RBC Investments

Financial Planning Quick Tip

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SUBJECT: Tax Planning After Death

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The following represents a tax planning checklist that may be referred to when dealing with a situation where an individual has recently passed away (note that this is **NOT** an exhaustive list):

- The filing deadline for the deceased's final personal income tax return (i.e. terminal tax return) is generally April 30th of the year following death (or June 15 if the deceased or their spouse was self employed). However, the filing deadline for the terminal tax return for those individuals that died in November or December is extended until six months after the date of death.
- If the deceased had unused RSP contribution room, the executor and the surviving spouse may consider making a final spousal RSP contribution before the normal RSP contribution deadline (i.e. 60 days following the year). Note that an RSP contribution cannot be made to the deceased's own RSP after their death.
- If the deceased had certain types of income that was owing but unpaid at death then the executor may consider filing a second tax return called a "rights and things" return to reduce the estate's tax liability. Speak to your advisor for a copy of the *Financial Planning Quick Tip* titled "Rights and Things" for more details.
- Generally non-registered assets owned by the deceased on death are deemed to be disposed of at fair market value triggering a capital gain or loss on the terminal tax return. Non-registered assets transferring to a surviving spouse or qualifying spousal trust are rolled over at cost so that no capital gain or loss need be reported. However, for tax planning reasons, the executor may be able to file a special election on the terminal tax return to trigger capital gains or losses for those securities transferring to a surviving spouse or qualifying spousal trust.
- The executor should determine if the deceased has a U.S. Estate Tax liability. There are severe sanctions under the Internal Revenue Code of the U.S. should an executor knowingly avoid filing the U.S. Estate Tax returns. Refer to the publication "Tax Implications for Investing in the U.S." for more details on U.S. Estate Tax.

  If U.S. Estate Tax was paid to the Internal Revenue Service, then in certain circumstances it may be possible to take a foreign tax credit on the deceased's final Canadian income tax return for the U.S. Estate Taxes paid to minimize double taxation.
- If the deceased had RSP/RIF assets, then speak to your advisor for a copy of the *Financial Planning Quick Tip* titled "Tax Implications of RSP/RIF Upon Death" for details.
- If the deceased had unused capital losses at death, then for tax purposes there may be an opportunity to deduct these unused capital losses from any type of taxable income in the year of death or preceding year after certain adjustments. Typically capital losses can only offset capital gains for tax purposes but there is an exception for deceased taxpayers.

- If the estate realized capital losses within the first year of the estate, then it may be possible to carry back the estate's net capital loss to reduce capital gains on the deceased's final income tax return.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.
