AGENDA – INVESTMENT GROUP, Oct 10, 2023, 9:30 to 11:30 – COLLINGWOOD LIBRARY

1. Reducing/eliminating Probate costs - a part of estate planning. What paperwork is needed to allow institutions to relinquish estate assets and why.

   Joint Ownership

   Specific secondary Wills

   Gifting

   Other

2. Topic(s) for Nov 14th - Measuring returns – the importance of knowing what you are measuring and getting accurate information.

   What to look for when selecting investments and where to find the information.

3. New Business – NEXT MEETING Nov 14th

TAX MATTERS
Avoid leaving your heirs a nasty tax surprise on your RRIF assets when you die
TIM CESTNICK
The Globe and Mail
Published September 14, 2023
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Always get good tax advice after a loved one's death to avoid nasty surprises, Tim Cestnick writes.
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Last year my wife and I were travelling in Europe. We rented a car, and everything was going our way, until I discovered we were driving the wrong way on a one-way street – then nothing was going our way, literally. It's not hard to make mistakes when you're in unfamiliar territory.
Why all the fuss over mandatory RRIF withdrawals?
For many folks, the world of personal finance is unfamiliar territory. And if you're not careful, mistakes can be costly. Today, I want to talk about registered retirement income funds (RRIFs), share a story about a costly mistake, and how to avoid the same fate.
The story
In January, 2020, CTV reported the news of a Calgary woman – call her Mrs. P – who was in a battle with the CRA over $270,000 in taxes owing on her late husband's RRIF. Mr. P had passed away at the age of 74 in 2017.

In the year Mr. P turned 71, he visited his bank to convert his RRSP to a RRIF. As you might know, an RRSP matures by the end of the year you reach the age of 71. To avoid paying tax on the RRSP, most people will convert the plan to a RRIF by Dec. 31 of that year (another option is to convert to an annuity, but most people don't choose this because it's less flexible in terms of how much cash you can access in any given year).
When Mr. P visited his bank, the bank employee failed to raise the issue of naming a beneficiary on the newly opened RRIF. While Mrs. P had been the beneficiary of his RRSP, a RRIF is a new contract, and the beneficiary must be designated again. Without a beneficiary named, Mr. P's estate was entitled to his RRIF assets upon his death, and about $270,000 was owing to the taxman.
The RCMP was called in after a cybersecurity attack took down which company? Take The Globe's business news quiz
The rules

The general rule, when someone dies, is that the deceased owner of the RRIF (called the annuitant) is deemed to have received the fair market value of the RRIF assets held at the time of death. It's as though the deceased made a withdrawal of the RRIF assets immediately prior to death, with taxes owing on the final tax return.
There are a couple of exceptions to this rule. The deceased person will not be deemed to have received the amount from the RRIF – and therefore will avoid tax – if he or she had a spouse (or common-law partner) at the time of death and the following two conditions are met:
• the spouse is designated in the RRIF contract or the will of the deceased as the sole beneficiary of the RRIF, and
• the RRIF assets are directly transferred to an RRSP, RRIF or another qualifying plan, or used to buy an annuity, for the surviving spouse (the transfer has to take place by Dec. 31 of the year after the year of death).
If these conditions are met, the surviving spouse will receive a T4RIF slip with the amount of the RRIF showing in box 16, which means that the RRIF amount is now taxable to the surviving spouse, not the deceased. But the surviving spouse will also receive a receipt for the amount that was transferred to his or her own RRSP, RRIF or other plan, and that receipt can be used to claim a deduction for the amount transferred. The net effect of these two slips is that there should be no tax owing by the surviving spouse on the RRIF amount. Rather, taxes will be owing in the future when amounts are withdrawn from the plan.
Mr. P should have named his wife as beneficiary under his RRIF contract. He could have also named her as beneficiary of the RRIF in his will – which apparently didn't happen either. Mrs. P did have one other option available (although she apparently missed the deadline for this):

If the exception above doesn't apply, it's possible for the legal representative of the deceased person to jointly elect, with the surviving spouse, that the RRIF assets should be taxable to the surviving spouse instead of the deceased person (to do this, use Form 1090 – Death of a RRIF Annuitant). Then, the surviving spouse can transfer the RRIF assets to, most commonly, his or her own RRSP or RRIF and claim a deduction for the amount transferred. This will defer the tax until amounts are withdrawn from the spouse's plan.
Why early RRIF withdrawals don't work for most retirees
The moral
You should periodically check with your financial institution to make sure you've named a beneficiary of your RRIF (or RRSP) and include the same beneficiary in your will. And always get good tax advice before and immediately after a loved one dies to avoid nasty surprises. If Mrs. P had obtained good advice immediately after Mr. P died, she could have elected to avoid the taxes owing.
Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca.

Two smart RRIF strategies to consider as part of your estate planning
TIM CESTNICK
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My grandfather told me the story of making his funeral arrangements. The cemetery salesman showed him a plot and assured him, "You'll have a wonderful view of the pond and the swans." Grandpa replied, "Well, I hope you're going to include a periscope with the casket, otherwise I'm not sure how I'll enjoy it."

As for his will, Grandpa used to joke that it would be a very short document. He said it would simply read: "Being of sound mind, I spent all the money."

As it turns out, he left a registered retirement income fund (RRIF) to my grandmother, who in turn left those assets to her kids. Last week, I spoke about naming beneficiaries of a RRIF. Today, I'd like to finish that conversation and share another RRIF idea that you might consider as you get older.

The options

Last week, I talked about the tax bill that can arise if you don't name an appropriate RRIF beneficiary. Naming your surviving spouse, or a financially dependent child, as beneficiary can avoid a tax bill on your RRIF when you die.

Yet when it comes to a RRIF (but not an RRSP), you have a second option. You can name your spouse as the "successor annuitant" rather than a beneficiary. In this case, your RRIF continues to exist after your death (as opposed to being wound up, with the assets transferred to your spouse's plan), and your spouse becomes the annuitant. This is much simpler administratively.

Also, naming your spouse as the successor annuitant can allow you to control your RRIF assets after you're gone. For example, you can ensure that your surviving spouse receives an income from the RRIF but that your children will receive the balance of the RRIF when your spouse dies (good in a second marriage situation, for example).

How? By naming your spouse as the successor annuitant and your children as irrevocable beneficiaries of your RRIF. In this case, your spouse would need written permission of the irrevocable beneficiaries to change the beneficiaries, increase the RRIF withdrawals or cash in the investments. This idea can also make sense if your spouse becomes unable to manage their own affairs owing to a mental impairment. Be aware, however, that while you're alive, the same permission would have to be sought from those beneficiaries if you wanted to make changes.

By the way, if your spouse predeceases you or is no longer your spouse at the time of your death, the RRIF contract would terminate and the assets would be paid to your irrevocable beneficiaries. Speak to an estate lawyer about the pros and cons of this idea in your situation.

Why all the fuss over mandatory RRIF withdrawals?

The transfer

Now, for another idea. It normally makes sense to defer tax by deferring the withdrawals from your RRIF as long as possible. But in some cases, it could make sense to withdraw funds earlier and transfer those funds to a tax-free savings account (TFSA) over time.

Consider an example. Wilma and Betty are sisters, both single. They turned 72 last year, and each has a RRIF. Let's assume they can earn 5 per cent annually on their investments and have a marginal tax rate of 30 per cent. Let's also assume they both live to age 90 and will face tax in their year of death at a marginal rate of 50 per cent (their incomes will be high in the year of death owing to their RRIFs becoming taxable).

Wilma has decided to start withdrawing extra funds from her RRIF each year (over and above what she needs

to live on) and will contribute these extra funds to her TFSA. She will withdraw an extra $9,285 from her RRIF, which, at her marginal tax rate, leaves her with $6,500 to contribute to her TFSA. She will have $182,860 in her TFSA at age 90 with our assumptions. She won’t face tax on it when she dies, so the after-tax value to her estate will be $182,860.

Betty is taking a different approach. She’s going to keep the $9,285 in her RRIF each year. By the age of 90, those dollars will have grown to $261,200. Taxes at the time of Betty’s death on these RRIF assets will be $130,600, leaving her estate with just $130,600.

So the end result is that Wilma will leave $52,260 more to her heirs than Betty.

This idea can make sense when you expect a much higher marginal tax rate upon death than you face today, you expect significant RRIF assets still around when you and your spouse are gone and you otherwise have TFSA contribution room you may not be utilizing.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca.