

DONATING REGISTERED PLANS (RRSPs, RRIFs)

Leaving all or part of their retirement savings to charity can be an attractive option. Upon the death of the individual, the proceeds of the registered plan are paid out to the charity. The executor of the donor's estate will include the full balance of the registered plan in the deceased's final tax return and will receive a charitable receipt from the charity for the same amount. This amount can be used on the donor's final tax return, or carried back to the year prior to the year of death.

Advantages

The donor retains complete control over the assets until death. This means that even if the individual has worked with a charity to arrange for the future transfer of assets, the donor can still revoke that decision by designating a new beneficiary. In addition, the funds in the registered plan are available to the individual for use, if needed, in their retirement years.

Drawbacks to Consider

The value of the registered plan is included as income in the year of death. However, the tax owing on this amount is usually eliminated by the value of the donation credit. Please consult a tax professional before proceeding.

Example

Mr. Smith had an RRSP worth \$100,000. Since he had no dependants, he names his favourite charity as the beneficiary of his RRSP.

When Mr. Donor passed away in June, his income for that year was \$75,000 (not including the RRSP). Mr. Smith is taxed on his marginal income at 43%. In this case, the entire tax bill from the RRSP inclusion is offset by the tax savings from the donation. If Mr. Smith had other donations exceeding \$75,000, the executor may not be able to use the entire \$100,000 in the year of death, but could potentially carry it back to the preceding year.

	Mr. Smith's Final Return
Income from RRSP	\$100,000
Donation amount	\$100,000
Tax on income @ 43%	\$43,000
Tax savings from donation	\$(43,000)
Tax (savings)/cost	\$ NIL

Normally, when an individual has no spouse or minor or infirm dependants, the value of the registered plan is included fully in the final tax return and creates a liability. If the plan is donated to charity, however, the value of the donation receipt will offset the tax on the income inclusion. So instead of \$57,000 going to the will's beneficiary and \$43,000 going to the CCRA, the entire \$100,000 can be given to the charity.

Tips

- Donors must designate the charity as the beneficiary of the registered plan's assets.
- Donors should consult a tax planner to ensure that the benefit of the gift offsets the final tax bill upon death.
- Donors with heirs should discuss their intention to give all or part of their plan assets to a charity upon death.
- The limit for donation receipts is increased upon death to 100% of net income in the year of death and 100% of net income in the preceding year. If the donor is planning on leaving a substantial amount, steps should be taken to ensure that the estate will be able to use the entire donation receipt.
- For individuals who wish to leave the proceeds of their plan to a charity without reducing the value of the estate left to heirs, wealth replacement insurance can help make up the difference.