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WHEN SOMEONE PASSES AWAY

Please accept our condolences from all of us here at Baker Tilly GWD for your loss. We understand that these may be challenging times and we hope we are able to help take away some worries around what is needed for taxes and where do you start. We hope that the information below will help guide you.

WHERE TO START

As soon as possible, it is important to contact Canada Revenue Agency, Service Canada, other pension plans, and investment institutions that they were receiving money from, or holding their investments, to notify them of their death. This is important as it will prevent having to repay additional income tax benefits and credits, Canadian Pension Plan, Old Age Security, or other pension plans they might not be entitled to receive. Contacting the Canadian Revenue Agency will also allow you to update the legal representatives and the mailing addresses. Please see Appendix 1 for some helpful resources and contact information.

If you are using a lawyer, or other assistance for the estate, they can help with the notifying all parties. If you are notifying them all by yourself, please ensure that you provide photocopies of the original documents, as they are most often not returned.

WHAT ARE ESTATE TAXES AND THEIR DEADLINES?

Probate fees are an Estate Administration Tax that is paid to the Government of Ontario and are separate from personal and estate income taxes. The final personal income tax return will be filed from the January 1st of the year of passing to the date the taxpayer passed away. This final personal tax return will be due the same time as a normal personal tax return of April 30 of the following year. However, if the individual passed away between November 1 and December 31, they are granted an extension to 6 months after the date of passing. If they passed away from January 1st to April 30th, they are also granted a 6 month extension for the prior year return from the date of passing.

Additional returns to be filed are a Return for Rights and Things, which is an optional return. A Return for Rights and Things will cover anything owed to the taxpayer on the date they passed, such as wages for the pay period and other employer amount owed, unharvested crops for a cash-basis farmer, unpaid dividends declared before the date of passing, and any other pension or amount owed.

Estate Income Tax returns are filed to record any income activity that occurred from the assets held by the individual after their date of death until the estate is liquidated and distributed to the beneficiaries. Estate returns are taxed as Graduated Rate Estates for the first three years, meaning that they follow the same tiered tax rates as personal taxes follow. The estate must file the first return within one year of the date of death and is due 90 days after this date. Estate returns are not required when all assets go to the surviving spouse, or all assets have named beneficiaries.

WHAT IS A DEEMED DISPOSITION OF PROPERTY?

For income tax purposes, when someone passes away, that person is deemed to have disposed of all capital property right before their death. Capital property includes everything from bank accounts, investments, tax-free savings account (TFSA), registered retirement savings plan (RRSP), registered retirement income fund (RRIF), land, houses, cottages, shares of a business, life insurance, jewelry, artwork, vehicles, etc. To summarize, almost everything owned or partially owned by the individual is subject to this deemed disposition.

Some of these assets will be tax free on death, such as the TFSA, their principal residence, and life insurance payouts. Please note that these are tax free on death but may become taxable in the estate, as they lose their tax-free status. The rest of the assets will be deemed to be disposed of at their fair market value (FMV) just before their passing. Therefore, additional information will be needed over a regular tax return as the cost base of the assets will need to be gathered.

Some additional notes for deemed dispositions could be helpful. RRSPs and RRIFs are fully taxable at their FMV on death, as they are derived from income deductions when contributed into and are not taxed over their life until withdraw or on death. Surviving spouses can receive these rolled over to them tax free if they are properly named beneficiaries. Additional tax slips and information are required to transfer these accounts.

We recommend keeping a balance in the estate accounts to cover any legal fees, accounting fees, and taxes owing. This prevents the beneficiaries from having to repay money received to cover the taxes.

INFORMATION TO COLLECT

It is difficult to determine what information is important and needs to be kept. For estate documentation, it is important to have support for tax filings, because the income needs to be separated between the final personal tax return and the estate return. Information that will help support the income allocation between the returns includes the following.

- Copies of wills, certificate of appointments and death certificates
- Copies of the prior year tax returns and Notices of Assessments
- Tax slips received for the year
- Any investments statements for the month of passing, including registered TFSA and RRSP/RRIF accounts
- For all non-registered investments and capital properties (other than the principal residence) please ensure the book value or cost base as of the date of death is available. If working with an investment advisor, please request a statement showing fair market value and cost as of the date of death
- Appraisals for any real estate properties held, as well as purchase documents or any other support for the cost of the properties, including the principal residence

- Sale documents for any assets (investments, real estate, etc.) after the date of passing for the estate return
- Separation of income and expenses received from January 1 to the date of passing, and from the date of passing to the first anniversary. If working with an estate lawyer, the statements of receipts and disbursements often provide this information

CLEARANCE FOR THE ESTATE

A clearance certificate for the estate is used to confirm that all taxes are paid and allows the legal representatives to distribute assets without the risk of being personally responsible for amounts the estate owes to the CRA. Once all assets have been liquidated or transferred to beneficiaries and the last estate return has been filed and assessed, the estate can apply for clearance.

If you are interested in our assistance and have not already engaged our firm for the estate's income tax filings, please contact our office for more information.

Please be aware that our internal privacy policies ensure that your personal information is protected.

We look forward to serving you. If you have any questions, please contact us at your earliest convenience.

Yours very truly,

Baker Tilly GWD

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Appendix 1: Additional Resources

Stopping benefit and credit payments

Call the CRA at: 1-800-959-8281
Or complete page 4 of:
RC4111 Form – What to do Following a Death
https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4111.html

Notifying Service Canada for CPP and OAS Pensions

Canada and the United States Toll-free: 1-800-277-9914
Canada and the United States TTY: 1-800-255-4786
The hours of operation are 8:30 a.m. to 4:30 p.m. local time, Monday to Friday.

Outside Canada and the United States: 1-613-957-1954 (Call collect)
The hours of operation are 8:30 a.m. to 4:30 p.m. Eastern time, Monday to Friday.

Office locations to drop off documentation:
https://catalogue.servicecanada.gc.ca/content/EForms/en/ReturningtheForm/IspCpp.html

Notifying foreign tax authorities (for foreign pensions)

You will have to reach out to them to notify. Each country has different requirements.

Being an estate representative and settling the estate

https://www.canada.ca/en/financial-consumer-agency/services/estate-planning/estate-representative.html