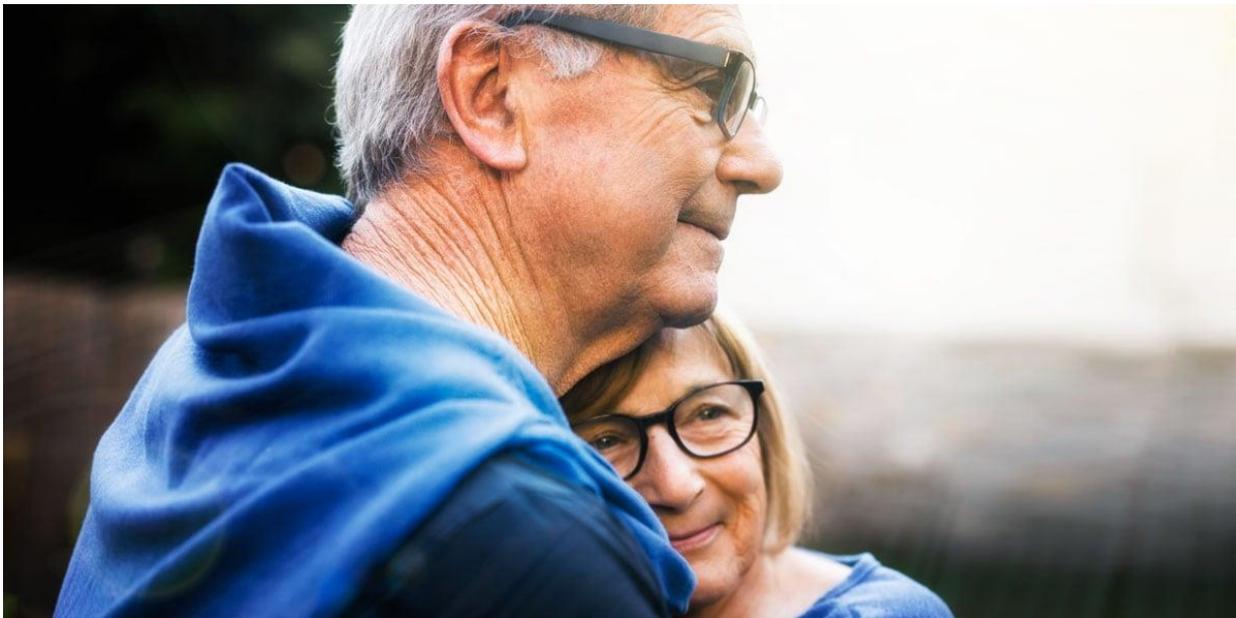


# What's the best way to leave your TFSA to your spouse?

Source: SunLife Financial

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Naming a successor holder for your TFSA avoids extra stress at a sad time. It could be one of the kindest and smartest financial moves you ever make.



A tax-free savings account (TFSA) is a great way to save for a down payment on a new home, vacation or retirement. But for any savings or investment account, it's important to know the answer to 1 question: Who gets it after you die? When it comes to TFSAs, whether you have a beneficiary or successor holder is a difference that can have real financial implications.

“A successor holder is a designation that’s only available to a spouse or common-law partner, but you can name anyone you choose as a beneficiary,” says Sun Life advisor Melanie Adams.<sup>1</sup> She says that people who work with advisors are informed of the 2 choices, but if you open a TFSA online, you may not know the difference.

If you want your spouse or common-law partner to get your money, it's important to know all of your options, because the way you make that designation can add up to a lot of money in additional taxes.

“As the limits to TFSAs grow and the amount of money sitting in these plans grows, this is going to become more and more of a planning and tax issue,” says Adams. While the current contribution limit is \$52,000 (assuming you have been eligible for the maximum allowed since TFSAs were introduced in 2009), investment growth means that a significant amount of money can be in a TFSA.

## **The simple choice: successor holder**

If named the successor holder, your spouse or common-law partner will be able to take over your TFSA upon your death, regardless of the contribution room available in his or her own plan. “So [your TFSA] would basically roll over into their own TFSA and will not affect their own contribution room in any way,” says Adams. The successor holder becomes the new owner of the TFSA, and its tax-exempt status is maintained. This also avoids probate fees, since the TFSA isn’t part of your estate and instead goes directly to your spouse or common-law partner. The successor holder can choose to keep separate accounts or consolidate them.

*IMPORTANT NOTE:* The simplest choice isn’t always the best. While it's usually a good idea to name your spouse as successor holder, in some circumstances and with some kinds of investments (such as those that provide guaranteed death benefits), it may be wiser to stick with the beneficiary designation. Speak to your advisor for more information.

## **The common choice: spousal or common-law beneficiary**

If you name your spouse or common-law partner a beneficiary but not a successor holder for your TFSA (which you can do anywhere in Canada except Quebec), your money can still be transferred into your partner’s TFSA without your spouse or common-law partner having to use any of their own TFSA contribution room. Your spouse or common-law partner can make the transfer by the end of the year following the year of death, but it requires a little extra paperwork after they have made the transfer. “Your spouse has to take the extra step of filing an RC240 form with the Canada Revenue Agency, which designates an exempt contribution to a survivor,” Adams explains. They have to fill out and file the form within 30 days of the transfer from their spouse or common-law partner’s TFSA to theirs. Tax-exempt status will be maintained.

If your spouse or common-law partner doesn’t file the RC240 form in time, the money in your TFSA will still roll over (as long as the transfer was within the deadline). They will have to use their own TFSA contribution room to cover the amount, but if there isn’t enough room, your partner will be hit with a penalty of 1% per month for the balance above the maximum contribution allowed. If your partner has no contribution room and your TFSA is worth 6 figures, that’s a significant penalty – and an unnecessary use of TFSA contribution room.

## **The complex choice: non-spousal or common-law beneficiary**

Non-spousal or common-law beneficiaries (like children or siblings) don’t have the option of filing the RC240 form. After your death, your account will no longer be considered a TFSA, even though any investment growth in it up to the date of your death will be tax-free. The money can be transferred to your beneficiary’s own TFSA if your beneficiary has contribution room. Any amounts your beneficiary can’t transfer (or which they choose to not transfer) to their own TFSA will be treated as cash, like the money in a bank account. Any investment growth in your TFSA that occurs after your death will also be taxable to your beneficiary.

“It’s really important that people understand the importance of the successor holder for their spouse or common-law partner,” says Adams. She says it’s not an automatic designation, and while there are 2 spots on the form to sign, most people are more familiar with the term “beneficiary” and choose that option.

“It’s such a huge benefit for spouses or common-law partners to have that TFSA money transfer into their plan seamlessly and not affect their contribution in any way,” says Adams. Choosing a successor holder so the one you love doesn’t have to worry about extra paperwork in the midst of mourning could be one of the kindest and smartest financial moves you can make.