

Death of a RRIF Annuitant

This information sheet explains the taxation of registered retirement income fund (RRIF) amounts when the annuitant dies. It explains how they are reported, and the options that are available to reduce or defer the tax liability resulting from the annuitant's death. A RRIF annuitant is the owner of a RRIF.

The following chart shows how the RRIF carrier generally prepares the slips that report the amounts paid out or considered to have been received from a deceased annuitant's RRIF.

Chart 1 – How the RRIF carrier generally prepares the slips that report the amounts paid out of a deceased annuitant's RRIF

Period	Day the annuitant died	From the day following the day the annuitant died to December 31 of the year after the year of death	From January 1 of the year following the period described in the previous column to the date the RRIF property is distributed
Amount	Fair market value of the RRIF	Income earned in the RRIF during the period	Income earned in the RRIF during this period
How the amount is generally reported by the RRIF carrier	Because the annuitant is considered to have received this amount at the time of death, the amount is reported in box 18 of a T4RIF slip issued in the name of the annuitant for the year of death. This slip also shows the other amounts the annuitant received in the year.	<ul style="list-style-type: none"> ■ If the annuitant's spouse or common-law partner is named as a beneficiary in the RRIF contract, income paid to that beneficiary is reported in box 16 of a T4RIF slip issued in his or her name, for the year of payment. ■ For all other beneficiaries named in the RRIF contract or the annuitant's estate (if no beneficiary is named), income paid is reported in box 22 of a T4RIF slip for the year of payment. 	<p>Depository RRIF – Income is paid to the beneficiaries named in the RRIF contract or the annuitant's estate (if no beneficiary is named) and reported in box 13 of a T5 slip issued to each beneficiary or the estate, for the year of payment.</p> <p>Trusteed RRIF – Income is paid to the beneficiaries named in the RRIF contract or the annuitant's estate (if no beneficiary is named) and reported in boxes 22 and 36 of a T4RIF slip issued to each beneficiary or the estate, for the year of payment.*</p> <p>Insured RRIF – Income is paid to the beneficiaries named in the RRIF contract or the annuitant's estate (if no beneficiary is named) and reported in the same way as in the previous period.</p>

The shaded areas represent amounts that qualify as a **designated benefit** if received by a **qualified beneficiary** (see the definitions on page 2). If you do not know the type of RRIF the annuitant has, or need a breakdown of the amount reported in box 22, contact the fund carrier.

* Only the part of the income earned in this period that is not taxable to the RRIF trust is reported to the beneficiary. A beneficiary will not have to pay tax on any part of the amount he or she receives, to the extent that it can reasonably be regarded as having been included in the RRIF trust's income.

General rule – deceased annuitant

When the annuitant of a RRIF dies, he or she is considered to have received, immediately before his or her death, an amount equal to the fair market value of all the property held in the RRIF at the time of death. This amount, and all other amounts the annuitant received in the year from the RRIF, have to be reported on the annuitant's return for the year of death.

A beneficiary will not have to pay tax on any payment made out of the RRIF if it can reasonably be regarded as having been included in the annuitant's income.

Exception (spouse or common-law partner as successor annuitant) – We **do not** consider the deceased annuitant to have received an amount at the time of death if the RRIF contract or the annuitant's will names his or her spouse or common-law partner as the successor annuitant of the RRIF. If this occurs, the RRIF continues and the spouse or common-law partner becomes the annuitant. All payments

made out of the RRIF after the date the annuitant died become payable to that successor annuitant. The successor annuitant will receive a T4RIF slip for the year of death (if applicable) and for future years showing the payments he or she received. The payments have to be reported on the successor annuitant's return for the year in which they are received.

If the spouse or common-law partner is not named as the successor annuitant, he or she can still be considered as such if the annuitant's legal representative consents to the designation and the RRIF carrier agrees. For common-law partners of the same sex, this only applies if the annuitant died after 1997.

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Exception (spouse or common-law partner is the sole beneficiary of the RRIF) – We do not consider the deceased annuitant to have received an amount from the RRIF at the time of death if the annuitant had a spouse or common-law partner when he or she died and **both** the following conditions are met:

- the spouse or common-law partner is named in the RRIF contract as the **sole** beneficiary of the RRIF; and
- the spouse or common-law partner instructs the RRIF carrier to transfer directly, **before** December 31 of the year following the year of death, the **entire** eligible part of the RRIF property to an eligible registered plan or fund, or to an issuer to buy an eligible annuity. For more information on eligible transfers, see “Qualified beneficiaries – transfers” on this page.

If these conditions are met, only the spouse or common-law partner will receive a T4RIF slip. The total amount that was paid out of the RRIF will show in box 16 of the slip, and the part that was transferred will show in box 24 of the slip. The amount shown in box 16 has to be reported on line 115 of the spouse’s or common-law partner’s return for the year the transfer was made. The spouse or common-law partner will receive an official receipt for the amount that was transferred. For information on how to claim a deduction for the transfer, see “Qualified beneficiaries – transfers” on this page.

General rule – beneficiaries of the RRIF

Amounts paid from the RRIF that represent income earned in the RRIF after the date the annuitant died have to be reported by the beneficiaries named in the RRIF contract or the annuitant’s estate (if no beneficiary is named). These payments have to be included in the income of the beneficiaries or the estate for the year they are received. Chart 1 on page 1 shows how to prepare the slips that report payments of income earned in a RRIF after death.

Optional reporting

Read this section if neither of the exceptions in the section called “General rule – deceased annuitant” on page 1 applies.

If a qualified beneficiary (see below) **receives** an amount from a deceased annuitant’s RRIF that qualifies as a designated benefit (see below), the annuitant’s legal representative can claim a reduction of the amount the annuitant is considered to have received at the time of death. The reduction, which is determined by completing Chart 2 on page 4, allows for a redistribution of the annuitant’s income to the qualified beneficiary who actually received it. This redistribution of income allows the legal representative and the qualified beneficiary to arrange their affairs, resulting from the death of the annuitant, in such a way as to pay the least amount of tax the law allows.

If none of the payments out of the RRIF is made to a qualified beneficiary or designated as a designated benefit, the amount the annuitant is considered to have received at the time of death cannot be reduced.

A **qualified beneficiary** includes the deceased annuitant’s spouse or common-law partner. It also includes a

financially dependent child or grandchild of the deceased annuitant if the death occurred:

- in 1999 or later;
- in 1998, and the annuitant had no spouse or common-law partner at the time of death;
- in 1998, and the annuitant had a spouse or common-law partner at the time of death, **and** an election was filed to treat the child or grandchild as a qualified beneficiary (for more information on this election, visit our Web site at www.cra.gc.ca, or contact us at 1-800-959-8281);
- in 1996 or 1997, and the annuitant had a spouse at the time of death, **and** an election was filed to treat the child or grandchild as a qualified beneficiary (for more information on this election, visit our Web site at www.cra.gc.ca, or contact us at 1-800-959-8281); or
- from 1993 to 1997, and the annuitant had no spouse at the time of death.

A **designated benefit** out of a RRIF includes any of the amounts shown in the shaded areas of Chart 1 on page 1 if paid to a qualified beneficiary. If these amounts are paid to the annuitant’s estate, they will qualify as a designated benefit if the following conditions are met:

- a qualified beneficiary is a beneficiary of the annuitant’s estate; and
- the annuitant’s legal representative and the qualified beneficiary jointly file Form T1090, *Death of a RRIF Annuitant – Designated Benefit*, to designate all or part of the amounts paid to the estate as a designated benefit received by the qualified beneficiary.

Qualified beneficiaries – transfers

When a qualified beneficiary includes a designated benefit in income, he or she can defer paying tax on the eligible part of it by transferring it to an eligible registered plan or fund, or to an issuer to buy an eligible annuity. See the definitions of **qualified beneficiary** and **designated benefit** in the previous section. To determine the **eligible part of a designated benefit**, which is the amount that can be transferred, complete Chart 3 on page 4. The following chart shows which transfers different qualified beneficiaries can choose.

Designated benefit paid to:	Can be transferred to:		
	RRSP*	RRIF	Annuity
■ the annuitant’s spouse or common-law partner	✓	✓	✓
■ the annuitant’s financially dependent child or grandchild who:	✓	✓	✓
			✓**
* The qualified beneficiary must be 69 years of age or younger at the end of the year the transfer is made.			
** The annuity can provide for payments based on a period of not more than 18 years minus the child’s or grandchild’s age at the time the annuity was purchased. The payments from the annuity have to begin no later than one year after the purchase.			

The transfer or purchase has to be completed in the year the designated benefit is received or within 60 days after the end of the year. The carrier or issuer who receives the transferred funds will issue an official receipt to the qualified beneficiary. The beneficiary can use the receipt to claim a deduction on his or her return for the year the designated benefit was received. The following chart shows where on the return the beneficiary should claim the deduction.

Designated benefit transferred to:	Claim deduction on:	
	line 208	line 232
an RRSP	✓	
a RRIF		✓
an annuity		✓

Example

Sarah, who was 67 years of age, died in December 2004. The fair market value (FMV) of her trustee RRIF at the time of death was \$150,000. The FMV of the RRIF on December 31, 2005, was \$160,000. The distribution of the RRIF property was delayed until 2006. The RRIF contract named Sarah’s husband, Dan, as the sole beneficiary of the RRIF. On June 30, 2006, he received \$165,000 from the RRIF carrier. Dan, who is also the legal representative of Sarah’s estate, received the following slips from the RRIF carrier:

- a T4RIF slip for 2006 issued in his name, showing \$10,000 in box 16 and \$5,000 in boxes 22 and 36.

- a T4RIF slip for 2004 issued in Sarah’s name, showing \$150,000 in box 18 (although Dan is the sole beneficiary of the RRIF, a slip was issued to Sarah because the second condition listed in the exception described in the section called “General rule – Deceased annuitant” on page 1 was not met).

Had Sarah not died, the minimum payment under the RRIF for 2006 would have been \$6,000. Dan decides that it would be beneficial to request a reduction to the amount Sarah is considered to have received from her RRIF. This would allow him to shift some of her income onto his return. After completing Chart 2 on this page, Dan decides to claim a \$130,000 reduction. This reduces the amount reported on line 115 of Sarah’s 2004 return to \$20,000 (\$150,000 – \$130,000). Because the FMV of the RRIF at the time of death was included in Sarah’s income for 2004, Dan has to write a letter to request an adjustment to that year’s return. Dan is required to report \$145,000 (\$130,000 + \$10,000 + \$5,000) on line 115 of his 2006 return.

To minimize his 2006 taxes, he decides to transfer the eligible part of his designated benefit to his RRIF. The amount that qualifies as a designated benefit is \$140,000 (\$145,000 – \$5,000). Dan completes Chart 3 on page 4, and determines that he can transfer \$134,000 to his RRIF. He claims a \$134,000 deduction on line 232 of his 2006 return.

Chart 2 – How to calculate the reduction of the amount the deceased annuitant is considered to have received at death

Complete a separate calculation for each RRIF belonging to the deceased annuitant.

1. Enter the amount shown in box 18 of the T4RIF slip issued to the annuitant for the year of death.	\$	<u>1</u>
2. Enter the FMV of the RRIF on the later of the following dates (you may need to contact the deceased annuitant's RRIF carrier to determine these amounts):		
■ December 31 of the year following the year the annuitant died; or		
■ the end of the day the last time a designated benefit was paid out of the RRIF.	\$	<u>2</u>
3. Enter the total of all amounts paid out of the RRIF after the annuitant died.	+ \$	<u>3</u>
4. Add lines 2 and 3.	= \$	<u>4</u>
5. Enter the amount from either line 1 or line 4, whichever is less .	- \$	<u>5</u>
6. Line 4 minus line 5.	= \$	<u>6</u>
7. Enter the total of the following amounts:		
■ amount designated as a designated benefit on each Form T1090 filed for the RRIF;		
■ the part of the amounts shown in box 36 of all T4RIF slips and box 13 of all T5 slips issued in the name of the estate that the qualified beneficiaries are entitled to receive from the estate;		
■ amounts shown in boxes 16 and 22 of all T4RIF slips and box 13 of all T5 slips issued to qualified beneficiaries;		
■ the part of the amount shown in box 36 of all T4RIF slips that were issued to the qualified beneficiaries that is not required to be included in income (contact the deceased annuitant's RRIF carrier to determine these amounts); and		
■ the part of the amount shown in box 18 of the T4RIF slip that was issued to the deceased annuitant for the year of death and that the qualified beneficiaries are entitled to receive.	\$	<u>7</u>
8. Enter the result of the following calculation:		
$1 - \left(\frac{\$ \text{ (amount from line 6)}}{\$ \text{ (amount from line 4)}} \right) \times$		<u>8</u>
9. Maximum reduction of the amount the deceased annuitant is considered to have received at the time of death (line 7 multiplied by line 8). The reduction can be any amount, from zero to the amount on this line.	= \$	<u>9</u>

Example from page 3

\$ 150,000	<u>1</u>
\$ 0	<u>2</u>
+ \$ 165,000	<u>3</u>
= \$ 165,000	<u>4</u>
- \$ 150,000	<u>5</u>
= \$ 15,000	<u>6</u>
\$ 165,000	<u>7</u>
× 0.909091*	<u>8</u>
= \$ 150,000	<u>9</u>

If the reduction is claimed in the year the annuitant died, the legal representative has to attach a letter to the annuitant's return for that year to explain how the amount included in income was calculated. If the reduction is claimed after the year of death, the legal representative has to write us a letter requesting an adjustment to the annuitant's return for the year of death.

*Calculation of line 8
 $1 - \left(\frac{\$ 15,000}{\$ 165,000} \right)$

Chart 3 – How to calculate the eligible part of a designated benefit

Complete a separate calculation for each RRIF of the deceased annuitant, for each year in which a designated benefit is paid and transferred, and for each beneficiary who receives a designated benefit. You may have to contact the deceased annuitant's RRIF carrier to determine certain amounts.

1. Enter the total of all amounts included in the income of all qualified beneficiaries for the year as a designated benefit from this RRIF.	\$	<u>1</u>
2. Enter the minimum amount that is required to be paid from this RRIF for the year.	\$	<u>2</u>
3. Enter the amount from line 2, or the total of the amounts the deceased annuitant received from this RRIF during the year and included in income, whichever is less .	- \$	<u>3</u>
4. Line 2 minus line 3.	= \$	<u>4</u>
5. Enter the part of all designated benefits from this RRIF that is included in the beneficiary's income for the year.	\$	<u>5</u>
6. Enter the result of the following calculation:		
$1 - \left(\frac{\$ \text{ (amount from line 4)}}{\$ \text{ (amount from line 1)}} \right) \times$		<u>6</u>
7. Eligible part of the designated benefit that can be transferred (line 5 multiplied by line 6)	= \$	<u>7</u>

Example from page 3

\$ 140,000	<u>1</u>
\$ 6,000	<u>2</u>
- \$ 0	<u>3</u>
= \$ 6,000	<u>4</u>
\$ 140,000	<u>5</u>
× 0.957143*	<u>6</u>
= \$ 134,000	<u>7</u>

*Calculation of line 6
 $1 - \left(\frac{\$ 6,000}{\$ 140,000} \right)$

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