Treatment of RRIFs upon Death

Generally, Registered Retirement Savings Plans (RRSPs) must mature by the end of the calendar year in which the annuitant turns 71. There are three options available to the annuitant when the maximum age limit is reached:

1. *Withdraw and pay tax on the entire RRSP balance;*
2. *Use the RRSP balance to purchase an annuity; or*
3. *Transfer the RRSP balance to a Registered Retirement Income Fund (RRIF) on a tax-deferred basis.*

The RRIF tends to be the most popular choice for maturing RRSP balances because there are no immediate tax implications, the rollover from RRSP to RRIF is simple to complete, and the rolled-over amount can continue to grow on a tax-sheltered basis.

What happens to the RRIF when the annuitant dies?

General Rule

When a RRIF annuitant dies, the annuitant is considered to have received the fair market value (FMV) of the entire RRIF immediately before death and that amount must be included in their income in the year of death. The estate of the RRIF annuitant will be responsible for paying the income tax; the beneficiary of the RRIF will only be taxed on any increase in value after the date of death of the RRIF annuitant.

Exceptions

The general rule does not apply if:

1. **A spouse or common-law partner is named as successor annuitant.** (In this article, the terms spouse or common-law partner will be referred to as the "spouse".)

If the RRIF annuitant has named their spouse as a successor annuitant, either in the RRIF contract or in their Will, the surviving spouse becomes the new annuitant of the RRIF, and the RRIF payment will continue to be made to the surviving spouse. All amounts paid after the date of death will be taxed to the surviving spouse.

2. **There is an agreement by the estate and the surviving spouse to treat the latter as successor annuitant**

If the RRIF annuitant has not named his or her spouse as a successor annuitant, where a surviving spouse is entitled to the RRIF under the Will, the surviving spouse can still be considered to be a successor annuitant if the executor consents to the designation and the RRIF carrier/financial institution agrees.

3. A spouse is designated as sole beneficiary

If the spouse is named the sole beneficiary of the RRIF and they instruct the RRIF carrier to transfer the entire “eligible” amount directly to their own registered plan before December 31 of the year following the year of death, the amount transferred is called a “designated benefit”. The eligible amount refers to the portion of the RRIF passing to the surviving spouse less any RRIF minimum amount for the year of death that has not been paid out. In this case, the surviving spouse will receive a T4RIF slip for the amount transferred, which must be reported as income for the year but will be offset by an official receipt for the amount transferred.

4. A qualified beneficiary is designated as beneficiary

A “qualified beneficiary” includes the deceased RRIF annuitant’s spouse as well as a financially dependent child or grandchild.

What are the main differences between naming your spouse as successor annuitant versus designated beneficiary?	
As successor annuitant	**As designated beneficiary**
The RRIF is not collapsed but rather continues in the spouse's name as annuitant.	The RRIF is collapsed upon the death of the RRIF annuitant, and the RRIF assets are transferred on a rollover basis to the registered plan of the spouse.
The minimum payments paid to the successor annuitant will be based on the same terms as when the RRIF was originally set up.	The minimum payments will be based on the age of the owner of the new plan (i.e. the age of the spouse).
The book value of RRIF assets remains unchanged where the spouse is the successor annuitant.	The FMV of the assets as of the date of the transfer will be the new adjusted cost base.

What constitutes “financial dependency”?

If the income of a child or grandchild exceeds a specified amount, the presumption is that they are not financially dependent on the deceased. However, this presumption can be rebutted by factual evidence.

The specified amount is the federal basic personal amount in force for the year before death. For example, if death occurred in 2019, the relevant amount is the 2018 personal amount. If the child or grandchild is financially dependent by reason of physical or mental infirmity, the specified amount is the basic personal amount plus the disability amount of the preceding year.

A qualified beneficiary, including a financially dependent child or grandchild, may receive proceeds from a deceased annuitant's RRIF which can qualify as a designated benefit. This amount can be included into the income of the qualified beneficiary rather than the income of the deceased (or the deceased's estate).

Alternatively, the qualified beneficiary can defer paying tax on the sum received by transferring it to their own registered retirement plan, such as an RRSP or RRIF, or transferring it to an eligible annuity.

Such transfer or purchase must be completed in the year the designated benefit is received or within 60 days after the end of the year. The financial institution receiving the transferred amount will issue an official receipt to the qualified beneficiary so they can claim a deduction on their tax return for the year they receive the designated benefit.

A financially dependent child or grandchild who is dependent because of a physical or mental infirmity may also rollover RRIF proceeds, on a tax-deferred basis, to a Registered Disability Savings Plan (RDSP).

The amount that can be rolled over is limited to the beneficiary's available RDSP contribution room. The lifetime contribution limit is $200,000. The transferred amount:

- will not attract the Canada Disability Savings Grant (CDSG), and
- will form part of the taxable portion of the disability assistance payments (i.e. will be included in the beneficiary's income when withdrawn from the RDSP).

However, if the financially dependent child or grandchild is not physically or mentally infirm, the only transfer option is to an annuity that provides for payments based on a period of not more than 18 years minus the child's or grandchild's age at the time of the annuity purchase; and payments from the annuity must begin no later than a year after the purchase. This means that the beneficiary will be taxed as the annuity payments are received.

Sample Scenario:

Bertha (age 80), a wealthy widow, wishes to leave her large RRIF (current value $500,000) to her granddaughter Yvette. Yvette is 13 years old and is the only child of Bertha's daughter, Larissa, a successful ophthalmologist. Bertha would like to save on probate taxes by making Yvette her designated beneficiary. She is also under the impression that there is a tax deferral because Yvette is her grandchild.

Analysis: Consideration should be taken as to whether Yvette is "financially dependent" on Bertha. The Canada Revenue Agency (CRA) will not normally accept that a grandchild is financially dependent on a grandparent where the grandchild lives with his or her parents who can adequately provide for the grandchild's well-being.

Furthermore, even if financial dependency could be established, unless the grandchild is dependent because of a physical or mental infirmity, the only rollover option is to transfer to an annuity to age 18. Since Yvette is already 13 years old, the tax deferral would only be available for 5 years. It may be more appropriate to explore other options such as establishing a testamentary trust for Yvette. This option would result in probate fees and income taxes on Bertha's death, but would allow Bertha to specify how the assets should be managed and distributed, and may provide ongoing tax savings.

Considerations

Speak with your TD advisor about the most suitable tax and estate planning strategy for your RRIF.

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