



## RRIFs and Gifts

If you are like many Canadians, you may have contributed to a Registered Retirement Savings Plan (RRSP) within the past year. Or perhaps you have already converted your RRSP to a Registered Retirement Income Fund (RRIF, pronounced “riff”). In choosing to establish an RRSP, you may have been attracted by the promise of tax savings, a feature heavily promoted by financial institutions and advisors.

But did you know that these tax savings are only tax deferrals? Every dollar contributed to or earned in a registered plan, whether RRSP or RRIF, will eventually be taxed.

Most people convert their RRSP to a RRIF when they reach the mandatory age, recently raised from 69 to 71. The income received from the RRIF is added to whatever other income they have and taxed at the prevailing rate. If all goes according to plan, this rate will be lower than they paid during their working years. When a planholder dies, the full value of the plan can be transferred to a spousal beneficiary without any tax consequences. But when the second spouse dies, the day of tax reckoning is at hand.

At that point the full value of the balance remaining in the registered plan is added to other income in the year of death. If the amount is large enough, it could push the deceased's income into the highest tax bracket — currently between 39% and 48% depending on the province. This means that up to half the value of the fund is paid out in income tax before the beneficiaries named in the will get anything.

This information comes as a shock to many people who include the full value of their registered funds in what they plan to leave to children or other heirs.

Is there a way of getting these funds, intact and untaxed, into the hands of heirs? The short answer is no. While there are “wealth replacement” strategies that replace the money paid in taxes with other funds, these involve spending more money during one's lifetime.

Many people are beginning to consider registered funds as a source of charitable donations. There are now two ways of making a donation. One way is to name one's estate as the beneficiary of a registered plan, and then make a gift to the church as a bequest. The other way—available only since the 2000 budget— is to name the church as a beneficiary of the RRSP or RRIF. In both cases, the resulting tax credit will cancel out the tax owing on the amount of income donated from registered funds.

When faced with the choice of splitting the money 50-50 between their heirs and governments, or giving 100% of it to their church, some people choose the latter. But it doesn't have to be an all-or-nothing proposition. Your will could leave part of any balance in a registered fund to the church, while the other part would be divided between heirs and taxes. For example, a \$100,000 RRIF balance could be divided approximately as follows:

\$50,000	church
\$25,000	heirs
\$25,000	taxes

Consider what your church could do with a gift of that size!

*For advice when making a will contact a lawyer who specializes in wills, your financial planner and/or your accountant. You may also contact Lorraine Kalis, Stewardship Consultant, at 780-490-0882 or [lorrainekalis@shaw.ca](mailto:lorrainekalis@shaw.ca) for further discussion.*

