

Tax Tip

Week of April 20, 2009

RRSP Beneficiaries

One of the steps of establishing a RRSP is to designate a beneficiary. There are tax consequences of each potential beneficiary and they can be summarized as follows:

Estate – The proceeds of the RRSP will be taxable in the deceased's final tax return. It will also make the entire amount of the RRSP subject to provincial probate fees. This is often the worst option for an individual.

Spouse – The entire amount of the RRSP can be rolled tax free into your spouse's RRSP.

Dependent Child with a Disability – The RRSP can be transferred to such a child on a tax free basis.

Child or Grandchild without a Disability – The amount is taxable to the child, but a portion of the tax can be deferred by purchasing an annuity to age eighteen. This tactic will spread the tax over a number of years.

Charity – A registered charity can be named as a beneficiary and although the amount is taxable to the individual, he or she will receive an offsetting tax credit for a charitable donation

Third Party – If someone other than the individuals listed above are named as a beneficiary, the amount of the RRSP will be included in the deceased's income in the year of death.