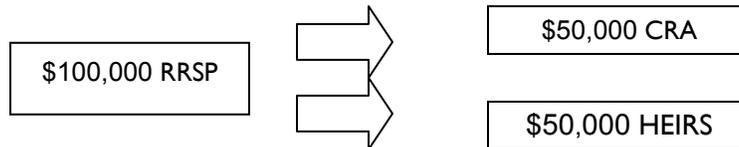


## Estate Planning Options involving RRSPs and RRIFs

Without proper estate planning, many people do not leave what they had intended to their heirs or their favourite charity upon death. If individuals plan their estate, they are able to determine how their assets are distributed to both their heirs and charity.

Upon death, RRSPs and RRIFs are brought into income and are fully taxable. A surviving spouse may postpone payment of tax by using a spousal rollover of registered assets. However, this simply defers taxation until the surviving spouse passes away, when up to 50 per cent of the RRSP/RRIF value may be wiped out due to taxation. (Note: For 2002, the top Ontario marginal tax rate is 46.4 per cent. However, for purposes of this illustration the rate of 50 per cent is used).

It is highly unlikely that Canadians want to see Canada Revenue Agency (CRA) as one of the beneficiaries of their estate. But here's one example of what can happen without estate planning:



After death, an individual with a \$100,000 RRSP will only have \$50,000 available to distribute to his or her heirs or to charity. Half of the savings will disappear in taxes when the estate is settled. Is there anything that can be done to prevent this from happening?

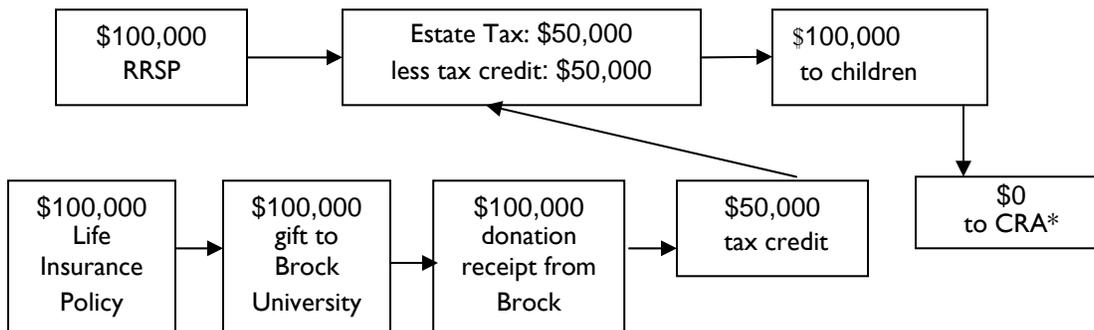
As a result of revisions in the 1996 federal budget, an individual can claim a charitable donation equal to 100 per cent of their income on their final tax return, with a one-year carry back. In addition, the 2000 federal budget now recognizes as charitable donations (and eligible for the charitable tax credit), the direct designation of a charity as a beneficiary of an RRSP, RRIF and the death benefit proceeds under a life insurance policy.

These revisions create some interesting opportunities when individuals plan their estate. The following two estate planning strategies, illustrate how someone can plan for their estate to wind up in the hands of those they intended.

### Example 1

*Mr. Smith owns a \$100,000 RRSP that he would like to leave to his children. He is also considering making a donation to Brock University.*

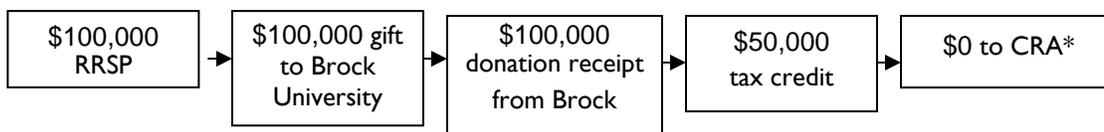
To ensure that this happens, he purchases an insurance policy for the value of his RRSP and names Brock University as the beneficiary of the policy and his children as the beneficiaries of his RRSP. The life insurance death benefit can be structured so that the charitable donation tax credit could offset the RRSP tax liability at death. Upon his death, the following will occur:



### Example 2

*Mrs. Jones has taken care of her family in her will. She owns a \$100,000 RRSP. She would also like to provide a gift to Brock University for \$100,000 to be used to create a permanently endowed scholarship fund.*

By naming Brock University as beneficiary of her \$100,000 RRSP, the tax credit would be the same amount as the tax payable. No net tax on the RRSP would be payable, allowing the full \$100,000 to go toward establishing the endowed scholarship fund. Upon her death, the following will occur.



\* 50 per cent tax credit offsets \$50,000 tax payable

**NOTE:** This information is intended to provide general examples for understanding the ways in which charitable gifts may be made to Brock University. Every effort has been made to ensure the accuracy and currency of the information presented. Donors reviewing this information and material should consult with their professional advisors for independent advice on the best way to achieve their objectives. Any examples presented are for illustration purposes only. This material is reprinted from the Canadian Cancer Society's Legacy of Hope newsletter, Summer 2000.

