INITIATIVE

DRIVING SOLUTIONS, DRIVING SERVICES, DRIVING RESULTS

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Escaping terminal taxation of RRSP/RRIF funds by allocating to "qualified beneficiaries"

A "qualified beneficiary" can be named to receive registered funds, either directly, bypassing probate or through the deceased's estate. As a result, some or all of the income recognition and related income tax will be in the hands of the lower-taxed beneficiary rather than in the high-taxed terminal return of the deceased.

A "qualified beneficiary" is:

- **A spouse**: applies only to a person to whom you are legally married
- **A common-law partner**: applies to a person who is not your spouse, with whom the annuitant lives in a conjugal relationship, and to whom at least one of the following situations applies. He or she:
  - has been living with the annuitant in a conjugal relationship for at least twelve continuous months;
  - is the parent of the annuitant's child by birth or adoption; or
  - has custody and control of the annuitant's child (or had custody and control immediately before the child turned 19 years of age), and the child is wholly dependent on that person for support
- **A financially dependent child or grandchild**, of a deceased annuitant, is generally considered financially dependent on that annuitant at the time of death if, before that person's death, he or she ordinarily resided with and was dependent on the annuitant. They must also meet one of the following conditions:
  - they are physically or mentally infirm and their net income for the previous year was equal to or less than the basic personal amount plus the disability amount ($15,033 for 2012) for that previous year or
  - they are minor children.

If their net income was more than the amounts described above in that year, the child or grandchild will not be considered financially dependent on the annuitant at the time of death, unless they can establish they were.

It may be possible to establish financial dependence if a written request is made to the Canada Revenue Agency (CRA) by the legal representative, explaining why the child or grandchild should be considered financially dependent on the annuitant at the time of his or her death.

The CRA specifically intends that the beneficiary elections be used to enable people in such situations to minimize taxes payable to the extent the tax laws permit. Each situation has its own circumstances and solution. The Tax and Estate planning team is here to assist you.

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Our Tax & Estate Planning support covers seminar education, workshops advanced concept illustrations & technical support including articles and reference material.

Peter A. Wouters focuses on tax & estate planning, retirement, and guidance for related investment product strategies.

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