

ESTATE PLANNING WITH TFSAs

When it comes to TFSAs, do not forget to address your estate-planning needs.

With Tax Free Savings Accounts (“TFSAs”), do not forget to keep in mind your estate plan. This will help ensure your TFSA is addressed appropriately and your wishes at death will be carried out properly.

Naming TFSA beneficiaries

When it comes to naming beneficiaries, TFSAs can be potential minefields. That’s because many people misunderstand the distinction between the following terms:

- **Beneficiary** – The person you name to receive the proceeds of your TFSA upon your death.
- **Holder** – You, as the individual who entered into the TFSA contract, and after your death, your successor holder, if named in the contract.
- **Successor holder** – Your spouse or your common-law partner you named to take your ownership interest in your TFSA upon your death.
- **Survivor** – Your spouse or common-law partner immediately before your death.

Consider the following situations:

1. You are the TFSA holder. Your spouse or common-law partner (collectively known as spouse) is the successor holder and your child is the beneficiary.

Result: Upon your death, the TFSA proceeds will be paid out to the beneficiary, your child, and the TFSA ceases to exist.

2. You are the TFSA holder. Your spouse is the successor holder and the beneficiary.

Result: Upon your death, your spouse becomes the holder and the plan continues as a TFSA.

Consider whether the results above correctly reflect your intentions. When there is a named beneficiary, other than your spouse, the financial institution must pay out the funds to the beneficiary, regardless of whether or not there is a successor holder.

Passing your TFSA to your beneficiary

TFSAs are generally passed to your named beneficiaries on a tax-free basis. Your beneficiary can be your spouse, or anyone else named to inherit the plan’s assets — your children, siblings, relatives, friends or a charity. To continue with tax-free growth after death, contribution room is normally required, unless your spouse receives these assets.

Naming your spouse as the successor holder

Where your spouse is concerned, to ensure the smooth transition of your TFSA, you must name him/her as a successor holder, which is different from a beneficiary. A successor holder can only be your spouse. If a beneficiary other than your spouse is named, the transition to your spouse will not occur.

As the successor holder, your spouse essentially steps into your shoes as the TFSA holder upon your death. He or she does not have to have any contribution room in his/her own TFSA to absorb the new funds. Your spouse’s future contribution room is also unaffected.

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Naming your spouse as a beneficiary still allows for a transfer of funds to his/her existing TFSA account, without requiring or affecting his/her contribution room. The "exempt contribution," the fair market value (FMV) of your account at death, is a tax-free fund transfer that must be deposited to your spouse's TFSA by the end of the year following the date of your death. In addition, Form RC240, Designation of an Exempt Contribution TFSA, must be filed with CRA within 30 days of the transfer.

Tax implications after your death

The decision to name a successor holder or beneficiary on a TFSA does not affect its tax treatment upon your death, but can have an impact on the taxation beyond the date of your death.

The disadvantage of only naming your spouse as a beneficiary is that all income earned inside the TFSA, as well as any increase in the FMV of the TFSA assets, from the date of death to the date the TFSA is paid out to your spouse's TFSA, will be taxable as ordinary income to your spouse.

Want to learn more?

The summary above briefly describes the basic things you should know before you name a beneficiary and successor holder for your TFSA. To find out more about TFSAs and their estate planning implications, your financial advisor can talk to Empire Life's tax and estate planning professionals about any questions you may have.

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