

What happens when a holder of a Tax-Free Savings Account (TFSA) dies?

Considerations

After the holder of a TFSA dies, there may be possible tax implications, depending on the individual situation and beneficiary designations.



What are the types of beneficiary designations?

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For all provinces, except Quebec, successor holder or beneficiary designations are usually made when opening a TFSA account and can be subsequently updated.

Successor holder

Other than in Quebec, only a spouse or common-law partner can be designated as a "successor holder." Upon the death of the TFSA holder, the TFSA successor holder – the surviving spouse or common-law partner – will take over the plan and become the new TFSA holder. The TFSA is transferred directly to the successor holder, without affecting their contribution room. The transfer and subsequent income earned in the TFSA are not taxable.

A spouse or common-law partner beneficiary

If a spouse or common-law partner is a named beneficiary, rather than a successor holder, and is considered a "surviving partner," a payment from the deceased holder's TFSA may qualify as a designation of an exempt contribution payment to the surviving partner's TFSA.

Within certain conditions and limits, a surviving partner may contribute payments made from the deceased holder's TFSA as an exempt contribution payment to their own TFSA without affecting their TFSA contribution limit. Note that any TFSA contribution payments in excess of the deceased holder's TFSA balance at the date of death will be considered a new TFSA contribution, and will affect the surviving partner's TFSA contribution room. Payments made out of the TFSA are not taxable, as long as the total payments do not exceed the fair market value (FMV) of property held in the TFSA at the time of the holder's death.

To qualify for the exempt contribution payment (all provinces including Quebec)

To designate an exempt contribution, the surviving partner must complete CRA Form RC240, Designating an Exempt Contribution to a Survivor TFSA, within 30 days of the contribution.

The surviving partner has until December 31 of the year following the year of death to contribute any payments received out of the deceased holder's TFSA. After that time, the deceased holder's TFSA will become a taxable trust.

Non-spousal or common-law beneficiary

When the designated beneficiary is not the spouse or common-law partner, the deceased holder's TFSA will be deregistered, meaning that the TFSA will be liquidated and paid to the non-spouse or common-law beneficiary. Beneficiaries can only contribute proceeds from the deceased holder's TFSA to their own TFSA if they have available TFSA contribution room. Payments from the TFSA are not subject to tax, as long as the payments do not exceed the FMV of all property held in the TFSA at the time of the holder's death.

Individuals domiciled in Quebec

For individuals domiciled in Quebec, TFSA transfers at death pass through the deceased's estate and are governed by the will. The successor holder or beneficiary designations are not available when opening a TFSA in Quebec.

Beneficiary is a non-resident of Canada

If the spouse or other beneficiary is a non-resident of Canada, any payment that represents amounts earned above the FMV of the TFSA as of the date of death will be reported on an NR4 slip and may be subject to non-resident withholding tax.

Beneficiary is your minor child

If a minor child is a named beneficiary on a TFSA, provincial or territorial laws may prevent a minor beneficiary from directly receiving the TFSA proceeds. Depending on facts and circumstances, the TFSA proceeds may generally need to be paid to a parent or guardian on behalf of the minor child.

When there is no successor holder or beneficiary

At death, if a successor holder or beneficiary is not named, the TFSA assets will form part of the estate and be distributed to beneficiaries according to the terms of the will (or the provincial or territorial intestacy laws). Any income earned on the TFSA assets after the date of death will, in most cases, be taxable to the beneficiary or the estate.

TFSA account holders should review their beneficiary designations regularly with their own tax advisors to ensure that they reflect their family situation and intentions.

For more information, speak to your financial advisor, or visit fidelity.ca



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