income is $60,000).

Avoiding Withholding Tax

Particularly for larger donations, it may be possible to avoid having tax withheld from the withdrawal from an RRSP/RRIF by the financial institution by filing a Form T1213, Request to Reduce Tax Deductions at Source, with the appropriate taxpayer services regional correspondence centre. It would be prudent to include with the T1213 some form of documentation to corroborate the intention to make a gift to a registered charity from the withdrawal. This could be a signed pledge agreement, a draft gift agreement, a comfort letter from the registered charity confirming the intended gift, or even a signed direction from the donor to the institution to transfer the funds directly to the charity following approval of the T1213. It can take CRA several weeks to process the form but if it is approved and provided to the financial institution holding the RRSP/RRIF assets, they would not be required to withhold an amount in respect of tax and the full amount of the withdrawal may be transferred to the registered charity.

Making an *inter vivos* donation from an RRSP or RRIF is an important estate planning tool for individuals who are likely to have significant unused RRSP/RRIF assets upon death because it enables withdrawals with little or no tax consequences. The tax benefits are even better as donors' income from other sources diminishes. As with all significant gifts to charity, careful planning is required to realize the maximum impact of the donation. Donors should seek independent legal and/or accounting advice when considering a gift funded from RRSP/RRIF assets to ensure that they are not caught unaware of the tax implications[2] of such gifts.

The Queen's Gift Planning team has the specialised knowledge of these forms of giving and can work with you and your professional advisors to help you make this kind of gift in life. Simply contact the office at 1-800-267-7837 or at gift.planning@queensu.ca.

[1] We are using an approximate rate of 48% for the purposes of this article. A detailed discussion of the calculation of the tax credit with the new top tax rates is beyond the scope of this article.

[2] As of July 2011, there are new anti-avoidance rules to prevent people from using or receiving their RRSP funds without including these amounts in income. You'll pay tax equal to the fair market value of the "advantage" you gained – effectively a 100% tax.

The Whillans Way

Bob Whillans, BSc (Hons – Geology) 1971 and his wife Lindsay Whillans from Ottawa.

I like to find creative solutions to problems. Recently, my wife Lindsay and I were reviewing our assets, and recognised that we could be facing an unfavourable tax surprise in the coming years as we prepared to convert our RRSPs to RRIFs. At the same time, I was thinking about creating a legacy at Queen's that would help deserving students.

I was fortunate to attend Queen's without the need for financial assistance. Over the years, I've realized that financial aid could make the difference for many exceptional students lacking the means to have a Queen's education. That's why Lindsay and I have chosen to establish the **Robert T Whillans Award**.

We established the award by withdrawing funds from my RRSP. Our advisor at TD Wealth worked with us to submit a form to CRA that authorized deregistering a portion of my RRSP without the usual requirement to withhold tax at source. This allowed us to donate the full amount of my RRSP withdrawal up front, while deferring the reduced net tax payable. For me this was the most tax effective way to make my gift to Queen's.

I call it "the Whillans Way" because it turns out, we are the first Queen's donors to make this kind of gift! We hope that our award will help deserving and talented students benefit from everything that Queen's has to offer.

The Queen's Gift Planning Team can work with your professional advisors to help you make this kind of gift in life.

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