Canaccord Genuity Wealth Management

Financial Focus

Becker Orr Wealth Management

June 2018

Misconceptions about Taxation of an Estate

By Clinton Orr

An often misunderstood issue is what tax must be paid and who pays it when someone passes away. A full discussion on the matter would be beyond the scope of this column. However, we can clear up a few misconceptions.

A common question is what tax do beneficiaries pay? The answer is none. There is no inheritance tax in Canada. Any money you receive as beneficiary of an estate is after tax money. It does not need to be included in your income. This is not the case in the US, there are some states, for example Kentucky, that have an inheritance tax. The amount of the inheritance tax depends on the relationship of the beneficiary to the deceased as well as the value of the property. Perhaps the fact that some states have an inheritance tax is the source of the misconception, however in Canada the estate pays the tax not the beneficiary. Any inheritance a beneficiary receives has already had the tax paid.

Another misconception is estate tax. Does the estate have to pay a tax based on its assets? The answer is not as straight forward as with inheritance tax. However technically speaking the answer is no. In Canada there is no estate tax. There is an estate tax in the US, however the exemption was recently increased and the estate tax in the US now only applies to estates with a value over $11 million.

In Canada the Canada Revenue Agency (CRA) does not tax the assets of an estate, they tax the income. CRA requires that all the tax owing on income, up to the date of death, be paid. After your passing a final tax return must be filed that will include any income received up to the date of death, that includes income from pension, investments or employment. As well when you pass you are deemed to have disposed of all your assets. That deemed disposition can create additional income that must be included in the final return. An example of how the deemed disposition can create income is rental property. If you own a rental property and you pass away you are deemed to dispose of the property the day you die. It is as if you sold the property and any accrued capital gains will be triggered and included in your final tax return.

Clinton Orr
Vice President, Investment Advisor & Portfolio Manager
T: 204.259.2860
Beausejour: 204.205.0101
corr@cgf.com

Kevin Becker
Investment Advisor & Portfolio Manager
T: 204.259.2863
TF: 1.877.259.2888
kbecker@cgf.com

Alicia Roache
Investment Advisor Assistant
(Licensed)
T: 204.259.2851
asroache@cgf.com

Maricar Irwin
Investment Associate
T: 204.259.2861
mirwin@cgf.com

Adam Buss
Wealth & Estate Planning Specialist
T: 204.259.2865
abuss@cgf.com

Canaccord Genuity Wealth Management
1010-201 Portage Avenue,
Winnipeg, MB R3B 3K6
beckerorr.com

Another example is a RRSP. If you have any money left in your RRSP when you pass away, unless the beneficiary is your spouse, you are deemed to dispose of the RRSP the day you die. It is as if you withdrew all the money from your RRSP the day you die, it is all included as income, and taxed, in your final tax return.

Unlike the US there is no estate tax in Canada, as explained above CRA does not tax the assets of an estate. However, the provinces do impose probate fees. Probate fees are distinct and sperate from income tax. Probate fees vary by province and typically increase with the value of the estate. In Manitoba probate fees are 0.7% of the value of the estate, that works out to $700 per $100,000. As a comparison a $250,000 estate in Manitoba would incur $1,750 in probate fees, that same estate in Albert would pay $300 in probate fees and in Nova Scotia probate fees would be $3,094.

Estate and tax planning can be complicated. It is worthwhile seeking professional help from a financial planner, accountant or lawyer to ensure your estate is correctly set up.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is a portfolio manager with Canaccord Genuity Wealth Management.