STEPUP

Sales Tax Estate Planning Underwriting & Product Newsletter

Owners, Annuitants and Beneficiaries

People set up long-term savings and investment plans to provide for their own lifestyle needs down the road. They should think about where they want those investments to go should they pass away before spending those investment nest eggs. There is some confusion over how to properly structure these investments to make sure the monies go to the intended recipients effectively and efficiently.

For many Canadians, the largest tax liability their estate will face is the potential tax on the fair market value of their RRSP or RRIF upon death. The income tax rules in Canada require the fair market value of the RRSP or RRIF as of the date of death to be included in the deceased's terminal tax return. This money is then added to any other income the deceased had earned up until death. Income tax is then payable at the deceased taxpayer's marginal tax rate for the year of death. This income inclusion can be deferred in certain circumstances and by following certain procedures.

For example, the Canada Revenue Agency requires the transfer of RRSP assets to be made directly between financial institutions. The RRSP assets remain sheltered from income tax through the use of the T2033 Direct Transfer form. You'll need to watch what can and cannot be transferred.

Self-directed RRSPs can hold a variety of different investments from different companies in a single plan. Regular RRSPs hold investments offered by the same financial institution in one plan. You may transfer assets held in a regular RRSP to a self-directed RRSP. You may not transfer a self-directed RRSP into a regular RRSP because the assets held in a self-directed RRSP may not be compatible with investment restrictions for a regular RRSP. Some mutual funds, mortgages and mortgage investment corporations may not be acceptable to the receiving institution. Some RRSP investments are considered to be proprietary to the transferring financial institution and as a result are not transferable. In those cases, the underlying investments need to be sold and the proceeds transferred to another RRSP. Watch these types of transfers because you may incur transfer fees and possibly investment sales or redemption fees. It pays to ask about these before you complete the transfer form.

Peter A. Wouters,
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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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Empire Life Investments

Owners, Annuitants and Beneficiaries

Each province defines the term “beneficiary” for insurance based products under its provincial Insurance Act. In Quebec, this is covered under the Civil Code. There is a difference between naming a beneficiary under an insurance policy or through a declaration and a beneficiary of the estate or the personal representative. When a beneficiary is named in an insurance based policy or declaration, that person has rights governed by the provincial Insurance Act. Similarly, when a beneficiary is named other than through an insurance based policy or declaration, then that beneficiary has rights under a will, a court order or under some other provincial statute.

You may designate anyone you wish to be a beneficiary: an adult or a minor, a resident or non-resident of Canada, your estate, a trust, etc. However, there are income tax consequences associated with your choice of beneficiaries. The value of your RRSP as at the date of death is included in your terminal return and is taxable in the year of death. Again, there are exceptions.

The following table lays out a number of investment categories and what owners can do to direct proceeds of investments that they don’t get to spend themselves. Please keep in mind that annuitant and successor annuitant designations take priority over beneficiary designations. The same holds true for successor owners if both a successor owner and beneficiary are named to receive investments. Financial institutions will pay out investment proceeds to the last designated beneficiary they have on file. It’s important to keep them up to date on where investors want their monies to go to improve efficiency and avoid disappointment and extra paperwork and filings.

Owners, Annuitants and Beneficiaries

	RRSP (Registered Retirement Savings Plan)	RRIF (Registered Retirement Income Fund)	TFSA (Tax Free Savings Account)	Open or non-registered fund accounts
Owner and Annuitant the Same?	Yes	Yes	Yes	No
Successor owner allowed?	No	Spouse/common law partner becomes successor owner if named as successor annuitant	Spouse/common law partner via contract where permitted by law as successor beneficiary for mutual funds Subrogated policyholder in Quebec for segregated funds must be spouse/common law partner	Yes No restriction for segregated funds Spouse/common law partner only for mutual funds
Successor annuitant allowed?	No	Spouse/common law partner ...in will (except for segregated funds) or in contract If properly designated then successor annuitant continues to receive RRIF payments after death of original annuitant	No	Yes No restriction for segregated funds
Beneficiary allowed?	Yes No restriction ...in contract (except for Quebec) or identified in will	Yes No restriction ...in contract (except for Quebec and Yukon) or identified in will	Yes In contract where permitted by law (except for Quebec or Yukon) or via will	Yes No restriction on segregated funds To spouse specified in will for mutual funds
Tax deferred rollover to spouse/ common law partner?	Yes ...in contract or via will as sole beneficiary, value at original owner's death deemed refund of premiums Legal representative of estate, along with beneficiary, can file election with Canada Revenue Agency to treat amount as though it was transferred directly to spouse or child from RRSP so same refund of premiums treatment can be obtained then transferred to survivor's RRSP, RRIF, Annuity, SPP (Specified Pension Plan), PRPP (Pooled Retirement Pension Plan)	Yes ...in contract or via will as sole beneficiary	Yes To spouse/common law partner	Yes for mutual funds as named beneficiary in will or via testamentary spousal trust at original or stepped up ACB (adjusted cost base) No for segregated funds

Owners, Annuitants and Beneficiaries

	RRSP (Registered Retirement Savings Plan)	RRIF (Registered Retirement Income Fund)	TFSA (Tax Free Savings Account)	Open or non-registered fund accounts
Tax deferred rollover to children or grandchildren?	If financially dependent upon owner (acc. to Income Tax Act Canada) then value at owner's death deemed to be refund of premiums, payable to child via annuity to age 18 if a minor If child dependent on deceased by reason of physical or mental infirmity, then refund of premiums can rollover to child's RRSP,SPP, RRIF, PRPP or RDSP (Registered Disability Savings Plan) up to $200,000 lifetime contribution limit with no government matching on transferred amounts. Legal representative of the estate, along with beneficiary, can file election with Canada Revenue Agency to treat amount as though it was transferred directly to child from RRSP so same refund of premiums treatment can be obtained then transferred to child's RRSP, RRIF, SPP or PRPP or to annuity that ends when child reaches age 18	Yes If child dependent on deceased by reason of physical or mental infirmity, then refund of premiums can rollover to child's RRSP,SPP, RRIF, PRPP or RDSP (Registered Disability Savings Plan) up to $200,000 lifetime contribution limit with no government matching on transferred amounts or annuity less required minimum annual withdrawal on original plan	Yes, limited to TFSA value at death to RDSP.... ...up to $200,000 lifetime contribution limit treated as beneficiary contributions and may be eligible for government matching and grants.	No

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