

RETURNS FOR DECEASED INDIVIDUALS

We are so very sorry to hear of your loved one's passing. We have designed this information to facilitate the efficient processing of the required returns in the hope that you can focus more on other matters.

There are several returns which can be required. The most common one is the final T1 return. It includes income and deductions from January 1 to the date of passing. It is due the later of April 30 or six months from the date of passing. A second common return is a T3 Trust (Estate) return. This return covers the period from the date of passing to December 31 and additional T3 returns may be required until the estate is settled. T3 trust returns are due by 90 days after the calendar year. Each return is discussed below. There might be additional returns required such as a "rights of things" return which we will only suggest if relevant. Unfortunately, these filings are not simple in nature and the rates for tax services are usually higher than for standard T1 returns.

Before We Start

We will require some information to get started.

Name: _____ Date of Birth: _____ Date of Passing: _____
(year/mm/dd)

Name of Executor: _____ Address: _____

Marital Status: _____ Phone No: _____

Email Address: _____

Spouse Name: _____ Spouse DOB: _____ (WE PREPARE SPOUSE'S T1)
(year/mm/dd)

Required Information: Death Certificate: Y / N Will: Y / N Probate: Y / N POA: Y / N

Copy of prior year return and Notice of Assessment: Y / N

Final T1 Return

Generally, when one passes, their final returns reports all income and deductions up to the date of passing. Please provide T slips that report pension income, RRSP income, RRIF income, OAS income, CPP income (regular CPP – the CPP death benefit on a second CPP slip goes on the beneficiary or trust returns), etc. This is no different from a standard return. We must also include investment income such as might be reported on T3 and T5 slips. We would need these but understand that the amounts actually reported on the return may be pro-rated to account for the partial year. Rental income would also be reported on a pro-rated basis. All self-employed assets are deemed disposed of. Any capital gains and losses prior to the date of passing would get reported. Please provide all this information as you would otherwise do.

Upon passing, capital assets (such as shares, mutual funds and real estate) in unregistered accounts are either deemed sold at fair market value or passed to a surviving spouse or disabled child if applicable. If transferred, you may still have to report the deemed disposition with proceeds equaling the cost base. Otherwise, we will need a list of all capital assets with both the fair market value on the date of passing and the cost base to report the capital gains.

For registered accounts, such as RRSPs and RRIFs, the fair market value upon passing is deemed income and the recipient receives the value. Financial institutions are supposed to issue T4RIF and T4RSP slips that report this fair value but we often find that these slips are not issued properly. Please make sure that you account for all registered accounts and have received slips for them.

T3 Trust Return

When one passes, an estate is automatically created. However, if the assets are simply transferred to a surviving spouse or if there are no lasting assets (the individual had no assets and only had government pensions as an example), no T3 is required. If there is only one or a limited number of beneficiaries, the beneficiaries may simply report any income earned after the date of passing. Otherwise, post passing income gets reported on a T3 trust return. Where the tax liability to the beneficiaries is minimal, we forgo the trust return to save tax preparation fees.

The types of income reported on the trust would be any investment income earned after the date of passing. Capital gains and losses arising after the date of passing get reported on the trust return but be aware that the cost base would now be the fair market value on the date of passing. Many individuals receive a CPP death benefit which also gets reported on the T3 return.

Authorization and receipt of slips

Accounting firms typically are granted access to their clients' CRA accounts to better enable them to assist with assessments and filing. However, all authorizations are cancelled upon a taxpayer's passing. Gaining account access after a taxpayer has passed away is a more complicated and time consuming process. Getting the Authorization form signed (by the executor) and submitted early will allow for a timelier resolution of the tax filings. A copy of the will (noting the executor) and the death certificate will need to accompany the Authorization form.

Another difficulty is making sure all income slips are included. Mail can often go astray after one's passing and we may not be able to get immediate access to the CRA information. We would suggest that the executor contact the various slip issuers such as banks, financial institutions, pension plans and Service Canada (for OAS and CPP). Service Canada's phone number is 1-800-277-9914. We find that executors rarely get the CPP and OAS slips. A copy of the prior returns better enables us to compare and detect missing slips but variance analysis is often difficult in the year of passing as there are lump sum and irregular payments that would not show up on a typical tax filing.