RRSP or RRIF Donations:
Reward a Charity Instead of CRA

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Many Canadians have accumulated significant savings in their RRSPs or RRIFs, taking advantage of the preferential tax treatment granted to these plans. The tax rules were designed to encourage Canadians to save for their retirement years by making contributions tax deductible (within certain limits) and allowing plan investments to grow on a tax-free basis until withdrawn. If a person dies holding an RRSP or RRIF the entire remaining value of the plan is taxable to the deceased in the year of death (unless the plan can be rolled tax-free to a spouse's or a financially dependent child's or grandchild's RRSP or RRIF). The resulting tax bite can be high. Consider an Ontario resident in the top tax bracket in the year of death – almost half of his or her RRSP or RRIF would end up in the hands of CRA and not in the hands of the desired beneficiaries.

Did you know that all or a portion of your RRSP or RRIF can be donated to your favourite charity when you die? Giving away your RRSP or RRIF to that special charity may actually take less away from your heirs than you think.

Meet Helen. Helen is a proud alumna of Queen's University living in Ontario. Helen has three adult children who will inherit the majority of her estate. Helen is very interested, however, in giving part of her estate to Queen's. Included in her assets are her RRIF and a RRIF that she inherited from her husband on a tax-deferred basis. Helen wants to understand the impact of donating her RRIF to Queen's. The chart on the back provides a snapshot of the cost of the donation assuming that the value of each of the RRIFs is $150,000, or in total $300,000, when she dies. (Assume that Helen's other sources of income in that final year will be $100,000.)

Helen's story shows that the donation of an RRSP or RRIF is a tax effective way to leave a legacy to a charity that you feel a strong affinity towards. Here are some other issues that you should consider if you are thinking of supporting Queen's with your RRSP or RRIF.

- In the year of death an individual's maximum donation limit is increased to 100% of net income (from 75% of net income). This 100% limit also applies to the year before the year of death (if the gift is large relative to income, the donation credit can be used in the year before death). Remember that your RRSP or RRIF value is included in your net income on your final return.
- An income tax receipt would be issued by the charity for the full value of the donated RRSP or RRIF on the date of death.
- RRSPs or RRIFs can be donated to a registered charity through a bequest in a will or a direct designation by naming the charity as a beneficiary of the plan. (Note that Quebec residents cannot make a direct designation). The tax rules will recognize either method as a charitable donation deemed to have been made immediately before death. The RRSPor RRIF needs to be transferred to the charity within 36 months of donor's death.

- If the donation of the RRSP or RRIF is made under a direct designation rather than through a bequest:
  - No tax would be withheld by the financial institution which means that the entire plan balance could be paid directly to the charity (but note that the RRSP or RRIF value is still taxable to the deceased in the year of death as described above) and
  - The RRSP or RRIF will not form part of the estate and therefore will not be subject to probate. This will avoid probate fees on the plan value, maintain privacy since the asset will not be part of a public record and also will mean that your donation reaches your chosen charity faster.
- Remember to clearly provide the legal name of the charity, its address and charitable registration number.
- If married, consider naming your chosen charity (or more than one charity) as an alternate beneficiary in the event your spouse predeceases you or you die at the same time. (RRSPs and RRIFs can transfer to a spouse on a tax free basis so generally the spouse is named as the primary beneficiary/successor annuitant). Make sure you keep your designation current – for example, if your RRSP matures into a RRIF or if you change financial institutions, you will need to make a new designation.

	No Donation of RRIF	Donation of $150,000 RRIF
Tax Result		
RRIF value – inclusion in income	$300,000	$300,000
Other income on final tax return	100,000	100,000
Taxable income on death	400,000	400,000
Income tax (Federal and Ontario)	165,500	165,500 *41.38%*
Donation tax credit	n/a	(69,600) *46.40%*
Total taxes paid	165,500	95,900
Net Cost of Donation		
Tax savings from donation		69,600
RRIF value to Queen's		(150,000)
Net cost of donation		(80,400)

In this case, Helen's donation credit (at 46.40%) would actually exceed the tax on her RRIF income inclusion (at 41.38%) and the excess would reduce the tax on her other sources of income. (The donation tax credit rate relative to the income tax rate depends on a number of factors including province of taxation and level of income). Helen is very pleased to know that her alma mater would receive $150,000 on her death and that her children's inheritance would only be reduced by $80,400.

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