



Canada Customs  
and Revenue Agency

Agence des douanes  
et du revenu du Canada

Canada

# Preparing Returns for Deceased Persons

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# 2000

## Before you start

### Is this guide for you?

Use this guide if you are the legal representative (see page 5) who has to file an income tax and benefit return for a deceased person. Use it together with the guide that came with the deceased person's tax and benefit return.

### Which return should you use?

You can use a *General Income Tax and Benefit Return*. However, the deceased may have received a different return in the mail based on his or her situation last year. If the return covers the types of income you want to report and the deductions and credits you want to claim, you can use it instead of a *General Income Tax and Benefit Return*. You can use a *T1S-C Credit and Benefit Return* to complete a return for a deceased person.

#### Note

If you cannot get a return for the year of death, use a blank one from a previous year. In the top right corner of page 1, indicate the year for which you are filing. We will assess the return based on the legislation in effect for the year of death.

### Forms and publications

Throughout this guide, we refer to other forms and publications. If you need the General income tax package, or any other forms or publications, you can order them by mail, by calling toll free at ~~1-800-950-2221~~, or by visiting your tax services office. You can also get a General income tax package for a particular province or territory from any postal outlet in that province or territory.

Any schedules mentioned in this guide are in the General income tax package.

### What if you need help?

This guide uses plain language to explain the most common income tax situations. If you need help after reading this guide, please contact your tax services office toll free at ~~1-800-950-8281~~. You can find the address of your local office in the government section of your telephone book and on the "Contact us" page of our Web site.

### Internet

Most of our publications are available on the Internet at:  
[www.ccr-aadrc.gc.ca](http://www.ccr-aadrc.gc.ca)

## What's new for 2000?

Under proposed changes announced in the February 28, 2000, federal budget and the October 18, 2000, economic statement, the inclusion rate for dispositions of property has changed. For dispositions of property before February 28, 2000, the rate generally remains at 3/4. For dispositions of property after February 27 and before October 18, 2000, the rate will generally be 2/3. For dispositions after October 17, 2000, the rate will generally be 1/2. If property was disposed of in more than one period, there are special rules to determine the inclusion rate. For more details, see Chapter 5 which begins on page 20.

Under proposed changes, effective for deaths occurring after 1998, a charitable donations tax credit can be claimed, subject to certain conditions, for donations of registered retirement savings plan (RRSP), registered retirement income fund (RRIF), and insurance proceeds that are made as a result of direct beneficiary designations. For more information see the section called "Line 349 – Donations and gifts" on page 13.

Visually impaired persons can get information on services available to them, and can order publications in braille or large print, and on audio cassette or computer diskette, by calling ~~1-800-267-1267~~ weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

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## Glossary

**Adjusted cost base** – This is usually the cost of a property, plus any expenses to acquire it, such as commissions and legal fees. The cost of the property also includes capital expenditures, such as the cost of additions and improvements to the property.

### Example

You buy a building for \$50,000, and you pay legal fees of \$3,500. The building's adjusted cost base is \$53,500. Later, you build a \$15,000 addition. The adjusted cost base is now \$68,500 (\$53,500 + \$15,000).

If the deceased filed Form T664 or T664(Seniors), *Election to Report a Capital Gain on Property Owned at the End of February 22, 1994*, the adjusted cost base of the property may change. For more information, see the guide called *Capital Gains*.

**Annuitant** – Generally, an annuitant is the person for whom a retirement plan provides a retirement income. In certain circumstances, the surviving spouse may qualify as the annuitant when, because of the death, he or she becomes entitled to receive benefits out of the retirement plan.

**Annuity payment** – An annuity is a right to receive fixed, periodic payments, either for life or for a specific number of years. These payments represent a partial recovery of financing and a return (interest) on the capital investment.

**Capital cost allowance (CCA)** – In the year you buy a depreciable property (as defined later in this glossary), such as a building, you cannot deduct the full cost. However, since this type of property wears out or becomes obsolete over time, you can deduct its cost over a period of several years. This deduction is called capital cost allowance. You cannot claim it for the fiscal period that ends on the date of death.

When we talk about capital cost allowance, a reference is often made to **class**. Part XI of the *Income Tax Regulations* groups property into certain categories and assigns each a specific percentage for CCA purposes. The term class refers to one of these categories.

**Capital property** – This includes depreciable property, and any property that, if sold, would result in a capital gain or a capital loss. You usually buy it for investment purposes or to earn income. Some common types of capital property include cottages, securities such as stocks, bonds, and units of a mutual fund trust, and land, buildings, and equipment used in a business or rental operation.

**Deemed disposition** – This expression is used when a person is considered to have disposed of a property, even though a sale did not take place.

**Deemed proceeds of disposition** – This expression is used when a person is considered to have received an amount for the disposition of property, even though that person did not actually receive that amount.

**Depreciable property** – This is usually capital property used to earn income from a business or property. The cost can be written off as capital cost allowance over a number of years.

**Fair market value (FMV)** – This is usually the highest dollar value that you can get for your property in an open and unrestricted market, between a willing buyer and a willing seller who are acting independently of each other.

**Locked in** – In this guide, locked in means that the beneficiary who is to receive the property has a right to absolute ownership of it. No future event or development can take this right away. For deaths that occur after December 20, 1991, in order for a property to be locked in:

- for a spousal trust, it has to become locked in before the surviving spouse dies; and
- for an individual, it has to become locked in before the individual dies.

In legal terms, we say the property becomes **vested indefeasibly**. For more details, see Interpretation Bulletin IT-449, *Meaning of "Vested Indefeasibly."*

**Non-arm's length transaction** – An arm's length transaction is a transaction between persons that each act in their own self-interest. A non-arm's length transaction is a transaction between persons who were not dealing with each other at arm's length at the time of the transaction. Related persons are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, or adoption (legal or in fact). For more details, see Interpretation Bulletin IT-419, *Meaning of Arm's Length*.

**Qualified donee** – For 1997 and later taxation years, a qualified donee includes the following:

- a Canadian registered charity;
- a registered Canadian amateur athletic association;
- a Canadian non-profit organization that exclusively provides low-cost housing for seniors;
- a Canadian municipality;
- the United Nations or an agency thereof;
- a prescribed university outside Canada;
- a charitable organization outside Canada to which the Government of Canada has made a donation in 1999 or 2000; and
- the Government of Canada, a province, or a territory.

**Spouse** – For tax purposes, you have a spouse when you are legally married, or living common law with someone (see below). You still have a spouse if you are living apart for reasons other than a breakdown in your relationship.

**Living common law** applies when you live and have a relationship with a person of the opposite sex to whom **any** of the following applies. He or she:

- is the natural or adoptive parent (legal or in fact) of your child;

- has been living and having a relationship with you for at least 12 continuous months; or
- lived with you previously as your spouse for at least 12 continuous months.

The above includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

Starting for 2001, the term **spouse** will mean only a married partner. **Living common law** will include partners who, whether they are of the same sex or the opposite sex, meet the rest of the above conditions. A **common-law partner** will have the same tax rights and obligations as a spouse.

If the deceased had a same-sex partner who met these conditions in 1998, 1999, or 2000, that individual can choose to be considered a common-law partner starting from the appropriate year. For more information, refer to the *General Income Tax and Benefit Guide*.

#### Note

In this guide, the term “spouse” includes a common-law partner, when applicable.

**Spousal trust** – This is a trust set up under the deceased’s will, or a court order, for the surviving spouse. It has to be resident in Canada right after the property becomes locked in for the trust (see the definition of “Locked in”). The surviving spouse is entitled to all the income of the spousal trust that arises before he or she dies. No one else can receive or use the trust’s income or capital before the surviving spouse’s death.

**Testamentary debts** – Debts or liabilities of all kinds that an individual incurred and did not pay before death. It also includes amounts payable by the estate because of death.

**Undepreciated capital cost (UCC)** – Generally, UCC is equal to the total capital cost of all the properties of a class **minus** any capital cost allowance claimed in previous years. When property of the class is disposed of, you also have to subtract from the UCC one of the following two amounts, **whichever is less**:

- the proceeds of disposition of the property (either actual or deemed) **minus** the related expenses to sell it; or
- the capital cost of the property.

## Chapter 1 – General information

### Are you the legal representative?

If you are an executor, an administrator, or a liquidator, you are the legal representative of a deceased person.

**Executor** – This is someone a will names to act as the legal representative to handle a deceased person’s estate.

**Administrator** – There may not be a will, or the will may not name an executor. In this case, a court will appoint an administrator to handle the deceased’s estate. An administrator is often the spouse or the next of kin.

**Liquidator** – In Quebec, the liquidator is responsible for distributing assets of all estates established after

December 31, 1993. For estates with a will, the liquidator’s role is similar to an executor’s. For estates without a will, the liquidator acts as the administrator of the estate.

### What are your responsibilities as the legal representative?

As the legal representative, you should provide us with the deceased’s date of death as soon as possible. To keep our records up to date, send us the following information:

- a copy of the death certificate; and
- a copy of the will or other legal document giving the name of the executor or legal representative.

Include this information with the final return, if you did not send it right after the deceased’s death.

#### Note

We do not administer the social insurance number (SIN) program. To cancel the deceased’s SIN, contact Human Resources Development Canada. You can find the phone number in the government section of your telephone book.

This guide deals only with your responsibilities under the *Income Tax Act*. Under the Act, it is your responsibility to:

- file all required returns;
- make sure you pay all taxes owing; and
- let the beneficiaries know which of the amounts they receive from the estate are taxable.

As the legal representative, you are responsible for filing a return for the deceased for the year of death. This return is called the **final return**. See Chapter 2 for details.

In addition, you also have to file any returns for previous years that the deceased person did not file. If the person did not leave records about these returns, or if you cannot tell from existing records whether or not the returns were filed, contact us. If you have to file a return for a year before the year of death, use a *General Income Tax and Benefit Return*.

You may also have to file a *T3 Trust Income Tax and Information Return*, for income the estate earned after the date of death. To find out what income to report on the T3 return, see “Chart 2 – Income reported on the *T3 Trust Income Tax and Information Return*,” on page 28. For more details, get the *T3 Trust Guide*.

### Do you need information from the deceased person’s tax records?

You can call or write us for the information we have in the deceased’s tax records. When you write for such information, include the words “The Estate of the Late” in front of the deceased person’s name. Include your address so we can reply directly to you. Before we can give you information from the deceased’s records, we need the following:

- a copy of the deceased’s death certificate;
- the deceased’s social insurance number; and

- a copy of the will, trust agreement, or letters of administration confirming that you are the legal representative.

If you visit us to get information from the income tax records of the deceased, you also have to show us one piece of identification with your picture and signature on it, or two pieces with your signature on them.

## Goods and services tax/harmonized sales tax (GST/HST) credit received after the date of death

GST/HST credit payments are issued in July, October, January, and April. We may send out a payment after a person dies because we do not know about his or her death. If this happens, return the payment to us.

### What if the deceased's GST/HST credit is for the deceased only?

If a single person dies in a month before we send a GST/HST credit payment, no one else can receive the payment. We cannot make any more payments in that person's name, or to the estate.

If a single person dies during or after a month in which we send a payment, the person's estate is entitled to that payment. Return the cheque to us, and we will make the cheque payable to the estate.

### What if the deceased's GST/HST credit is for the deceased and his or her spouse?

If the deceased had a spouse, the surviving spouse may be eligible to receive GST/HST credit payments. The spouse should contact us and ask to receive any remaining GST/HST credits. If the spouse did not file a return for the applicable previous year, he or she has to do so before asking for the remaining payments.

## Clearance certificate

As the legal representative, you may want to get a clearance certificate before you distribute any property under your control. A clearance certificate certifies that all amounts for which the deceased is liable to us have been paid, or that we have accepted security for the payment. If you do not get a certificate, you can be liable for any amount the deceased owes. A certificate covers all tax years to the date of death. It is not a clearance for any amounts a trust owes. If there is a trust, a separate clearance certificate is needed for the trust.

To ask for a certificate, use Form TX19, *Asking for a Clearance Certificate*. Once you complete the form, send it to us. Do **not** include Form TX19 with a return. Send it only **after** you have received the notice of assessment for the final return.

If you need more details about clearance certificates, contact your tax services office. You can also get Information Circular 82-6, *Clearance Certificate*.

#### Note

We cannot give you a clearance certificate until you file all the required returns and you receive the notice of

assessment for each of them. Also, you will have to pay or secure all amounts owing.

## Getting started

This section lists the information you will need to prepare the return.

- Determine the deceased person's income from all sources. You can do this by:
  - checking previous year returns to get the names of employers and investment companies the deceased may have received income from in the past;
  - checking safety deposit boxes for additional sources of income and benefits;
  - contacting payers such as employers, banks, trust companies, stock brokers, and pension plan managers;
  - getting information slips from payers, for example, a T4, *Statement of Remuneration Paid*, from an employer, or a T5, *Statement of Investment Income*, from a bank or trust company; and
  - contacting the nearest Income Security Programs Office of Human Resources Development Canada if the deceased was receiving Canada Pension Plan benefits or was 65 years or older and in receipt of Old Age Security pension, and you do not have a T4A(P) slip or T4A(OAS) slip.

Even if you cannot get the slips, you still have to report the income from all sources on either the final or the optional returns. You can also claim any related deductions as outlined in "Chart 1 – Returns for the year of death", on page 26. If a slip is not available, ask the payer to give you a note that states the income and deductions. Attach this note to the return. If you cannot get a note from the payer, estimate the income and deduction amounts. For example, you can use pay stubs to estimate employment income and the amounts deducted for Canada Pension Plan or Quebec Pension Plan contributions, Employment Insurance premiums, union dues, and income tax. Attach a note to the return giving the amounts and the payer's name and address. If possible, also attach a photocopy of the pay stubs.

- Get the tax package for the province or territory where the deceased lived at the time of death. You will need a *General Income Tax and Benefit Return* to report commission, partnership, rental, or self-employment income, and capital gains, or to claim deductions for attendant care expenses, stock option and shares deductions, and non-capital and capital losses of other years.
- Get any other guides, information circulars, interpretation bulletins, and forms that you may need. See the section called "References" on page 29 for a list of all the forms and publications referred to in this guide.
- Prepare and file a final return and any optional returns. For information on how to prepare a final return, see Chapter 2. For information on optional returns, see Chapter 3.

- You may have to file a *T3 Trust Income Tax and Information Return*, in addition to a final return. For example, some of the amounts an employer pays are income for the estate. Look for estate amounts in boxes 18 or 28 of the T4A slip. See “Chart 2 – Income reported on the *T3 Trust Income Tax and Information Return*,” on page 28.
- When you have received the notice of assessment for all required returns, you should get a clearance certificate. See the section called “Clearance certificate” on page 6.

## Common questions and answers

Here are some common questions and answers you may want to look at before you read this guide.

- Q. Can I deduct funeral expenses, probate fees, or fees to administer the estate?
  - A. No. These are personal expenses and are not deductible.
- Q. Who reports a death benefit that an employer pays?
  - A. A death benefit is income of the estate or beneficiary that receives it. Up to \$10,000 of the total of all death benefits paid is not taxable. For a death benefit received by the beneficiary, see line 130 in the *General Income Tax and Benefit Guide* or the guide that came with the beneficiary’s return. For a death benefit received by the estate, see the *T3 Trust Guide*.
- Q. Who reports amounts an employer pays for vacation and unused sick leave?
  - A. Vacation pay is income of the deceased person. Payment for unused sick leave is often income of the estate or beneficiary that receives it. In some cases, sick leave payments can be a death benefit. For details, see Interpretation Bulletin IT-508, *Death Benefits*.
- Q. On what return do I report Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits for the deceased?
  - A. A CPP or QPP death benefit is shown in box 18 of Form T4A(P), *Statement of Canada Pension Plan Benefits*. The recipient can choose to report this amount either on his or her return, or on a *T3 Trust Income Tax and Information Return*, for the estate. Do **not** report the amount on the deceased’s return. This benefit is not eligible for the \$10,000 death benefit exemption. It is not like a death benefit that an employer pays. You have to report all other CPP or QPP benefits on the deceased’s return.
- Q. If the deceased person was paying tax by instalments, do I have to continue making those instalment payments?
  - A. No. The only instalment payments we require are those that were due before the date of death.
- Q. What do I do if the deceased person was receiving the Canada Child Tax Benefit (CCTB) which could include payments from related provincial or territorial child benefit and credit payments?
  - A. Contact us and provide us with the date of death. If the deceased person was receiving CCTB payments for a

child and the surviving spouse is also the child’s parent, the surviving spouse should contact us. We will transfer the CCTB payments to the surviving spouse.

- Q. Why do I have to return the deceased person’s Goods and services tax/harmonized sales tax (GST/HST) credit?
  - A. The GST/HST credit payments are based on the previous year’s income tax return. However, the payments are an advance on purchases for the current year. For this reason, you have to return GST/HST credit payments received after the deceased’s death. If the deceased was single and the estate is entitled to the payment, another cheque will be issued payable to the estate.

## Chapter 2 – Final return

This chapter explains how to complete and file the final return. We define some of the terms in this chapter in the glossary on page 4.

On the final return, report all of the deceased’s income from January 1 of the year of death, up to and including the date of death. Report income earned after the date of death on a *T3 Trust Income Tax and Information Return*. To find out what income to report on the T3 return, see “Chart 2 – Income reported on the *T3 Trust Income Tax and Information Return*,” on page 28. For more details, get the *T3 Trust Guide*.

### Tax tip

In addition to the final return, you can choose to file up to three optional returns for the year of death. Information about the deceased’s income sources will help you determine if you can file any of these optional returns.

You do not have to file any of the optional returns. However, by filing one or more of the returns, you may reduce or eliminate tax that you would otherwise have to pay for the deceased.

You do not report the same income on both the final and an optional return. However, you can claim certain credits and deductions on more than one return. There may be a tax advantage if you file one or more of the optional returns in addition to the final return.

For more details, see “Chapter 3 – Optional returns” on page 14, and “Chart 1 – Returns for the year of death” on page 26.

## What date is the final return due?

Generally, the final return is due on or before the following due dates:

Period when death occurred	Due date for the return
January 1 to October 31	April 30 of the following year
November 1 to December 31	Six months after the date of death

If the deceased or the deceased's spouse was carrying on a business in 2000 (unless the expenditures of the business are mainly in connection with a tax shelter), the following due dates apply:

Period when death occurred	Due date for the return
January 1 to December 15	June 15 of the following year
December 16 to December 31	Six months after the date of death

#### Tax tip

**Previous year return** – A person may die after December 31, 2000, but before the filing due date for his or her 2000 return. If he or she has not filed that return, the due date for the return is six months after the date of death.

The deceased's will or a court order may set up a **spousal trust**. When testamentary debts of the deceased or the estate are being handled through a spousal trust, the due date for the final return is extended to 18 months after the date of death. We define "spousal trust" and "testamentary debts" in the glossary starting on page 4. However, you have to pay any taxes owing on the final return by the due date shown in the section called "What is the due date for a balance owing?" For more details about spousal trusts, see the *T3 Trust Guide* and Interpretation Bulletin IT-305, *Testamentary Spouse Trusts*.

## What happens if you file the final return late?

If you file the final return late and there is a balance owing, we will charge a late-filing penalty. We will also charge you interest on both the balance owing and any penalty. The penalty is 5% of any balance owing, plus 1% of the balance owing for each full month that the return is late, to a maximum of 12 months. The late-filing penalty may be higher if we charged a late-filing penalty on a return for any of the three previous years. Even if you cannot pay the full amount owing by the due date, you can avoid this penalty by filing the return on time.

We may cancel this penalty and interest if you file the return late because of circumstances beyond your control. If this happens, include a letter with the return giving the reasons why you filed the return late. For more details, see Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*.

## What is the due date for a balance owing?

The due date for a balance owing on a final return depends on the date of death:

Period when death occurred	Due date for the amount owing
January 1 to October 31	April 30 of the following year
November 1 to December 31	Six months after the date of death

If you do not pay the amount in full, we will charge compound daily interest on the unpaid amount from the day after the return is due to the date you pay the amount owing.

In some cases, you can delay paying part of the amount due. For instance, you can delay paying part of the amount owing from rights or things (see page 15), and the deemed disposition of capital property (see page 20).

## How to complete the final return

In this section, we briefly cover the most common lines on a deceased person's return. For details on these and other lines on a return, see the guide that came with the deceased's return. Remember, if the types of income you want to report, or the deductions or credits you want to claim are not on the return that you have, get a General income tax and benefit package. You cannot use a T1S-C *Credit and Benefit Return* to complete a return for a deceased person.

### Identification

In this area of the return:

- Write "The Estate of the Late" before the name of the deceased.
- Give your address as the return address.
- Ensure the province or territory of residence on December 31 is the one where the deceased was living at the date of death.
- Check the box that applies to the deceased's marital status at the time of death.
- Enter the date of death on the proper line.

If you use the personal label provided with the return, make sure the information on the label is correct. Attach the label to the return.

### Goods and services tax/harmonized sales tax (GST/HST) credit

Since there is no GST/HST credit based on the year of death, do not complete the GST/HST credit area when you file the final return.

### Total income

Report amounts that are paid regularly, even if the person did not receive them before he or she died. Some examples of these amounts are salary, interest, rent, royalties, and most annuities. These amounts usually accumulate in equal daily amounts for the time they are payable. For more information, see Interpretation Bulletin IT-210, *Income of Deceased Persons – Periodic Payments and Investment Tax Credit*.

There are two types of amounts that do **not** accumulate in equal daily amounts:

- amounts receivable by the deceased, but not payable to the deceased on or before the date of death; and
- amounts from some annuity contracts that we consider to have been disposed of on death.



For more details about amounts receivable on or before the date of death, see the section called “1. Return for rights or things” on page 14.

### Amounts an employer pays to the deceased person's estate

There may be amounts that an employer will pay to a deceased employee's estate. For these amounts, an employer will usually complete a T4 or T4A slip.

Some of the amounts an employer pays will be part of the deceased's employment income for the year of death. Report these amounts on the final return. The amounts are employment income for the year of death even if they are received in a year after the year of death. Box 14 of the T4 slip should include the following amounts:

- salary or wages (including overtime) from the end of the last pay period to the date of death;
- salary or wages (including overtime) for a pay period finished before the date of death, but paid after death; and
- payment for vacation leave earned but not taken.

The employer may change any of these amounts later because of an agreement or promotion. If the document that allows the change was signed **before** the date of death, report these additional amounts on the final return. However, if the document was signed **after** the date of death, the additional amounts are not taxable (see “Chart 3 – Non-taxable amounts” on page 28).

Some of these amounts may be **rights or things**, and you may be able to report them on an optional return. For details, see the section called “1. Return for rights or things” on page 14. Some of the amounts an employer pays are income for the estate and should be reported on a *T3 Trust Income Tax and Information Return*. See “Chart 2 – Income reported on the *T3 Trust Income Tax and Information Return*” on page 28.

### Lines 101 to 104 – Employment income

Report all salary, wages or commissions received from January 1 to the date of death. Also include amounts that accumulate from the start of the pay period in which the employee died to the date of death.

If the commissions are for a self-employed salesperson, see the guide called *Business and Professional Income* for help on how to report the commission income and claim expenses.

### Line 113 – Old Age Security pension

Report the amounts from box 18 of the deceased's T4A(OAS) slip. A payment received after the date of death for the month in which the individual died may be reported on the final return or on a rights and things return.

Do not include on line 113 the “Net federal supplements paid” from box 21 of the T4A(OAS) slip. Report this amount on “Line 146 – Net federal supplements.” You may be able to claim a deduction for this amount on “Line 250 – Other payments deduction.”

### Note

If the deceased's net income before adjustments (line 234 from all T1 returns) is more than, under proposed changes, \$53,960, all or part of the OAS benefits may have to be repaid. For details, see line 235 in the *General Income Tax and Benefit Guide*, or the *Special Income Tax and Benefit Guide*.

**Line 114** – Canada or Quebec Pension Plan benefits  
Report the total Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits in box 20 of the deceased's T4A(P) slip. This amount is the total of the amounts in boxes 14 to 18. A payment received after the date of death for the month in which the individual died may be reported on the final return or on a rights and things return.

Do **not** report a CPP or QPP death benefit on the final return. The recipient can choose to include this amount either on his or her return, or on a *T3 Trust Income Tax and Information Return* for the estate. If the deceased received a lump-sum CPP or QPP benefit, or a CPP or QPP disability benefit, see line 114 in the *General Income Tax and Benefit Guide*.

**Line 115** – Other pensions or superannuation  
Report any other pensions or superannuation the deceased received from January 1 to the date of death (box 16 on T4A slips and box 31 on T3 slips).

If the deceased received annuity payments from a registered retirement income fund (RRIF) for the period from January 1 to the date of death, report that income on the final return. If the deceased was 65 or older, report the RRIF income on line 115. Also report the RRIF income on line 115 if the deceased was under 65 but received the RRIF payments because his or her spouse died. In all other cases, report the RRIF income on line 130 of the return. For more information, see the section called “Income from a registered retirement income fund (RRIF)” on page 10.

If there is a lump-sum amount shown in box 18 of the T4A slip or box 22 of the T3 slip, report it on line 130.

### Line 119 – Employment Insurance benefits

Report any Employment Insurance (EI) benefits the deceased received from January 1 to the date of death (box 14 of the T4E slip). If the deceased's net income before adjustments (line 234) is more than \$39,000, part of these benefits may have to be repaid. For details, see line 235 in the *General Income Tax and Benefit Guide*, or the *Special Income Tax and Benefit Guide*. If the deceased repaid any EI benefits to Human Resources Development Canada, he or she may be entitled to a deduction. For details, see line 232 in the *General Income Tax and Benefit Guide*.

### Lines 120 and 121 – Investment income

Report investment income received from January 1 to the date of death. This type of income includes dividends (line 120) and interest (line 121). Also include the following:

- amounts earned from January 1 to the date of death that have not been paid;

- amounts earned from term deposits, guaranteed investment certificates (GICs), and other similar investments from the last time these amounts were paid to the date of death;
- bond interest earned from the last time it was paid to the date of death, if the deceased did not report it in a previous year; and
- compound bond interest that accumulated to the date of death, if the deceased did not report it in a previous year.

You can report some types of investment income as rights or things. For details, see the section called “1. Return for rights or things” on page 14. Report interest that accumulates after the date of death on a *T3 Trust Income Tax and Information Return*.

#### Line 127 – Taxable capital gains

For details about this type of income, see Chapter 4 on page 17.

#### Line 129 – RRSP income

At the time of death, a person may have a registered retirement savings plan (RRSP). The RRSP may or may not have matured. Depending on the situation, the amount you include in the deceased’s income can vary.

##### Payments from a matured RRSP

A **matured** RRSP is one that is paying retirement income. It usually provides monthly payments. Report on line 129, the RRSP payments the deceased received from January 1 to the date of death.

If the surviving spouse is a beneficiary of the RRSP, as specified in the RRSP contract, he or she begins receiving the remaining annuity payments from the plan. The surviving spouse has to report the remaining payments as income on his or her return.

If the surviving spouse is the beneficiary of the estate, the spouse and the legal representative can jointly elect, in writing, to treat the amounts the RRSP paid to the estate as being paid to the spouse. Attach a copy of the written election to the return of the surviving spouse. The election has to specify that the surviving spouse is electing to become the annuitant of the RRSP.

If the amounts from the RRSP are paid to a beneficiary other than the deceased’s spouse, see the guide called *RRSPs and Other Registered Plans for Retirement*.

##### Payments from an unmatured RRSP

Generally, an **unmatured** RRSP is one that does not yet pay retirement income.

We consider a deceased RRSP annuitant to have received, immediately before death, an amount equal to the fair market value (FMV) of all the property of the unmatured plan at the time of death. The FMV of the property is shown in box 34 of the T4RSP slip issued to the deceased person. You have to include this amount in the deceased’s income for the year of death.

If a T4RSP slip showing the FMV of the plan at the time of death is issued in the deceased’s name, you may be able to reduce the amount you include in the deceased’s income. For details, see Information Sheet RC4177, *Death of an RRSP*

*Annuitant*, and the guide called *RRSPs and Other Registered Plans for Retirement*.

If all of the property held in the RRSP is paid (as specified in the RRSP contract) to the surviving spouse, **and** that payment is transferred to the surviving spouse’s RRSP, RRIF, or to an issuer to buy the surviving spouse an eligible annuity, a T4RSP slip will not be issued in the deceased’s name. In this case, the surviving spouse has to report the payment as income on his or her return and is eligible to claim a deduction equal to the amount transferred.

If the amounts from the RRSP are paid to a beneficiary other than the deceased’s spouse, see the guide called *RRSPs and Other Registered Plans for Retirement*.

##### Home Buyers’ Plan (HBP)

The deceased may have participated in the HBP. If so, the deceased would have made a withdrawal from his or her RRSP and may have been making repayments to the RRSP. In this case, include on line 129 the total of all amounts that remain to be repaid at the time of death. Any RRSP contributions that the deceased made in the year of death can be designated as a repayment.

However, you do not have to report these amounts when the legal representative and the surviving spouse jointly elect to have the surviving spouse continue to make the repayments. For more information, see the guide called *Home Buyers’ Plan (HBP)*.

##### Lifelong Learning Plan (LLP)

The deceased may have participated in the LLP. If so, the deceased would have made a withdrawal from his or her RRSP and may have been making repayments to the RRSP. Treatment of these amounts is the same as with the Home Buyer’s Plan and a similar election is available. For more information, see the guide called *Lifelong Learning Plan (LLP)*.

#### Line 130 – Other income

Use this line to report taxable income not reported anywhere else on the return. Identify the type of income you are reporting in the space to the left of line 130 on the return. We discuss some of the types of income you report on this line below. For more information, see line 130 in the *General Income Tax and Benefit Guide* or the guide that came with the deceased’s return.

##### Death benefits (other than Canada Pension Plan or Quebec Pension Plan death benefits)

A death benefit is an amount received after a person’s death for that person’s employment service. It is shown in box 28 of the T4A slip or box 35 of the T3 slip. A death benefit is income of the estate or the beneficiary that receives it. Up to \$10,000 of the total of all death benefits paid may not be taxable. For details, see line 130 in the *General Income Tax and Benefit Guide* or the guide that came with the deceased’s return. You can also get Interpretation Bulletin IT-508, *Death Benefits*.

##### Income from a registered retirement income fund (RRIF)

When a person dies, he or she may have a RRIF. Depending on the situation, the amount you include in the deceased’s income can vary.

If the deceased received annuity payments from a RRIF for the period from January 1 to the date of death, report that income on the final return. If the deceased was 65 or older, or if the deceased was under 65 and received the RRIF payments due to the death of his or her spouse, see “Line 115 – Other pensions or superannuation,” on page 9. In all other cases, report the RRIF income on line 130.

If the annuitant elected to have the RRIF payments continue to his or her spouse after death, the surviving spouse becomes the annuitant and has to report the remaining payments as income on his or her return.

If the annuitant did not elect to have the RRIF payments continue to his or her spouse, the spouse can still become the annuitant of the RRIF after the annuitant’s death. This is the case if the legal representative consents to the deceased’s spouse becoming the annuitant, and the RRIF carrier agrees to continue the payments to the surviving spouse.

If all of the property held by the RRIF is paid (as specified in the RRIF contract) to the surviving spouse, and that payment is transferred to the surviving spouse’s RRIF, RRSP, or to an issuer to buy an eligible annuity for the surviving spouse, a T4RIF slip will not be issued in the deceased person’s name. In this case, the surviving spouse has to report the payment as income on his or her return and is eligible to claim a deduction equal to the amount transferred.

If the payments do not continue to the spouse, we consider the deceased to have received, immediately before death, an amount equal to the fair market value (FMV) of the plan at the time of death. The FMV of the property is shown in box 18 of the T4RIF slip issued in the deceased’s name. Include this amount in the deceased’s income for the year of death. However, you may be able to reduce the amount you include in income. For details, see Information Sheet RC4178, *Death of a RRIF Annuitant*, and the guide called *RRSPs and Other Registered Plans for Retirement*.

#### Lines 135 to 143 – Self-employment income

If the deceased had self-employment income, report the gross and net income or loss on the appropriate line. For more information, see lines 135 to 143 in the *General Income Tax and Benefit Guide*.

#### Reserves in the year of death

Sometimes, when a property is sold, some of the proceeds are not payable until after the year of sale. Similarly, a self-employed person may have amounts that will be received in a later year for work done this year. An example is for work in progress.

Usually, a person can deduct from income the part of the proceeds that are not payable until a later year. This is called a reserve.

In most cases, you cannot deduct a reserve in the year of death. However, there may be a transfer, to a spouse or spousal trust, of the right to receive the proceeds of disposition or the income owing. When this happens, the legal representative and the beneficiary can choose to claim a reserve on the deceased’s return. To do this, complete Form T2069, *Election in Respect of Amounts Not Deductible as*

*Reserves for the Year of Death*, and attach a copy to the deceased’s return.

This choice will be available only if the deceased was resident in Canada right before death. For a transfer to a spouse, the spouse also has to have been resident in Canada right before the deceased’s death. For a transfer to a spousal trust, the trust has to be resident in Canada right after the proceeds or income become locked in for the trust. We define “locked in” in the glossary on page 4.

The spouse or spousal trust includes in income an amount equal to the reserve that is on Form T2069. The spouse or spousal trust has to include this income on the return for the first tax year after death. You have to attach a copy of Form T2069 to that return.

#### Lines 144 to 146 – Other types of income

Report the deceased’s workers’ compensation benefits, social assistance payments, and net federal supplements on the appropriate line. For details, see the *General Income Tax and Benefit Guide*, or the guide that came with the deceased’s return.

#### Net income

##### Line 208 – RRSP deduction

Use this line to deduct registered retirement savings plan (RRSP) contributions the deceased made before his or her death. These include contributions to both the deceased’s RRSPs and those of the deceased’s spouse. After a person dies, no one can contribute to the deceased’s RRSPs.

You can also deduct amounts you contribute after the date of death for the deceased to an RRSP of the deceased’s spouse. You have up to 60 days after the end of the year in which the death occurred to contribute these amounts.

The amount you can deduct on the deceased’s return for 2000 is usually based on the deceased’s 2000 RRSP deduction limit. You can also deduct amounts for contributions the deceased made for certain income the deceased received and transferred to an RRSP.

For more information, see the guide called *RRSPs and Other Registered Plans for Retirement*.

For information on other deductions the deceased may be entitled to (line 207 and lines 209 to 235), see the *General Income Tax and Benefit Guide*, or the guide that came with the deceased’s return.

#### Taxable income

##### Line 253 – Net capital losses of other years

For details about these losses, see Chapter 5 on page 20.

For information on other deductions the deceased may be entitled to (lines 248 to 252 and lines 254 to 256), see the *General Income Tax and Benefit Guide*, or the guide that came with the deceased’s return.

#### Non-refundable tax credits

##### Personal amounts (lines 300 to 307)

If the deceased lived in Canada from January 1 to the date of death, claim the full personal amounts.

If the deceased lived outside Canada for part of the time from January 1 to the date of death, you may have to prorate the personal amounts. To do so, multiply the personal amount by the number of days the deceased lived in Canada and divide the result by the number of days in the year. This number is the amount you can claim on the deceased's return. If the deceased immigrated to Canada in the year of death, see the pamphlet called *Newcomers to Canada*. If the deceased emigrated from Canada in the year of death, see the pamphlet called *Emigrants and Income Tax*.

**Line 300** – Basic personal amount  
Claim the full basic personal amount for the year.

**Line 301** – Age amount  
If the deceased was 65 or older, and his or her net income is less than \$49,824, you can claim all or part of the age amount. The amount you can claim will depend on the deceased's net income for the year. See line 301 in the *General Income Tax and Benefit Guide*, or the guide that came with the deceased's return.

**Line 303** – Spousal amount  
If the spouse's net income for the year is less than \$6,754, you may be able to claim all or part of the spousal amount. Use the spouse's net income for the whole year, not just up to the deceased's date of death.

**Line 305** – Equivalent-to-spouse amount  
If the deceased is entitled to claim the equivalent-to-spouse amount, use the dependant's net income for the whole year, not just up to the deceased's date of death. For details, see line 305 in the *General Income Tax and Benefit Guide*.

**Line 306** – Amount for infirm dependants age 18 or older  
If the deceased is entitled to claim an amount for an infirm dependant who is 18 or older, use the dependant's net income for the whole year, not just up to the deceased's date of death. For details, see line 306 in the *General Income Tax and Benefit Guide*.

**Line 314** – Pension income amount  
The deceased may have received eligible pension or annuity income before the date of death. If this is the case, you may be able to claim the pension income amount of up to \$1,000. For details, see the *General Income Tax and Benefit Guide*, or the guide that came with the deceased's return.

**Line 315** – Caregiver amount  
You may be able to claim this amount for the deceased if the deceased cared for certain dependents. For details, see line 315 in the *General Income Tax and Benefit Guide* and complete the chart for line 315 included with the forms package.

**Line 316** – Disability amount  
You can claim a disability amount if the deceased met **both** of these conditions:

- The deceased had a severe mental or physical impairment in the year. A severe impairment is one that markedly restricts the basic activities of daily living. It

has to last, or be expected to last, for a continuous period of at least 12 months.

- The deceased or someone else has not claimed medical expenses for a full-time attendant that are more than \$20,000, or for full-time care in a nursing home because of the impairment.

#### **Tax Tip**

If the deceased or anyone else paid for an attendant or for care in a nursing home or other establishment because of the deceased's impairment, it may be more beneficial to claim the amounts paid as medical expenses instead of the disability amount. In some circumstances, both amounts can be claimed.

For more details, see "Options" in the guide called *Information Concerning People with Disabilities*, and Interpretation Bulletin IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*.

**Line 318** – Disability amount transferred from a dependant other than your spouse  
If the deceased had a dependant who is entitled to claim a disability amount, you may be able to claim all or a part of the dependant's disability amount. For details, see the *General Income Tax and Benefit Guide*, or the guide that came with the deceased's return.

**Line 319** – Interest paid on your student loans  
You can claim an amount for most of the interest the deceased paid after 1997 on loans made to him or her under the *Canada Student Loan Act*, the *Canada Student Financial Assistance Act*, or similar provincial or territorial government laws. Enter the total amount shown on the receipts. Attach the receipts to the return. For more details, see the *General Income Tax and Benefit Guide* or the pamphlet called *Students and Income Tax*.

**Line 326** – Amounts transferred from your spouse  
Sometimes there are amounts that a spouse does not need to reduce his or her federal income tax to zero. In these situations, you can transfer the unneeded amounts to the deceased's final return.

Also, the deceased may have amounts that are not needed to reduce his or her federal tax to zero. If this is the case, you can transfer the unneeded amounts to the spouse's return. However, before you can do this, you have to reduce the federal tax to zero on the final return you file for the deceased.

For either situation, you can transfer the following amounts:

- the age amount (line 301), if the spouse was 65 or older;
- the pension income amount (line 314);
- the disability amount (line 316); and
- 2000 tuition and education amounts (line 323) as designated by the student (maximum \$5,000).

### Line 330 – Medical expenses

You can claim medical expenses that are more than the lower of:

- under proposed changes, \$1,637; or
- 3% of the deceased's total net income from line 236 of all returns for the year of death.

The expenses can be for any 24-month period that includes the date of death, as long as no one has claimed them on any other return.

Attach the receipts for medical expenses to the return.

#### Note

You may be able to claim a credit of up to, under proposed changes, \$507 if you have an amount on line 332, "Allowable portion of medical expenses." Use the net income from the deceased's final return, and the spouse's net income for the entire year in the calculation of this credit. For details, see line 452, "Refundable medical expense supplement," in the *General Income Tax and Benefit Guide*.

For more details on medical expenses, see line 330 in the *General Income Tax and Benefit Guide*, the *Special Income Tax and Benefit Guide*, or the *T1S-A Income Tax and Benefit Guide*.

### Line 349 – Donations and gifts

Use this line to claim charitable donations the deceased made before the date of death. If you are using a T1 General return or a T1 Special return, complete Schedule 9, *Donations and Gifts*. If you are using a T1S-B return, complete Schedule 9B, *Donations and Gifts*. If you are using a T1S-A return, calculate the allowable amount on the return.

Support the claims for donations and gifts with official receipts that the registered charity or other qualified donee has issued, showing either the deceased's name, or the deceased's spouse's name.

You can also claim charitable donations made through the will, as long as you support the donations. The type of support you have to provide depends on when the registered charity or other qualified donee will receive the gift:

- For gifts that will be received right away, provide an official receipt.
- For gifts that will be received later, provide a copy of each of the following:
  - the will;
  - a letter from the estate to the charitable organization that will receive the gift, advising of the gift and its value; and
  - a letter from the charitable organization acknowledging the gift and stating that it will accept the gift.

Under proposed changes, effective for deaths occurring after 1998, a charitable donations tax credit may be claimed for a donation of a direct distribution of proceeds to a qualified donee from an RRSP (including a group RRSP), RRIF, or life insurance policy (including a group life insurance policy) as a result of a beneficiary designation. This change does not apply if the qualified donee is the policy holder. For more information regarding this restriction, see Interpretation Bulletin, IT-244, *Gifts by Individuals of Life Insurance Policies as Charitable Donations*.

The deceased may have donated amounts in the five years before the year of death. As long as the deceased did not claim the amounts before, you can claim them in the year of death. Where part of a donation has already been claimed, attach a note to the return giving the amounts and the year or years the donations were made. Also, attach any receipts that were not attached to previous returns.

The most you can claim is the lower of:

- amounts donated in the year of death (including gifts by will), plus any amounts donated in the five years before the year of death, if the deceased did not claim them before; or
- 100% of the deceased's net income (line 236) on the return.

On the return(s) for the year of death, you may not be able to claim all of the gifts the deceased made in the year of death. In that case, you can ask us to adjust the deceased's return for the preceding year to include the unused part of these gifts.

Sometimes, a gift can be capital property. At the time the deceased gives the property, its fair market value may be more than its adjusted cost base. We define "fair market value" and "adjusted cost base" in the glossary on page 4.

When the fair market value is more than the adjusted cost base, you can choose, as the amount of the gift, an amount that is not more than the fair market value but not less than its adjusted cost base. The amount you choose is the deceased's proceeds of disposition for the gift. Use this amount to determine the credit for the gift. This may result in a capital gain.

For more information about charitable donations and the special rules that may apply, or if the gift is any of the following, see the pamphlet called *Gifts and Income Tax*.

- A gift of property other than cash.
- A gift to Canada, a province, or a territory made before February 19, 1997, or agreed to in writing before then if they were made after February 18, 1997.
- A gift to a designated institution of property certified by the Canadian Cultural Property Export Review Board.
- A gift of land certified by the Minister of the Environment to be important to the preservation of Canada's environmental heritage.

### Refund or Balance owing

You will find the details you need about tax and credits in the section called "Refund or Balance owing" in the guide that came with the deceased's return.

## Minimum tax

Minimum tax limits the tax advantage a person can receive in a year from certain incentives. Minimum tax does not apply to a person for the year of death. However, the deceased may have paid this tax in one or more of the seven years before the year of death. If this is the case, you may be able to deduct from the tax owing for the year of death, part or all of the minimum tax the deceased paid in those years. To do this, complete Part 8 of Form T691, *Alternative Minimum Tax*. Include Form T691 with the return.

## Provincial and territorial tax credits

Some provinces and territories have tax credits that are available through the federal tax system. For details, see the provincial or territorial forms in the income tax package you are using.

## Signing the return

As the legal representative for the deceased, you have to sign the return in the area provided on the last page of the return. Sign your name and indicate your title (for example, executor or administrator).

# Chapter 3 – Optional returns

**O**ptional returns are returns on which you report some of the income that you would otherwise report on the final return. By filing one or more optional returns, you may reduce or eliminate tax for the deceased. This is possible because you can claim certain amounts more than once, split them between returns, or claim them against specific kinds of income.

“Chart 1 – Returns for the year of death” on page 26 summarizes the information in this chapter. You may also want to get Interpretation Bulletin IT-326, *Returns of Deceased Persons as “Another Person.”*”

You can choose to file up to three optional returns. The optional returns are for income from:

- rights or things;
- a business as a partner or proprietor; or
- a testamentary trust.

### Note

Do not confuse the optional return for income from a testamentary trust with the *T3 Trust Income Tax and Information Return*. After someone dies, a will or a court order may create a trust, and the trustee, executor, or administrator may file a T3 return. Also, an individual can file a T3 return to report income earned after the date of death or for CPP or QPP benefits. For more information, see “Chart 2 – Income reported on the *T3 Trust Income Tax and Information Return*,” on page 28, and get the *T3 Trust Guide*.

## Signing the optional return

You have to sign the optional return in the area provided on the last page of the return. Sign your name and indicate your title (for example, executor or administrator).

## What are the three optional returns?

### 1. Return for rights or things

Rights or things are amounts that were not paid at the time of death and that, had the person not died, would have been included in his or her income when received. There are rights or things from employment and other sources.

You can file a return for rights or things to report the value of the rights or things at the time of death. However, if you file a return for rights or things, you have to report **all** rights or things on that return, except those transferred to beneficiaries. You **cannot** split rights or things between the final return and the rights or things return.

If you **transfer** rights or things to a beneficiary, you have to do so within the time limit for filing a return for rights or things. Report the income from the transferred rights or things on the beneficiary’s return, not on the deceased’s return.

### Employment rights or things

Employment rights or things are salary, commissions, and vacation pay, as long as **both** of these conditions are met:

- The employer owed them to the deceased on the date of death.
- They are for a pay period that ended before the date of death.

### Other rights or things

Other rights or things include the following:

- uncashed matured bond coupons;
- bond interest earned to a payment date before death, but not paid and not reported in previous years;
- unpaid dividends declared before the date of death;
- supplies on hand, inventory, and accounts receivable if the deceased was a farmer or fisherman and used the cash method;
- livestock that is not part of the basic herd and harvested farm crops, if the deceased was using the cash method; and
- work in progress, if the deceased was a sole proprietor and a professional (an accountant, a dentist, a lawyer, a medical doctor, a veterinarian, or a chiropractor), who had elected to exclude work in progress when calculating his or her total income.

For more details about rights or things, see Interpretation Bulletins IT-212, *Income of Deceased Persons – Rights or Things*, and its Special Release, IT-234, *Income of Deceased Persons – Farm Crops*, and IT-427, *Livestock of Farmers*.

Some items that are **not** rights or things include:

- amounts that accumulate periodically, such as interest from a bank account;
- bond interest accumulated between the last interest payment date before the person died and the date of death;
- registered retirement savings plan income;
- amounts withdrawn from the Net Income Stabilization Account (NISA) Fund 2;
- eligible capital property and capital property;
- Canadian or foreign resource properties;
- land in the deceased's business inventory; and
- income from an income-averaging annuity contract.

**How to file** – If you decide to file a return for rights or things, you will need to:

1. Get a General return.
2. Write “70(2)” in the top right corner of page 1 of the return.
3. Follow the instructions for completing a return in this guide and the *General Income Tax and Benefit Guide*.

You have to file this return and pay any amount owing by the later of:

- 90 days after we mail a notice of assessment or notice of reassessment for the final return; or
- one year after the date of death.

### Election to delay payment of income tax

In some cases, you can delay paying part of the amount owing from rights or things. Remember that we charge interest on any unpaid amount, from the due date to the date you pay the amount in full.

If you want to delay payment, you will have to give us security for the amount owing. You also have to complete Form T2075, *Election to Defer Payment of Income Tax, Under Subsection 159(5) of the Income Tax Act by a Deceased Taxpayer's Legal Representative or Trustee*. For more details, contact the Revenue Collections Division of your tax services office.

### How to cancel a return for rights or things

You may file a return for rights or things before the due date, but later want to cancel it. We will cancel the return if you send us a note asking us to do this. You have to send the note by the filing due date for the rights or things return.

## 2. Return for a partner or proprietor

A deceased person may have been a partner in, or the sole proprietor of, a business. The business may have a fiscal year that does not start or end on the same dates as the calendar year. If the person died after the business's fiscal period ended but before the end of the calendar year in which the fiscal period ended, you can file an optional return for the deceased.

On this return, report the income for the time from the end of the fiscal period to the date of death. If you choose not to file this optional return, report all business income on the final return.

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### Example

A person who had a business died on May 28, 2000. The business has a March 31 fiscal year end. You have two choices when you report the person's 2000 income:

- One choice is to include the business income from April 1, 1999, to May 28, 2000, on the final return.
- The other choice is to file a return for a partner or proprietor in addition to the final return. On the final return, include business income from April 1, 1999, to March 31, 2000. On the return for a partner or proprietor, report the business income from April 1, 2000, to May 28, 2000.

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**How to file** – If you decide to file a return for a partner or proprietor, you will need to:

1. Get a General return.
2. Write “150(4)” in the top right corner of page 1 of the return.
3. Follow the instructions for completing a return in this guide and the *General Income Tax and Benefit Guide*.

You have to file this optional return and pay any amount owing when the final return is due. See the sections called “What date is the final return due?” on page 7 and “What is the due date for a balance owing?” on page 8.

For more information, see Interpretation Bulletin IT-278, *Death of a Partner or of a Retired Partner*.

## 3. Return for income from a testamentary trust

You can file an optional return for a deceased person who received income from a testamentary trust. This kind of trust is set up as a result of another person's death. The trust may have a fiscal period that does not start or end on the same dates as the calendar year.

A person getting income from a testamentary trust may die after the trust's fiscal period ends. If this happens, you can file a return for the deceased's income from this trust for the time from the end of the trust's fiscal period to the date of death.

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### Example

A husband gets income from a testamentary trust. The trust was formed as a result of his wife's death. The fiscal year of the trust is from April 1 to March 31. The husband died on June 11, 2000. You have two choices when you report the husband's income from the trust:

- One choice is to include the trust income from April 1, 1999, to June 11, 2000, on the final return.
- The other choice is to file a return for income from the trust in addition to the final return. On the final return, include the trust income from April 1, 1999, to

March 31, 2000. On the return for income from the trust, report the trust income from April 1, 2000, to June 11, 2000.

**How to file** – If you decide to file a return for income from a testamentary trust, you will need to:

1. Get a General return.
2. Write “104(23)(d)” in the top right corner of page 1 of the return.
3. Follow the instructions for completing a return in this guide and the *General Income Tax and Benefit Guide*.

You have to file this optional return and pay any amount owing by the later of:

- April 30, 2001; or
- six months after the date of death.

## Amounts for optional returns

There are three groups of amounts you can claim on the optional returns. They are amounts you can:

- claim in full on each return;
- split between returns; and
- claim only against certain income.

### Amounts you can claim in full on each return

On each optional return and on the final return, you can claim:

- the basic personal amount;
- the age amount;
- the spousal amount;
- the equivalent-to-spouse amount; and
- amounts for infirm dependants age 18 or older.

### Amounts you can split between returns

There are certain amounts you cannot claim in full on the final return and optional returns. However, you can split these amounts between the returns.

When you split an amount, the **total** of the claims cannot be more than what would have been allowed if you were only filing the final return. Amounts you can split are:

- disability amount for the deceased;
- disability amount for a dependant other than a spouse;
- interest paid on certain student loans;
- tuition and education amounts for the deceased;
- tuition and education amounts you transfer from a child;
- charitable donations that are not more than 100% of the net income you report on that return;
- cultural, ecological, and Crown gifts; and

- medical expenses, which you can split any way you want between the final return and any optional returns. However, you have to reduce the total expenses by the lower of, under proposed changes, \$1,637 or 3% of the total net income you report on all returns.

### Example

In the year a woman died, her total medical expenses were \$8,000. You decide to file a rights or things return in addition to the final return. The total of her net income on the two returns is \$40,000. Of this, \$30,000 is on the final return and \$10,000 is on the rights or things return.

You decide to split the \$8,000 of medical expenses and claim three-quarters on the final return, and one-quarter on the rights or things return.

$$\frac{3}{4} \text{ of } \$8,000 = \$6,000 \text{ (to claim on final return)}$$

$$\frac{1}{4} \text{ of } \$8,000 = \$2,000 \text{ (to claim on rights or things return)}$$

The medical expense reduction is the lower of \$1,637 or 3% of the total net income. In this example, the reduction is \$1,200 ( $\$40,000 \times 3\%$ ), which is lower than \$1,637.

The medical expense reduction must also be split between the two returns in the same proportion as the medical expenses.

$$\frac{3}{4} \text{ of } \$1,200 = \$900$$

$$\frac{1}{4} \text{ of } \$1,200 = \$300$$

Deductions for medical expenses on final return	=	\$6,000 – \$900
	=	<u>\$5,100</u>

Deductions for medical expenses on rights or things return	=	\$2,000 – \$300
	=	<u>\$1,700</u>

The deductions for medical expenses are \$5,100 on the final return and \$1,700 on the rights or things return.

### Amounts you can claim only against certain income

There are some amounts you can only claim on those returns on which you report the related income. The amounts are:

- registered pension plan deduction;
- registered retirement savings plan deduction;
- annual union, professional, or like dues;
- carrying charges and interest expenses;
- other employment expenses;
- employee home relocation loan deduction;
- stock option and shares deductions;
- vow of perpetual poverty deduction;
- Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions;
- Employment Insurance premiums;
- pension income amount; and
- social benefits repayment.



### Example

A deceased person's total employment income in the year of death was \$30,000, and the CPP amount was \$800. Of the \$30,000, \$1,000 is a right or thing. Of the \$800, \$27 is the CPP contribution the person paid on the \$1,000. You decide to file a return for rights or things.

On the final return, you report income of \$29,000 and claim a CPP amount of \$773. On the return for rights or things, you include income of \$1,000 and claim a CPP amount of \$27.

There are certain amounts you **cannot** claim on an optional return. They include:

- child care expenses;
- attendant care expenses;
- business investment losses;
- moving expenses;
- support payments made;
- exploration and development expenses;
- losses from other years;
- capital gains deduction;
- northern residents deduction;
- caregiver amount; and
- amounts you transfer from a spouse.

You may be able to claim these amounts on the final return.

For more information on other credits, see "Chart 1 – Returns for the year of death" on page 26.

## Chapter 4 – Deemed disposition of property

In this chapter, we discuss the tax treatment of capital property the deceased owned at the date of death. We deal with capital property in general, as well as the particular treatment of depreciable and farm property. We discuss only property acquired after December 31, 1971.

There are special rules for property that a deceased person owned before 1972. For details about these rules and for information about other property such as eligible capital property, resource property, or an inventory of land, contact us.

We define some of the terms in this chapter in the glossary on page 4.

### General information

When a person dies, we consider that the person has disposed of all capital property right before death. We call this a deemed disposition.

Also, right before death, we consider the person to have received the deemed proceeds of disposition (throughout

this chapter we will refer to this as "deemed proceeds"). Even though there was not an actual sale, there can be a capital gain or (except for depreciable property) a capital loss.

For depreciable property, in addition to a capital gain, there can also be a recapture of capital cost allowance. Also, for depreciable property, instead of a capital loss there may be a terminal loss. We explain these terms below.

### What is a capital gain?

When the deemed proceeds of disposition of a capital property are more than its adjusted cost base, the result is a capital gain.

Under proposed changes, for dispositions before February 28, 2000, generally 3/4 of the capital gain is the **taxable** capital gain. For dispositions after February 27 and before October 18, 2000, generally 2/3 of the capital gain is the taxable capital gain. For dispositions after October 17, 2000, generally 1/2 of the capital gain is the taxable capital gain. These three rates are called inclusion rates.

Use Schedule 3, *Capital Gains (or Losses) in 2000*, to calculate the taxable capital gain to report on the final return. You can get this schedule from your tax services office, from the Internet, or by picking up the *T1 General – Forms* book from any postal outlet. **If you received a General income tax return package that includes labels, do not use the enclosed Schedule 3.** You may be able to claim a capital gains deduction.

### What is a capital gains deduction?

This is a deduction you can claim for the deceased person against eligible taxable capital gains from the disposition and deemed disposition of certain capital property.

You may be able to claim the capital gains deduction on taxable capital gains the deceased had in 2000 from:

- dispositions of qualified farm property;
- dispositions of qualified small business corporation shares; and
- a reserve brought into income from either of the above.

For more information on any of the above, see the guide called *Capital Gains*.

### What is a capital loss?

When the deemed proceeds of a capital property are less than its adjusted cost base, the result is a capital loss.

Under proposed changes, for dispositions before February 28, 2000, generally 3/4 of the capital loss is the **allowable** capital loss. For dispositions after February 27 and before October 18, 2000, generally 2/3 of the capital loss is the allowable capital loss. For dispositions after October 17, 2000, generally 1/2 of the capital loss is the allowable capital loss. These three rates are called inclusion rates.

When allowable capital losses are more than taxable capital gains, the difference is a net capital loss. For more details on

claiming a capital loss, see the section called “Net capital losses in the year of death” on page 24.

You cannot have a capital loss on the disposition of depreciable property.

## Recaptures and terminal losses

For depreciable property, when the deemed proceeds are **more** than the undepreciated capital cost, you will usually have a recapture of capital cost allowance. Include the recapture in income on the deceased’s final return.

For depreciable property, when the deemed proceeds are **less** than the undepreciated capital cost, the result is a terminal loss. Deduct the terminal loss on the deceased’s final return.

For more details about a recapture of capital cost allowance or a terminal loss, see Interpretation Bulletin IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*.

## Capital property other than depreciable property

In this section, we explain how to determine the deemed proceeds for capital property, other than depreciable property. If there is a transfer of depreciable property, read the section called “Depreciable property” on page 18. If there is a transfer of farm property to a child, read the section called “Farm property transferred to a child” on page 19.

### Deceased’s deemed proceeds – Transfer to spouse or spousal trust

There may be a transfer of capital property (including farmland) to a spouse or a spousal trust.

For a transfer to a spouse, the deemed proceeds are the same as the property’s adjusted cost base right before death, if **both** of these conditions are met:

- The spouse was a resident of Canada right before the person’s death.
- The property becomes locked in for the spouse no later than 36 months after the date of death. If you need more time to meet this condition, you can make a written request to the Director at your tax services office.

For a transfer to a spousal trust, the deemed proceeds are the same as the property’s adjusted cost base right before death, if **both** of these conditions are met:

- The spousal trust is resident in Canada right after the property becomes locked in for the spousal trust.
- The property becomes locked in for the spousal trust no later than 36 months after the date of death. If you need more time to meet this condition, you can make a written request to the Director at your tax services office.

In most cases, the deceased will not have a capital gain or loss. This is because the transfer postpones any gain or loss to the date the beneficiary disposes of the property.

### Example

A person’s will transfers non-depreciable capital property to the spouse, and both of the conditions for transfer to a spouse are met. Right before death, the adjusted cost base of the property was \$35,000. Therefore, the deemed proceeds are \$35,000. You would not report any capital gain or loss on the deceased’s final return.

### Tax tip

You can choose not to have the deemed proceeds equal the adjusted cost base. If you make this choice, the deemed proceeds are equal to the property’s fair market value right before death. You have to make this choice when you file the final return for the deceased.

You may want to do this to use a capital gains deduction (see page 17) or a net capital loss on the deceased’s final return. It may be best to report a capital gain or loss on the final return instead of deferring it to the spouse or spousal trust.

### Deceased’s deemed proceeds – All other transfers

For all other transfers, the deemed proceeds are equal to the property’s fair market value right before death.

## Depreciable property

In this section, we explain how to determine the deemed proceeds for depreciable property. If there is a transfer of farm property to a child, see page 19.

### Deceased’s deemed proceeds – Transfer to spouse or spousal trust

There may be a transfer of depreciable property (including depreciable farm property) to a spouse or a spousal trust. For such transfers, you may be able to use a special amount for the deemed proceeds. When you use this special amount, the deceased will not have a capital gain, recapture of capital cost allowance, or a terminal loss. This is because the transfer postpones any gain, recapture, or terminal loss to the date the beneficiary disposes of the property.

The conditions required to use this special amount are the same as those listed for a transfer of capital property to a spouse or spousal trust.

The special amount (deemed proceeds) is the **lower** of:

- the capital cost of the property for the deceased; or
- the result of the following calculation:

$$\frac{\text{Capital cost of the property}}{\text{Capital cost of all the property in the same class that had not been disposed of previously}} \times \text{Undepreciated capital cost of all of the deceased's property in the same class}$$

### Example

A woman had two trucks that were used in her business. The woman died in July 2000, and the will transferred one truck to her husband. Both of the conditions stated above for transfer to a spouse are met. You have the following details:

Undepreciated capital cost of the two trucks right before death.....	\$33,500
Capital cost of transferred truck .....	\$22,500
Capital cost of the two trucks .....	\$50,000

The deceased's deemed proceeds on the transferred truck are the lower of:

- \$22,500; or
- $\frac{\$22,500}{\$50,000} \times \$33,500 = \$15,075$ .

The deemed proceeds are \$15,075.

When there is more than one property in the same class, you can choose the order in which the deceased is deemed to have disposed of the properties. When you calculate the special amount, adjust the undepreciated capital cost and the total capital cost of the properties in the class to exclude previous deemed dispositions.

#### Note

When determining the special amount, you will need to recalculate the capital cost of property in the class when:

- the property was acquired in a non-arm's length transaction (see the glossary on page 4);
- the property was previously used for other than gaining or producing income; or
- the part of a property used for gaining or producing income changed.

For more information, contact us.

#### Tax tip

You can choose not to use the special amount for the deemed proceeds. If you make this choice, the deemed proceeds are equal to the property's fair market value right before death. You have to make this choice when you file the final return for the deceased.

You may want to do this to use a capital gains deduction (see page 17) on the final return. It may be best to report a capital gain, recapture, or terminal loss on the final return instead of deferring it to the spouse or spousal trust.

### Deceased's deemed proceeds – All other transfers

For all other transfers, the deemed proceeds are equal to the property's fair market value right before death.

### Farm property transferred to a child

In this section, we explain how to determine the deemed proceeds when there is a transfer of farm property to a

child. For this kind of transfer, you may be able to use a special amount for the deemed proceeds.

In this chapter, when we refer to the transfer of farm property, the terms **farm property** and **child** have the following meanings:

**Farm property** includes land, or other depreciable property used for farming.

A **child** includes:

- the deceased's natural or adopted child;
- the deceased's spouse's child;
- the deceased's grandchild or great-grandchild;
- a person who, while under 19, was in the deceased's custody and control and was wholly dependent on the deceased for support; and
- the spouse of any of the above.

### Conditions

To use the special amount for the deemed proceeds, **all** four of the following conditions have to be met:

- The farm property is in Canada.
- The deceased, the deceased's spouse, or any child of the deceased was using the farm property mainly for farming, on a regular and ongoing basis, before the deceased's death.
- The child was a resident of Canada right before the deceased's death.
- The farm property becomes locked in for the child no later than 36 months after the date of death. If you need more time to meet this condition, you can make a written request to the Director at your tax services office.

You may also be able to use a special amount for the deemed proceeds when a share of the capital stock of a family farm corporation or an interest in a family farm partnership is transferred to a child. For details, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*.

### Deceased's deemed proceeds – Transfer of farmland to a child

If all four of the above conditions are met, you can choose to have the deemed proceeds equal the adjusted cost base of the land right before death. Therefore, the deceased will not have a capital gain or loss.

#### Tax tip

You can choose not to have the deemed proceeds equal the adjusted cost base. If you make this choice, you can transfer the land for any amount between its adjusted cost base and fair market value right before death. You have to make this choice when you file the final return for the deceased.

You may want to do this to use the capital gains deduction (see page 17) or a net capital loss on the final return. It may be best to report a capital gain or loss on the final return instead of deferring it to a child.

## Deceased's deemed proceeds – Transfer of depreciable farm property to a child

If there is a transfer of depreciable farm property, you may be able to use a special amount for the deemed proceeds. To use this special amount, the four conditions we listed earlier in this section have to be met.

In most cases, when you use this special amount, the deceased will not have a capital gain, a recapture of capital cost allowance, or a terminal loss. This is because the transfer postpones any gain, recapture, or terminal loss to the date the beneficiary disposes of the property.

The special amount (deemed proceeds) is the **lower** of:

- the capital cost of the property for the deceased; or
- the result of the following calculation:

$$\frac{\text{Capital cost of the property}}{\text{Capital cost of all the property in the same class that had not been disposed of previously}} \times \text{Undepreciated capital cost of all of the deceased's property in the same class}$$

### Example

A man who owned three tractors died in May 2000. His will transferred one tractor to his son. The four conditions for transfer of farm property to a child are met. You have the following details:

Undepreciated capital cost of the three tractors right before death.....	\$ 90,000
Capital cost of transferred tractor .....	\$ 45,000
Capital cost of all three tractors.....	\$100,000

The deceased's deemed proceeds on the transferred tractor are the lower of:

- \$45,000; or
- $\$ \frac{45,000}{100,000} \times \$90,000 = \$40,500$ .

The deemed proceeds are \$40,500.

When there is more than one property in the same class, you can choose the order in which the deceased is deemed to have disposed of the properties. When you calculate the special amount, adjust the undepreciated capital cost and the total capital cost of the properties in the class to exclude previous deemed dispositions.

### Note

When you determine the special amount, you will need to recalculate the capital cost of any property in the class when:

- the property was acquired in a non-arm's length transaction;
- the property was previously used for other than gaining or producing income; or
- the part of a property used for gaining or producing income changed.

For more information, contact us.

### Tax tip

You can choose not to use the special amount for the deemed proceeds. If you make this choice, you can transfer the property for any amount between the special amount and its fair market value right before death. You have to make this choice when you file the final return for the deceased.

You may want to do this to use the capital gains deduction (see page 17) on the final return. It may be best to report a capital gain, recapture, or terminal loss on the final return instead of deferring it to a child.

For more details, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*, or contact us.

### Election to delay payment of income tax

In some cases, you can delay paying part of the income tax due. For instance, you can delay paying part of the amount owing from the deemed disposition of capital property. Remember that we charge interest on any unpaid amount, from the due date to the date you pay the amount in full.

If you want to delay payment, you will have to give us security for the amount owing. You also have to complete Form T2075, *Election to Defer Payment of Income Tax, Under Subsection 159(5) of the Income Tax Act by a Deceased Taxpayer's Legal Representative or Trustee*. For more details, contact the Revenue Collections Division of your tax services office. In most cases, you have to pay any amount owing on a return when the return is due.

## Chapter 5 – Net capital losses

In this chapter, we discuss how to apply a net capital loss that occurred in the year of death, as calculated on the final return. We also explain how to apply net capital losses from earlier years to the final return and the return for the year before the year of death.

We define some of the terms in this chapter in the glossary on page 4.

The following are some general rules that will help you understand how to apply a prior year net capital loss to the year of death or to apply a net capital loss in the year of death to a prior year return. For more details, see the guide called *Capital Gains*.

### Inclusion rate (IR)

Under proposed legislation, the inclusion rate for the year 2000 has changed. The rate you use will depend on the period in which the disposition of property occurred. For 2000, there are three periods:

**Period 1** – before February 28, 2000

**Period 2** – after February 27, 2000, and before October 18, 2000

**Period 3** – after October 17, 2000

For dispositions of property in 2000, the following inclusion rates will generally apply:

- for Period 1, the inclusion rate is 3/4;
- for Period 2, the inclusion rate is 2/3;
- for Period 3, the inclusion rate is 1/2.

If the property was disposed of in only one period, use the inclusion rate for that period. However, if property was disposed of in more than one period, there are special rules to determine the inclusion rate. We explain those rules below. The inclusion rate is determined by completing Part 4 of Schedule 3, *Capital Gains (or Losses) in 2000*. You can get this schedule from your tax services office, from the Internet, or by picking up the *T1 General – Forms* book from any postal outlet. **If you received a General income tax return package that includes labels, do not use the enclosed Schedule 3.**

### Determining the inclusion rate

In order to determine the inclusion rate, you need to know the **net capital gain** or **net capital loss** for each period.

In this section, the term “net capital gain” is the amount that the capital gains in one period exceed the capital losses for the same period. The term “net capital loss” is the amount that the capital losses in one period exceed the capital gains for the same period.

The calculation of the “net capital gain (loss)” is different from how you calculate taxable capital gains and allowable capital losses. When calculating a “net capital gain” or a “net capital loss” for a period, you include:

- capital gain (losses) reported on Schedule 3;
- capital gains from a flow-through entity **before** reducing the gains by the capital gains reduction for the entity;
- capital gains on gifts of certain capital property **before** reducing the gains by the capital gains reduction for the applicable entities; and
- business investment losses **before** calculating the reduction and the allowable portion of the loss.

Use Parts 1, 2, and 3 of Schedule 3 to calculate the net capital gain or net capital loss for each period. Line D of Part 1 is the net capital gain (loss) for Period 1. Line I of Part 2 is the net capital gain (loss) for Period 2. Line N of Part 3 is the net capital gain (loss) for Period 3. **Use Part 4 of Schedule 3 to calculate the inclusion rate for the year.**

You may also use the following tables to determine the inclusion rate for 2000. These tables are provided only to help illustrate how the inclusion rate is determined on Line 16 of Part 4 of Schedule 3. **Remember, if there were only capital dispositions in one period, use the inclusion rate for that period.** However, if capital gains are **equal** to capital losses in that period, the inclusion rate is considered to be 1/2.

**Table 1 – Capital gain (loss) in Periods 1 and 2 only**

Situation	Inclusion rate
Net capital gain in Period 1 is <b>more</b> than net capital loss in Period 2	3/4
Net capital loss in Period 1 is <b>more</b> than net capital gain in Period 2	3/4
Net capital gain in Period 1 is <b>less</b> than net capital loss in Period 2	2/3
Net capital loss in Period 1 is <b>less</b> than net capital gain in Period 2	2/3
Net capital loss (gain) in Period 1 is <b>equal to</b> net capital gain (loss) in Period 2	1/2
Net capital gain in both Periods 1 and 2 or net capital loss in both Periods 1 and 2	$\frac{(3/4 \times A) + (2/3 \times B)}{A + B}$

For the purposes of the formula in Table 1:

**A** = net capital gain (loss) for Period 1

**B** = net capital gain (loss) for Period 2

Table 2 – Capital gain (loss) in Periods 1 and 3 only	
Situation	Inclusion rate
Net capital gain in Period 1 is <b>more</b> than net capital loss in Period 3	3/4
Net capital loss in Period 1 is <b>more</b> than net capital gain in Period 3	3/4
Net capital gain in Period 1 is <b>less</b> than net capital loss in Period 3	1/2
Net capital loss in Period 1 is <b>less</b> than net capital gain in Period 3	1/2
Net capital loss (gain) in Period 1 is <b>equal to</b> net capital gain (loss) in Period 3	1/2
Net capital gain in both Periods 1 and 3 or net capital loss in both Periods 1 and 3	$\frac{(3/4 \times A) + (1/2 \times C)}{A + C}$
For the purposes of the formula in Table 2: <b>A</b> = net capital gain (loss) for Period 1 <b>C</b> = net capital gain (loss) for Period 3	

Table 3 – Capital gain (loss) in Periods 2 and 3 only	
Situation	Inclusion rate
Net capital gain in Period 2 is <b>more</b> than net capital loss in Period 3	2/3
Net capital loss in Period 2 is <b>more</b> than net capital gain in Period 3	2/3
Net capital gain in Period 2 is <b>less</b> than net capital loss in Period 3	1/2
Net capital loss in Period 2 is <b>less</b> than net capital gain in Period 3	1/2
Net capital loss (gain) in Period 2 is <b>equal to</b> net capital gain (loss) in Period 3	1/2
Net capital gain in both Periods 2 and 3 or net capital loss in both Periods 2 and 3	$\frac{(2/3 \times B) + (1/2 \times C)}{B + C}$
For the purposes of the formula in Table 3: <b>B</b> = net capital gain (loss) for Period 2 <b>C</b> = net capital gain (loss) for Period 3	

**Table 4 – Capital gain (loss) in Periods 1, 2, and 3**

Situation	Inclusion rate
<b>1. Total net capital gain in Periods 1 and 2 is <b>more</b> than net capital loss in Period 3</b>	
(a) net capital gain in Period 1 is <b>more</b> than net capital loss in Period 2	3/4
(b) net capital gain in Period 2 is <b>more</b> than net capital loss in Period 1	2/3
(c) net capital gains in both Period 1 and 2	$\frac{(3/4 \times A) + (2/3 \times B)}{A + B}$
<b>2. Total net capital gain in Periods 1 and 2 <b>less</b> than net capital loss in Period 3</b>	
In all three scenarios listed in situation 1 above, the inclusion rate is the following:	1/2
<b>3. Total net capital loss in Periods 1 and 2 is <b>more</b> than net capital gain in Period 3</b>	
(a) net capital loss in Period 1 is <b>more</b> than net capital gain in Period 2	3/4
(b) net capital loss in Period 2 is <b>more</b> than net capital gain in Period 1	2/3
(c) net capital losses in both Period 1 and 2	$\frac{(3/4 \times A) + (2/3 \times B)}{A + B}$
<b>4. Total net capital loss in Periods 1 and 2 is <b>less</b> than net capital gain in Period 3</b>	
In all three scenarios listed in situation 3 above, the inclusion rate is the following:	1/2
<b>5. Total net capital gain in Periods 1 and 2 and net capital gain in Period 3</b>	
(a) net capital gain in Period 1 is <b>more</b> than net capital loss in Period 2	$\frac{[3/4 \times (A + B)] + (1/2 \times C)}{A + B + C}$
(b) net capital gain in Period 2 is <b>more</b> than net capital loss in Period 1	$\frac{[2/3 \times (A + B)] + (1/2 \times C)}{A + B + C}$
<b>6. Total net capital loss in Periods 1 and 2 and net capital loss in Period 3</b>	
(a) net capital loss in Period 1 is <b>more</b> than net capital gain in Period 2	$\frac{[3/4 \times (A + B)] + (1/2 \times C)}{A + B + C}$
(b) net capital loss in Period 2 is <b>more</b> than net capital gain in Period 1	$\frac{[2/3 \times (A + B)] + (1/2 \times C)}{A + B + C}$
<b>7. If the total of the net capital gains and net capital losses is <b>equal to</b> zero in any of the situations described above, the inclusion rate is the following:</b>	
	1/2
<b>8. Net capital gains in all three periods or net capital losses in all three periods</b>	
	$\frac{(3/4 \times A) + (2/3 \times B) + (1/2 \times C)}{A + B + C}$
For the purposes of the formulas in Table 4: <b>A</b> = net capital gain (loss) for Period 1 <b>B</b> = net capital gain (loss) for Period 2 <b>C</b> = net capital gain (loss) for Period 3	

## Net capital losses in the year of death

To apply a net capital loss that happened in the year of death, you can use either Method A or Method B.

**Method A** – You can carry back a net capital loss to reduce any taxable capital gains in the three years before the year of death. If the effective inclusion rate for the 2000 loss is an amount other than 75%, you will need to adjust the loss by multiplying it by  $3/(4 \times \text{IR})$  where **IR** is the inclusion rate. The loss you carry back cannot be more than the taxable capital gains in those years.

After you carry back the loss, there may be an amount left. This amount will now have to be readjusted by multiplying it by  $(4 \times \text{IR})/3$  where **IR** is the inclusion rate. You may be able to use some of the resulting amount to reduce other income on the final return, the return for the year before the year of death, or both returns. However, before you can do this, you have to calculate the amount you can use.

From the net capital loss you have left, subtract any capital gains deductions the deceased has claimed to date. Use any loss left to reduce other income for the year of death, the year before the year of death, or for both years.

If you claim the remaining allowable capital loss in the year of death, you should claim the negative amount at line 127 of the final return. To ask for a loss carryback, complete Form T1A, *Request for Loss Carryback*, and send it to us.

### Note

Do not use a capital loss claimed against other income at line 127 in the calculation of net income for the purposes of calculating other amounts such as social benefit repayments, provincial tax credits and those non-refundable tax credits requiring the use of net income.

**Method B** – You can choose not to carry back the net capital loss to reduce taxable capital gains from earlier years. You may prefer to reduce other income on the final return, the return for the year before the year of death, or both returns. However, before you can do this, you have to calculate the amount you can use.

From the net capital loss, subtract any capital gains deductions the deceased has claimed to date. Use any loss remaining to reduce other income for the year of death, the year before the year of death, or for both years.

### Example

A man died on June 20, 2000. You have the following details about his tax matters:

Capital loss in Period 1.....	\$16,000
Capital loss in Period 2.....	\$ 9,000
Taxable capital gains in 1999.....	\$ 4,000
Taxable capital gains in 1998.....	\$ 2,000
Total capital gains deductions claimed to date....	\$ 8,000

He did not claim any capital gains deductions for 1998 or 1999.

Calculate his inclusion rate for 2000 as follows (refer to Table 1 in the section called “Inclusion rate (IR)” on page 20):

$$\begin{aligned} \text{Inclusion rate} &= \frac{(\$16,000 \times 3/4) + (\$9,000 \times 2/3)}{\$16,000 + \$9,000} \\ &= \frac{\$12,000 + \$6,000}{\$25,000} \\ &= \underline{72\%} \end{aligned}$$

His net capital loss is therefore \$18,000 ( $\$25,000 \times 72\%$ ).

You can now use Method A or Method B.

### Method A

If you choose to use Method A, you will first need to adjust his 2000 net capital loss as follows:

$$\$18,000 \times [3/(4 \times .72)] = \$18,750$$

After you reduce his 1998 and 1999 capital gains to zero ( $\$18,750 - \$6,000$ ), you have \$12,750 left. This amount must now be readjusted:

$$\$12,750 \times [(4 \times .72)/3] = \$12,240$$

After you subtract his capital gains deductions ( $\$12,240 - \$8,000$ ), you still have \$4,240 left to reduce the man’s other income for 2000 or 1999 or for both years.

### Method B

If you choose to use this method, you will first deduct his capital gains deductions of \$8,000 from his net capital loss in 2000 of \$18,000. You can now use the remaining \$10,000 to reduce the man’s other income for 2000 or 1999, or for both years.

### Note

Applying a 2000 net capital loss to a previous year may reduce any capital gains deductions the deceased claimed in that year or a following year.

## Net capital losses before the year of death

The deceased may have had a net capital loss before the year of death but never applied it. If so, you can apply the loss against taxable capital gains on the final return. If there is still an amount left, you may be able to use it to reduce other income on the final return, the return for the year before the year of death, or both returns. If you decide to claim this loss on the final return, report it at line 253.

The inclusion rate used to determine the taxable part of a capital gain and the allowable part of a capital loss has changed over the years. If the inclusion rate you calculated for 2000 is different from the inclusion rate in effect the year the loss occurred, you will need to adjust the loss before applying it to the taxable capital gain in 2000.

**To apply a previous year loss to 2000**, you will need to adjust the loss as follows:

- For a net capital loss from **1987 or earlier**, multiply the net capital loss by  $2 \times \text{IR}$ .



- For a net capital loss from **1988 or 1989**, multiply the net capital loss by  $(3 \times \text{IR})/2$ .
- For a net capital loss from **1990 to 1999**, multiply the net capital loss by  $(4 \times \text{IR})/3$ .

In each of these cases, **IR** is equal to the inclusion rate you calculated for 2000. When you make these calculations, you get the **adjusted net capital loss**.

Now you can reduce taxable capital gains in the year of death. To do this, use the **lower** of:

- the adjusted net capital loss; or
- the taxable capital gains in the year of death.

After you reduce the taxable capital gains, some of the loss may be left. You may be able to use this amount to reduce other income for the year of death, the year before the year of death, or for both years. However, before you can do this, you may have to calculate the amount you can use.

If you had to adjust the loss before applying it to the 2000 taxable capital gain as described above, you will now have to readjust the amount of the loss that remains as follows:

- Multiply the amount of any adjusted net capital losses from **1987 or earlier** by  $1/(2 \times \text{IR})$ .
- Multiply the amount of any adjusted net capital losses from **1988 or 1989** by  $2/(3 \times \text{IR})$ .
- Multiply the amount of any adjusted net capital losses from **1990 to 1999** by  $3/(4 \times \text{IR})$ .

The result is your **readjusted balance**. From this balance, subtract the total of all capital gains deductions claimed to date, including those on the final return. If there is an amount left, you can use it to reduce other income for the year of death, the year before the year of death, or for both years.

#### Example

A woman died in August of 2000. You have these details about her tax matters:

Net capital loss in 1989, never applied.....	\$20,000
Taxable capital gain in 2000.....	\$ 4,000
Inclusion rate for 2000 .....	<b>IR = 70%</b>
Capital gains deductions claimed to date.....	\$ 3,000

You decide to use the 1989 loss to reduce the 2000 gain, and to use any amount left to reduce other income for 2000.

You have to adjust the pre-1990 net capital loss before you can apply it. Because the loss occurred in 1989, multiply it by  $(3 \times \text{IR})/2$  to get the adjusted net capital loss:

$$\$20,000 \times [(3 \times .70)/2] = \$21,000$$

To reduce the 2000 gain, use the lower of:

- \$21,000 (adjusted net capital loss); or
- \$4,000 (2000 taxable capital gain).

After you use \$4,000 of the loss to reduce the gain to zero, you still have \$17,000 (\$21,000 – \$4,000) left. You can use this amount to reduce the deceased’s other income for 2000. To determine the amount to use, you have to readjust the \$17,000. Because the loss occurred in 1989, multiply the amount left by  $2/(3 \times \text{IR})$  to get the readjusted balance:

$$\$17,000 \times [2/(3 \times .70)] = \$16,190$$

From the readjusted balance, subtract the total of all capital gains deductions claimed to date:

$$\$16,190 - \$3,000 = \$13,190$$

You can use \$13,190 to reduce the deceased’s other income for 2000. If you decide not to use the total of this balance in 2000, you can use the amount that is left to reduce other income for 1999.

#### Note

If you claim a capital gains deduction for the year of death or the year before the year of death, subtract it from the balance of net capital losses you have available to reduce other income in those years. For more details about capital gains and losses, as well as the capital gains deduction, see the guide called *Capital Gains*.

## Disposition of estate property by the legal representative

As the legal representative, you may continue looking after the deceased’s estate through a trust. If you dispose of capital property, the result may be a net capital loss. If you dispose of depreciable property, the result may be a terminal loss.

Usually, you would claim these losses on the trust’s return. However, in the trust’s first taxation year, you can choose to claim all or part of these losses on the deceased’s final return. For more information, contact us.

# Appendix

Chart 1 – Returns for the year of death

Section of T1 <i>General Income Tax and Benefit Return</i>	Line	Final return	Return for rights or things 70(2)	Return for a partner or proprietor 150(4)	Return for income from a testamentary trust 104(23)(d)
<b>Total income</b>	101 to 146	<ul style="list-style-type: none"> <li>all income received before death</li> <li>all income from deemed dispositions</li> <li>all periodic payments (for example, rent, salary, and accrued interest)</li> </ul>	<ul style="list-style-type: none"> <li>salary, commissions, and vacation pay owed and paid after death (Note 1)</li> <li>retroactive salary adjustments owed and paid after death</li> <li>CPP and EI arrears</li> <li>accounts receivable, supplies, and inventory (Note 2)</li> <li>uncashed matured bond coupons</li> <li>bond interest earned before death</li> <li>dividends declared before the date of death, but not received</li> <li>crops, livestock (Note 3)</li> <li>work in progress (Note 4)</li> </ul>	<ul style="list-style-type: none"> <li>income from the business from the end of the business' fiscal period to the date of death</li> </ul>	<ul style="list-style-type: none"> <li>income from the trust from the end of the trust's fiscal period to the date of death</li> </ul>
<b>Deductions for Calculating Net income</b>	207 to 232	<ul style="list-style-type: none"> <li>all deductions from lines 207 to 232 that are allowable</li> </ul>	<ul style="list-style-type: none"> <li>only deductions related to the type of income included in this return, <b>except</b> for deductions claimed at lines 214, 215, 217, 219, 220, and 224</li> </ul>	same as for return for rights or things 70(2)	same as for return for rights or things 70(2)
	235	<ul style="list-style-type: none"> <li>social benefits repayments</li> </ul>	Note 5	not applicable	not applicable
<b>Deductions for Calculating Taxable income</b>	<b>Split deductions (Note 6)</b>				
	248	<ul style="list-style-type: none"> <li>home relocation loans</li> </ul>	Note 7	not applicable	not applicable
	249	<ul style="list-style-type: none"> <li>stock options</li> </ul>	Note 7	not applicable	not applicable
	250	<ul style="list-style-type: none"> <li>other payments</li> </ul>	not applicable	not applicable	not applicable
	251-255	<ul style="list-style-type: none"> <li>losses or other deductions</li> </ul>	no	no	no
	256	<ul style="list-style-type: none"> <li>vow of perpetual poverty</li> </ul>	yes	not applicable	not applicable
<b>Non-refundable tax credits</b>	300-306	<ul style="list-style-type: none"> <li>all personal amounts</li> </ul>	yes – in full	yes – in full	yes – in full
	<b>Split amounts (Note 6)</b>				
	308	<ul style="list-style-type: none"> <li>CPP or QPP contributions</li> </ul>	Note 7	not applicable	not applicable
	310	<ul style="list-style-type: none"> <li>CPP or QPP contributions on self-employed income</li> </ul>	not applicable	yes	not applicable
	312	<ul style="list-style-type: none"> <li>EI premiums</li> </ul>	Note 7	not applicable	not applicable
	314	<ul style="list-style-type: none"> <li>pension income amount</li> </ul>	Note 8	not applicable	Note 8
	315	<ul style="list-style-type: none"> <li>caregiver amount</li> </ul>	no	no	no
	316	<ul style="list-style-type: none"> <li>disability amount</li> </ul>	yes	yes	yes
	318	<ul style="list-style-type: none"> <li>disability amount, other than spouse</li> </ul>	yes	yes	yes
	319	<ul style="list-style-type: none"> <li>interest on student loans</li> </ul>	yes	yes	yes

**Chart 1 – Returns for the year of death (continued)**

	323-324	• tuition and education	yes	yes	yes
	326	• amounts transferred from spouse	no	no	no
	330	• medical expenses	Note 9	Note 9	Note 9
	340	• charitable donations	Note 10	Note 10	Note 10
	342	• cultural and ecological gifts	yes	yes	yes
<b>Refund or Balance owing</b>	412	• investment tax credit	no	no	no
	422	• social benefits repayment	Note 5	not applicable	Note 5
	425	• dividend credits	Note 11	not applicable	Note 11
	427	• minimum tax carry-over	no	no	no
	452	• refundable medical expense supplement (Note 12)	no	no	no

**Notes**

1. Salary, commissions, and vacation pay are rights or things if both of these conditions are met:
  - the employer owed them to the deceased on the date of death; and
  - they are for a pay period that ended before the date of death.
2. Accounts receivable, supplies on hand, and inventory are rights or things if the deceased's business used the cash method.
3. This includes harvested farm crops and livestock that is not part of the basic herd. For more information, get Interpretation Bulletins IT-234, *Income of Deceased Persons – Farm Crops*, and IT-427, *Livestock of Farmers*.
4. "Work in progress" is a right or thing if the deceased was a sole proprietor and a professional (accountant, dentist, lawyer, medical doctor, veterinarian, or chiropractor), who had elected to exclude work in progress when calculating his or her total income. For more information about rights or things, get Interpretation Bulletin IT-212, *Income of Deceased Persons – Rights or Things*, and its Special Release.
5. This amount can be claimed if OAS or EI benefits have been reported on this return.
6. Claims split between returns cannot be more than the total that could be allowed if you were only filing the final return.
7. This amount can be claimed if related employment income has been reported on this return.
8. This amount can be claimed if pension or annuity income has been reported on line 115 or line 129 of this return.
9. The medical expenses can be split between the returns. Allowable medical expenses have to be reduced by the lesser of, under proposed changes, \$1,637 or 3% of the total net income reported on **all** the returns.
10. The amount that can be claimed is the **lesser** of the charitable donations or 100% of the net income reported on this return. Complete Schedule 9, *Donations and Gifts*, to calculate the amount.
11. This amount can be claimed if dividend income has been reported on this return.
12. Use the deceased's net income from the final return, and the spouse's net income for the entire year to calculate this credit.

### Chart 2 – Income reported on the T3 Trust Income Tax and Information Return

Report the following amounts on line 19 of the *T3 Trust Income Tax and Information Return*, for the year in which you receive the income. If the income is received in a year after the year of death, report it on the T3 return for that subsequent year.

Type of income	Information slip
1. Salary or wages (including adjustments) paid for the period after the date of death, usually to the end of the month, or payment for the full month of death for which the deceased was not receiving pay, but was on authorized leave.	T4A, Box 28
2. Severance pay received because of death. As this is a death benefit, up to \$10,000 may be non-taxable.	T4A, Box 28
3. Future adjustments to severance pay regardless of when the collective agreement was signed.	T4A, Box 28
4. Refund of pension contributions payable because of death.	T4A, Box 18
5. Guaranteed minimum pension payment (this is not a death benefit).	T4A, Box 18
6. Deferred profit-sharing plan payment.	T4A, Box 18
7. CPP or QPP death benefit, if not reported by the recipient.	T4A(P), Box 18

### Chart 3 – Non-taxable amounts

Do not report the following amounts on a T1 final return for a deceased person or a T3 return for a trust:

1. Retroactive adjustments to the following employment income when a collective agreement or other authorizing instrument has been signed **after** the date of death:
  - salary or wages (including overtime) from the end of the last pay period to the date of death;
  - salary or wages (including overtime) for a pay period finished before the date of death, but paid after death; and
  - payment for vacation leave earned but not taken.
2. Group term insurance such as the federal government's supplementary death benefit.

## References

The following publications are available from your tax services office or by calling toll free at 1-800-959-2221. Most of our publications are available on the Internet at: [www.ccra-adrc.gc.ca](http://www.ccra-adrc.gc.ca)

### Forms

- T1A *Request for Loss Carryback*
- T1090 *Death of a RRIF Annuitant – Designated Benefit*
- T1136 *Old Age Security Return of Income*
- T2019 *Death of an RRSP Annuitant – Refund of Premiums*
- T2075 *Election to Defer Payment of Income Tax, Under Subsection 159(5) of the Income Tax Act by a Deceased Taxpayer's Legal Representative or Trustee*
- TX19 *Asking for a Clearance Certificate*

### Guides

- P113 *Gifts and Income Tax*
- RC4060 *Farming Income and NISA*
- RC4064 *Information Concerning People with Disabilities*
- RC4112 *Lifelong Learning Plan (LLP)*
- RC4135 *Home Buyers' Plan (HBP)*
- T4002 *Business and Professional Income*
- T4003 *Farming Income*
- T4013 *T3 Trust Guide*
- T4037 *Capital Gains*
- T4040 *RRSPs and Other Registered Plans for Retirement*
- T4055 *Newcomers to Canada*
- T4056 *Emigrants and Income Tax*

### Information circulars

- 82-6 *Clearance Certificate*
- 92-2 *Guidelines for the Cancellation and Waiver of Interest and Penalties*

### Interpretation bulletins

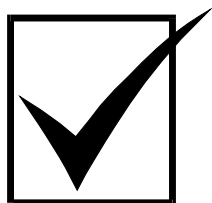
- IT-210 *Income of Deceased Persons – Periodic Payments and Investment Tax Credit*
- IT-212 *Income of Deceased Persons – Rights or Things, and its Special Release*
- IT-234 *Income of Deceased Persons – Farm Crops*
- IT-244 *Gifts by Individuals of Life Insurance Policies as Charitable Donations*
- IT-278 *Death of a Partner or of a Retired Partner*
- IT-305 *Testamentary Spouse Trusts*
- IT-326 *Returns of Deceased Persons as “Another Person”*
- IT-349 *Intergenerational Transfers of Farm Property on Death*
- IT-419 *Meaning of Arm's Length*
- IT-427 *Livestock of Farmers*
- IT-449 *Meaning of “Vested Indefeasibly”*
- IT-478 *Capital Cost Allowance – Recapture and Terminal Loss*
- IT-508 *Death Benefits*
- IT-519 *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*

### Information sheets

- RC4111 *What to Do Following a Death*
- RC4177 *Death of an RRSP Annuitant*
- RC4178 *Death of a RRIF Annuitant*

## Notes

# *Your opinion counts!*

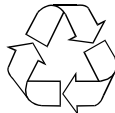


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