Court Decision Impacts RRIF Beneficiary Designations

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In December 2015, an Alberta court decision raised the need for Advisors and their clients to review their existing Beneficiary designation of RRIF accounts as well as RRSPs and life insurance in order to ensure that the Designations on file properly reflected the wishes of the current account holder.

Without getting into too much depth, the case of Morrison v. Morrison (Re Morrison Estate) challenged the RRIF designation favouring one child versus the stated intent in the Will to divide the Estate equally among the four children. The issue was whether the RRIF assets formed part of the overall Estate's assets or could the RIF proceeds pass directly to Douglas, the named Beneficiary and not be shared by the other three children.

Another problem, and one that is often seen in Estate matters, is that the Courts agreed that Douglas was entitled to the RIF proceeds of $77,000, while the Estate was liable for the applicable income taxes. This meant that ¾ of the taxes owing would be paid by the other children and the balance would be paid from the Estate by Douglas who received the actual cash.

The Court ruled that this was unfair and ordered Douglas's receipt of the RRIF proceeds be conditional on his payment of the RRIFs full tax liability. This case and others, raises the question as to whether current designations that millions of RRIF and RRSP clients have across Canada will be honoured or potentially overturned by the courts in response to challenges from other heirs or parties to an Estate.

Generally, there are two ways to properly designate a Beneficiary for a RRIF or RRSP. The first is to name a spouse as the heir, which then allows for a tax-free rollover under the Income Tax Act to the surviving Spouse.

When the registered accounts go to the next generation (children, grandchildren) or other heirs, then the RRIF or RRSP is fully taxable as income to the deceased's Estate with the presumption that the account had been deregistered the day before they died. The Estate is then liable for any resulting taxes before the net proceeds can be distributed according to their wishes in the Will.

As a result, according to Keith Masterman, LLB, TEP, Vice President of Tax, Retirement and Estate Planning at CI Investments, the court acknowledged that the Morrison case could have an impact on the investment industry by throwing into question the legitimacy of some current RIF and RRSP designations pending any kind of future clarification by the Supreme Court of Canada.

Masterman recommends that Advisors ensure that a client's intentions are well documented. In addition, they should also keep detailed notes on client's intentions. Clients also need to regularly review designations and bring any changes to the attention of the Advisor, especially if they make changes to their Wills.

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