

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Tax Free Savings Account (TFSA) and successor holder



My last article shared the story of a divorced gentleman, Gaeten, who named his common law partner Mirielle, [joint beneficiary](#) of his Tax-Free Savings Account (TFSA) along with his daughter, Marie. I covered off the problem Mirielle would have trying to maintain the tax sheltered status of her share of Gaeten's account which would pass to her on Gaeten's death. What if Gaeten named her as a successor holder (subrogated policyholder in Quebec)?¹

Mirielle will become the "new holder" of the Tax Free Savings Account immediately upon Gaeten's death. The financial institution administering Gaeten's Tax Free Savings Account will handle all of the required documentation and Canada Revenue Agency/Revenue Quebec filings. Mirielle, as the new holder, will receive Gaeten's Tax Free Savings Account assets and all earned income, up to the date of his death, sheltered within a Tax Free Savings Account. All of the assets and any earned income after the date of Gaeten's passing will remain sheltered from income tax within the Tax Free Savings Account. Mirielle, the new holder, can transfer all or a portion of that account into her own existing Tax Free Savings Account after taking over ownership of Gaeten's plan without impacting her Tax Free Savings account contribution room. Mirielle can make tax-free withdrawals and make new contributions subject to her own unused contribution room limits.

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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

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A successor holder (subrogated policyholder in Quebec) can only be a spouse or common law partner and takes priority over a named beneficiary.

Let's say that in addition to naming Mirielle as successor holder, Gaeten had named his adult daughter, Marie, the beneficiary of his plan. Upon Gaeten's death, no proceeds will be paid out to Marie. Gaeten's executor/estate administrator does not include the value of his Tax Free Savings Account, contributions nor earnings in Gaeten's date of death income tax return. A successor holder (subrogated policyholder in Quebec), who can only be a spouse or common law partner, takes priority over a named beneficiary since the plan does not mature and is not deemed to have been sold. The new holder essentially steps into the shoes of the deceased. The new holder may keep the existing beneficiary designation or may designate a new beneficiary of the Tax Free Savings Account where permitted by law.

Again, if Gaeten was interested in splitting the value of his Tax Free Savings Account between his common law partner, Mirielle and his daughter, Marie, then he should first transfer half of his plan to a new Tax Free Savings Account. He names Mirielle the successor holder (subrogated policyholder in Quebec) of one plan and his adult daughter, Marie, as the beneficiary of the other plan.

Don't forget to periodically stress test your designations on Tax Free Savings Account to make sure that your intentions continue to match with what will happen on your passing. Engage the services of an accredited financial advisor who can help you with the process and make any necessary amendments if needed.

¹ Successor holder (subrogated holder in Quebec) hereinafter referred to as the "new Holder".

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