

Planned Giving Bulletin

Gifts of RRSPs and RRIFs

RRSPs and RRIFs are a great way to save for your retirement, however it is wise to consider what will happen to your RRSP or RRIF when you die. Upon your death, if you are married and your surviving spouse is named as the beneficiary, these accounts are transferred with zero tax liability. If there is no surviving spouse (or disabled child) listed as the beneficiary, the accounts are deemed to be sold and 100% of the fund balance is added to your income in your year of death. Your estate is responsible for the tax liability on this income through your final tax return. In general, RRSPs and RRIFs are one of the most heavily taxed estate assets.

As you can imagine, the tax implications can be onerous if proper planning is not done, which of course means less of your estate goes to your family or to charity. But there is good news. Since you can claim tax credits for up to 100% of your income in your year of death and one year before your death, plus up to 75% of your income for the subsequent 5 years, it often makes great sense to make a charity the beneficiary of your RRSP or RRIF.

Why a Gift of RRSPs or RRIFs

- Usually the greatest contributor to taxes within your estate
- As simple as assigning a charity as beneficiary
- The tax credit from the donation can be applied against remaining estate income tax
- The donation is not subject to probate fees
- The gift is revocable, allowing you to change the beneficiary at a later date, if wanted
- There are no fees involved in designating a charity as a beneficiary (no lawyers)

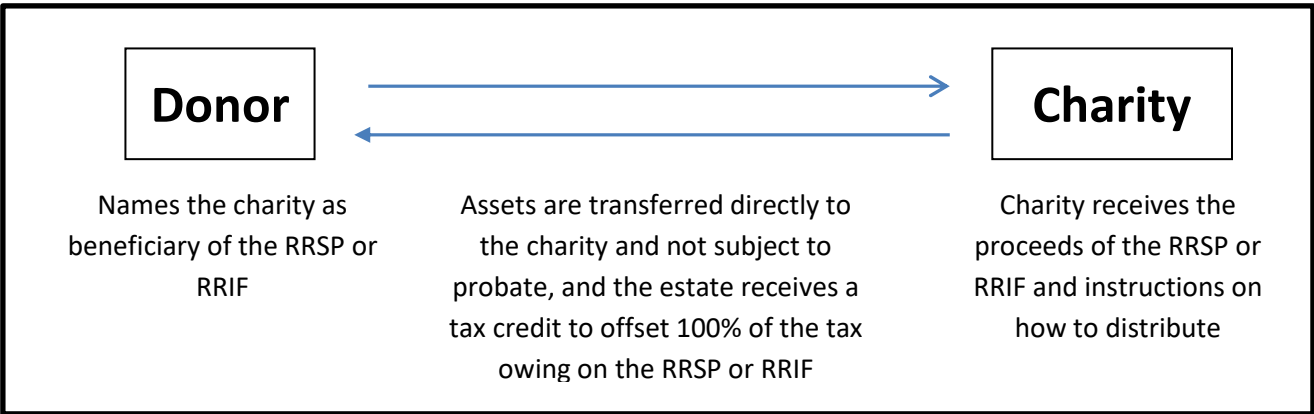
A Note of Caution

If you divide your estate by asset groups and designate one child as the beneficiary of your RRSP or RRIF, the estate is still responsible for the taxes owing. This method may force your executor to sell other assets to pay the taxes. Subsequently, there may be an unintentional inequality in asset distribution to your family. A better way is to name all your children as designated beneficiaries of your RRIF/RRSP or, name your estate as beneficiary and divide up your estate after the taxes are paid. In the latter case, probate fees will apply.

Gifts of RRSPs or RRIFs ...continued

Naming Lutheran Foundation Canada as the Beneficiary

An easy way to facilitate planned giving is to make the beneficiary of your RRSP or RRIF Lutheran Foundation Canada. Sign a *Gift Allocation Agreement* with the Foundation outlining how you want your gift to be distributed, and we take care of the rest, at no charge. Your estate will receive one tax receipt, making it easy for your executor and the resulting tax credit will offset 100% of the taxes owing on the donated amount.



Example

Fred Kind has a RRIF worth \$100,000. He feels very passionate about three Lutheran service organizations and wants to donate his RRIF to them. On the beneficiary form, Fred names Lutheran Foundation Canada as the beneficiary and provides a Gift Allocation Agreement outlining the distribution of the gift to the three service organizations. Upon his death, the Foundation receives a gift of the unused portion of the RRIF (say \$85,000) and Fred's estate receives a tax receipt for the \$85,000 gift. The resulting tax credit completely offsets the taxes owing on the disposition of the RRIF. Fred's tax rate on income is 45%.

Remaining value of RRIF as gift to charity	\$85,000
Charitable Tax Receipt received by estate	\$85,000
Taxes on disposition of RRIF (@45%)	\$38,250
Tax credit received by estate (@45%)	\$38,250
Net tax payable on disposition	\$0
Net proceeds without gift (\$85,000 - \$38,250 in tax)	\$46,750

The resultant cost of the \$85,000 gift to charity is \$46,750. (this amount differs by province)