What Happens to Your RRSP When You Die?

Your RRSP may be one of your largest assets. But the balance on your statement is not necessarily the amount that ultimately reaches your family.

The short answer

In many cases, the fair market value of an RRSP is included in the deceased annuitant's income immediately before death. That can create a significant tax liability on the final return. Special rules can allow tax-deferred transfers in certain situations, particularly for a surviving spouse or common-law partner.

A plain-English guide for Canadian families

This guide explains the general Canadian tax treatment of an RRSP at death, why beneficiary designations do not automatically eliminate the tax, when a rollover may be available, and the planning questions worth asking before a problem exists.

Financial education from Jacob Warren Financial Inc.

1. The rule most people miss

For an unmatured RRSP, the Canada Revenue Agency generally considers the deceased annuitant to have received an amount equal to the fair market value of all property in the RRSP immediately before death. That amount is generally included in income on the deceased person's final tax return.

That is why saying "Canada has no inheritance tax" can be misleading in estate conversations. Canada does not impose a general inheritance tax on beneficiaries, but death can still trigger income tax consequences before wealth reaches them.

A simple illustration

Illustrative RRSP value at death	**$1,000,000**
Amount generally included in final income*	$1,000,000
Tax actually payable	Depends on the full tax return

*Illustration only. Exceptions, deductions, rollovers and other tax items can change the result.

2. Does naming a beneficiary make the tax disappear?

No. A beneficiary designation can affect how RRSP proceeds are distributed, but it does not by itself erase the income inclusion that can arise at death.

In many ordinary situations, the RRSP's value at death is reported on the deceased person's final return, while the beneficiary receives the RRSP proceeds. This is one reason beneficiary designations should be coordinated with the will, estate liquidity and the overall tax plan.

The planning question:

Who receives the RRSP - and where will the money come from to pay the associated tax?

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3. What if the beneficiary is my spouse?

A surviving spouse or common-law partner may be able to receive qualifying RRSP amounts on a tax-deferred basis when the applicable requirements are met. For example, an eligible amount may be transferred to the survivor's RRSP, RRIF or another qualifying vehicle.

This is a deferral, not necessarily permanent tax elimination. The tax generally moves into the surviving spouse's future tax picture instead of being triggered immediately in the deceased person's estate.

Other qualifying survivors

Special rules can also apply to certain financially dependent children or grandchildren, including additional rollover possibilities where dependency is because of an impairment in physical or mental functions. These situations require careful professional review.

4. What if my children inherit the RRSP?

Where an adult child who does not qualify for a special rollover receives the RRSP proceeds, the normal death rules can result in the RRSP value being included in the deceased person's income for the year of death.

This is where estate planning becomes more than beneficiary paperwork. The family should understand both sides of the transaction: who receives the asset and who bears the economic cost of the tax.

5. Could life insurance play a role?

Potentially. Life insurance does not make the RRSP tax disappear. Instead, properly structured insurance can sometimes provide estate liquidity when tax is due, helping preserve other assets or support an intended inheritance.

For some families, the objective is not simply income replacement. Insurance may also be considered for estate liquidity, estate equalization, charitable planning or estate magnification. Whether it is appropriate depends on insurability, cost, objectives, ownership and the broader estate plan.

Example of the concept

A family expects a meaningful tax liability on registered assets at the second death. Rather than requiring heirs to sell other assets to fund the liability, the family may investigate whether permanent life insurance can provide dedicated liquidity at death.

This is a planning concept, not a recommendation. Actual outcomes depend on policy terms, premiums, tax law and individual circumstances.

Questions worth asking now

• Who is currently named as beneficiary of each RRSP or RRIF?

• If I died today, would a spouse/common-law partner rollover be available?

• If my children receive the registered assets, where would the estate find the cash for tax?

• Could the tax burden create an unequal result among beneficiaries?

• Do my will, beneficiary designations and insurance planning tell the same story?

• Should charitable giving be part of the estate plan?

• Should my accountant, lawyer and insurance/financial advisor review the plan together?

The takeaway

An RRSP is a powerful retirement savings vehicle, but it is also a future taxable asset. The estate-planning question is not only how much is in the RRSP. It is how the RRSP, the tax liability, the beneficiaries and the rest of the estate work together.

Want to understand what this could look like for your estate?

Jacob Warren Financial can help you review the financial and insurance components of your estate plan and coordinate planning considerations with your legal and tax professionals.

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