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What Happens to My TFSA When I Die?

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The Tax Free Savings Account (TFSA) was introduced by the federal government in 2009. Since then the contribution room has increased and the TFSA has become an integral part of many folks' savings and investment plan. The TFSA is a very flexible and tax efficient account. After 10 years we are familiar with most aspects of a TFSA, there are, however, a few details that are still a little hazy. In this article we will try to clarify what happens to your TFSA when you pass away.

Unfortunately, there is not an easy and simple answer. There are a few factors that influence what happens to the money in your TFSA when you die. When you open a TFSA you can designate a successor holder, you can designate a beneficiary or simply leave the money to your estate.

Only a spouse can be named as successor holder. If you are leaving your TFSA to your spouse a successor holder designation is preferred. Most financial firms, as a default, will use this designation. When you pass away, if you designated your spouse as a successor holder, the full value of your TFSA will transfer to them. The money will not pass through your estate, there will be no probate fees and there will not be any tax. If your spouse already has a TFSA they can add the inheritance to their TFSA as an exempt contribution, it will not impact their contribution room. If you designate your spouse as a successor holder your TFSA just rolls over to them, essentially the TFSA just moves over to a TFSA in their name.

It is your TFSA you can leave it to whoever you'd like. Only your spouse can be listed as a successor holder, anyone else will be designated as a beneficiary. If you designate a beneficiary what happens to the money in the account when you pass away is a little different. The money will bypass your estate, there will not be any probate fees nor will there be any tax. The beneficiary will receive the cash; however, they will only be able to add the money to their TFSA if they have the contribution room.

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Unlike a successor holder the TFSA cannot simply roll over to them. As well the beneficiary can only receive the fair market value of the account as of the date of death tax free, any additional amount will be taxed. As an example, imagine your father designated you as a beneficiary of his TFSA. The day he passed away the market value of the TFSA was $40,000. It took a month for the paperwork to be processed, and during that that time the investments in the TFSA grew. By the time the money was ready to be distributed the value was $41,000. As a beneficiary you would receive $40,000 tax free. The $1,000 of growth since the date of death would be paid to you, however it would be taxed. You would receive a T4A slip listing the $1,000 as income and you would have to pay tax on that money. This is not the case for a successor holder, when the TFSA rolls over to them, they get the full value tax free.

If you do not designate a successor holder or a beneficiary, but simply leave your TFSA to your estate, when you pass away the money in your TFSA will be paid to your estate. Since the money is part of your estate probate fees will have to be paid and then the money will be distributed according to your will. Similar to the example above, the value of your TFSA as of the date of death is tax free, but any growth in the account after the date of death will be taxable.

It is important to review your TFSAs and ensure they are properly set up and work with your overall estate plan.

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