RRSPs/RRIFs

YOUR SAVINGS PUT TO WORK *for your family* AND THE FUTURE OF WDMH

A future gift of a registered retirement savings plan (RRSP)[1] or registered retirement income fund (RRIF)[2] can be made without sacrificing your retirement lifestyle.

Is donating an RRSP or RRIF right for me?

An RRSP or RRIF gift is a great way to reduce taxation on any remaining assets in your funds.

What are the tax savings?

Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) are tax deferred investments, but the entire amount will eventually become taxable, either during your lifetime or by your estate (although spouses and dependent children are eligible as tax deferred beneficiaries). This can result in the loss of nearly half of these assets to taxes. By giving a portion or all of the remaining assets in your RRSPs or RRIFs to the WDMH Foundation, you can eliminate most or all of the tax loss.

DID YOU KNOW?

You may name a charity as final beneficiary of your RRSP/RRIF. To make a change in beneficiary, contact your RRSP/RRIF sponsor (your bank, investment, trust, or insurance company) to determine their process to make this change. Note that if you want to name more than one charity or have a complex distribution plan for your RRSP/RRIF, the issuer may not allow that on a single account. You might consider splitting your RRSPs or RRIFs into more than one account in that case.

Company Sponsored Pension Plans

Many company sponsored pension plans allow continuing members to name a charitable beneficiary. If there is no spouse or dependent child to consider, naming the WDMH Foundation the beneficiary of your pension plan is a wonderful gift for our patients.

[1] An RRSP is a Registered Retirement Savings Plan. It is a legal trust registered with the Canada Revenue Agency and used to save for retirement. RRSP contributions are tax deductible and taxes are deferred until the money is withdrawn.

[2] A RRIF is a Registered Retirement Income Fund. It is a tax-deferred retirement plan under Canadian tax law. Individuals use a RRIF to generate income from the savings accumulated under their Registered Retirement Savings Plan. As with an RRSP, an RRIF account is registered with the Canada Revenue Agency.

How to Donate Retirement Funds

Below are four strategies you could consider to save taxes by donating your registered assets to the WDMH Foundation. Some of the strategies listed have examples (see below), which refer to the following financial scenario. It's important to note that without planning a charitable gift, a RRIF with a value of $250,000 at death would create approximately a $100,000 tax bill, owed to the Canada Revenue Agency (assuming a 40% marginal tax rate). The estate or heirs would then receive the remaining $150,000 of the asset.

1. If it is best for you, withdraw extra funds from a RRIF (or capital from an RRSP) and donate the same amount. You will receive a tax receipt offsetting the income tax payable on the withdrawal. If your professional advisors agree, you could then complete the withdrawal and donate in December to avoid the withholding of taxes by your RRIF provider in that calendar year.
2. Name the Foundation as the beneficiary (or alternate beneficiary, after a spouse, or dependant child) on your RRSP or RRIF documents using your financial institution's beneficiary form. Upon your death (or that of your spouse), the Foundation receives the balance of the assets directly from the financial institution. The estate would then receive a tax receipt from the Foundation to offset the other taxable income in your estate. (Note: the RRSP/RRIF income would pass outside of your estate/probate process in this case, saving your estate further taxation, and creating an impact at WDMH quickly.)

   EXAMPLE (see above scenario): (Planned): Name the Foundation as beneficiary of your RRIF, which becomes payable when you pass away. This amount does not go through probate, so is not subject to Estate Administration Tax (formerly called probate fees). Note: that with this option, your heirs do not receive the value of this asset, but your estate will receive a tax credit of $250,000, thereby largely reducing or possibly eliminating the tax due on the RRIF.

3. Use the RRIF withdrawal to pay a premium on a charitable life insurance policy that will leverage your payments for a significant future gift to the WDMH Foundation. If you name the WDMH Foundation as owner and beneficiary of the life insurance policy, you will receive a charitable tax receipt for annual premiums offsetting the taxes due on your RRIF withdrawals.

   EXAMPLE (see above scenario): (Planned – wealth replacement life insurance): You could purchase a $250,000 life insurance policy to replace the value of the RRIF (or RRSP) for your heirs that would cost much less than the value of the tax you would pay to CRA on your RRIF (or RRSP), and lastly bequeath the value of your RRIF (or RRSP) to the Foundation. Hypothetically, we would then issue a receipt once the gift was received for the full value of $250,000; therefore, the tax receipt would generate approximately a $100,000 tax credit (assuming a 40% tax credit rate) and the tax would be eliminated. Another benefit to this scenario is that the life insurance policy death benefit will go directly to your beneficiaries upon your passing, and they won't have to wait until your estate is settled.

4. You can rollover your RRIF (or RRSP) tax-free to a spouse, financially dependent child or grandchild under 18, or mentally or physically dependant child or grandchild of any age. But, if none of these circumstances are possible, it may be worth considering having your estate be the beneficiary, and making a significant gift to WDMH at the time of your passing to offset the large tax bill that will come with the cashing out of these investments all at once (RRSPs/RRIFs are most people's largest tax liability in an estate, since they are a tax deferred investment during life). Donations can be claimed against 100 per cent of net income in the year of death. And if the donation is too large to claim in the year of death, it is possible to carry back donations to claim against 100 per cent of net income in the preceding year. The 100 per cent contribution limit can eliminate all tax in the final two years if the gift is large relative to income. (*Note: this donation will become public information through the probate process in this option, and therefore also subject to probate fees.)*

A Word or Two About Professional Advice

Your financial and family situation is unique to you. You owe it to yourself, your loved ones, and the charities whose work you wish to support, to seek professional advice to make the most of your life savings and to achieve your philanthropic goals. Please consult professional financial, estate and gift planning advisors to determine the best course of action and plan for you, your family, and the WDMH Foundation.

Collapsing or Closing an RRSP/RRIF

It seldom makes sense to make gifts directly from an RRSP/RRIF during life. This is because withdrawals are treated as regular taxable income and you could be faced with claw-backs to government benefit programs, such as Old Age Security (OAS). However, there are times when collapsing a RRIF is a financially sound tactic and a charitable gift can help offset taxation of the income. Tax and financial advisors should be consulted to determine the appropriateness of collapsing a registered plan.

Mandatory RRIF Withdrawals

To ensure a stream of taxable income, the government requires a minimum annual withdrawal from your RRIF in the year you turn 71. If this income is not needed for current living expenses, you may feel you are simply throwing away your hard-earned money on taxes. Donating this excess income could make sense for you.

Plan Ahead to Avoid Tax Withholding

If you are going to donate a portion or all of your RRSP/RRIF during your lifetime, there is a way to avoid having taxes withheld – but, you will need to plan ahead with your professional advisor(s).

TALK WITH YOUR FAMILY. TALK WITHYOUR ADVISOR. TALK WITH US.

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Please note that the information included in this fact sheet is not intended as legal, financial or tax planning advice. When considering any planned gift, you should always consult professionals and your family (as preferred).

WDMH FOUNDATION
Fundraising for Excellence.
Dundas Manor Long-Term Care Home
Winchester District Memorial Hospital