



Canada Revenue  
Agency

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du Canada

# Preparing Returns for Deceased Persons 2011

## 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 return.

### Which return should you use?

You can use an *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 an *Income Tax and Benefit Return*. You cannot 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, write the year for which you are filing. We will assess the return based on the legislation in effect for the year of death.

## What's new for 2011?

**Rollover of registered retirement savings plan (RRSP) proceeds to a registered disability savings plan (RDSP)** – For deaths occurring in 2011, the existing registered retirement savings plan (RRSP) rollover rules are extended to allow a **specified RDSP payment** from a deceased

person's RRSP to the RDSP of a financially dependent infirm child or grandchild. Similar rules also apply for registered retirement income fund (RRIF) proceeds and certain lump-sum amounts paid from registered pension plans. See pages 12 and 14 for more information.

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## Definitions

**Adjusted cost base (ACB)** – This is usually the cost of a property, plus any expenses to acquire it, such as commissions and legal fees.

The cost of a capital property is its actual or deemed cost, depending on the type of property and how you acquired it. It also includes capital expenditures, such as the cost of additions and improvements to the property. You cannot add current expenses, such as maintenance and repair costs, to the ACB of a property.

For more information on ACB, see Interpretation Bulletin IT-456, *Capital property – Some adjustments to cost base*, and its Special Release.

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 ACB of the property may change. For more information, see Guide T4037, *Capital Gains*.

**Advantage** – See the definition of **Eligible amount of the gift** on this page.

**Annuitant** – Generally, an annuitant is the person for whom a retirement plan provides a retirement income. In certain circumstances, the surviving spouse or common-law partner 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** – This is a fixed periodic payment that a person has the right to receive, 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.

**Arm's length transaction** – This is a transaction between persons each of whom acts in his or her own self-interest. Related persons are not considered to deal with each other at arm's length. Related persons include individuals connected by a blood relationship, marriage or common-law partnership, or adoption (legal or in fact). Also, a corporation and a shareholder who controls the corporation are related.

Unrelated persons usually deal with each other at arm's length, although this might not be the case if, for example, one person is under the influence or control of the other.

For more information on arm's length, see Interpretation Bulletin IT-419, *Meaning of Arm's Length*.

**Capital cost allowance (CCA)** – In the year you buy a **depreciable property** (defined later on this page), 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 capital cost over a period of several years. This deduction is called CCA. You cannot claim it for the fiscal period that ends on the date of death.

When we talk about CCA, a reference is often made to **class**. You usually group depreciable properties into classes. You have to base your CCA claim on the rate assigned to each class of property.

**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. Capital property does not include the trading assets of a business, such as inventory. 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.

**Common-law partner** – This applies to a person who is **not your spouse**, with whom you are living in a conjugal relationship, and to whom at least **one** of the following situations applies. He or she:

- a) has been living with you in a conjugal relationship for at least 12 continuous months;
- b) is the parent of your child by birth or adoption; or
- c) has custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support.

An individual immediately becomes your common-law partner if you previously lived together in a conjugal relationship for at least 12 continuous months and you have resumed living together in such a relationship. **Under proposed changes**, this condition will no longer exist. The effect of this proposed change is that a person (other than a person described in b) or c) above) will be your common-law partner only after your **current** relationship with that person has lasted at least 12 continuous months. This proposed change will apply to 2001 and later years.

Reference to "12 continuous months" in this definition includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

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

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

**Eligible amount of the gift** – Under proposed changes, this is generally the amount by which the **fair market value** (defined on page 5) of the gifted property exceeds the amount of the advantage, if any, received for the gift.

Under proposed changes, the **advantage** is generally the total value of all property, services, compensation, or other benefits to which you are entitled as partial consideration for, or in gratitude for, the gift. The advantage may be contingent or receivable in the future, and given either to you or a person not dealing at arm's length with you.

Under proposed changes, the advantage also includes any limited-recourse debt in respect of the gift at the time it was made. For example, there may be a limited-recourse debt if the property was acquired through a tax shelter that is a gifting arrangement. In this case, the eligible amount of the gift will be reported in **box 13** of Form T5003, *Statement of Tax Shelter Information*. For more information on gifting arrangements and tax shelters, see Guide T4068, *Guide for the Partnership Information Return (T5013 forms)*.

**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. In order for a property to be locked-in:

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

**Non-arm's length transaction** – This is a transaction between persons who were not dealing with each other at arm's length at the time of the transaction.

**Qualified donees** – generally include:

- registered charities;
- registered Canadian amateur athletic associations;
- registered national arts service organizations;
- housing corporations resident in Canada set up only to provide low-cost housing for the aged;
- municipalities in Canada;
- under proposed changes, municipal or public bodies performing a function of government in Canada;
- the United Nations and its agencies;
- universities outside Canada with a student body that ordinarily includes students from Canada provided these universities are listed in Schedule VIII of the *Income Tax Regulations*;
- charitable organizations outside Canada to which the Government of Canada has made a gift during the donor's tax year, or in the 12 months immediately before that period; and
- the Government of Canada, a province, or a territory.

**Spouse** – This is a person to whom you are legally married.

**Testamentary spousal or common-law partner trust** – This is a trust created by the deceased's will, or a court order in relation to the deceased's estate made under any law of a province or territory that provides for the relief or support of dependants. The surviving spouse or common-law partner is entitled to all the income of the 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 or common-law partner's death.

For more information, see Interpretation Bulletin IT-305, *Testamentary Spouse Trusts*.

**Testamentary debts** – These are debts or liabilities of all kinds that an individual incurred and did not pay before death. They also include 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 outlays and 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 named in a will to act as the legal representative to handle a deceased'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, common-law partner, or the next of kin.

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

#### Notes

As the legal representative, you may wish to appoint an authorized representative to deal with the Canada Revenue Agency for tax matters on your behalf. You may do so by completing Form T1013, *Authorizing or Cancelling a Representative*.

Unless included in your business income, trustee, executor, or liquidator fees paid to you for acting as an executor is income from an office or employment. You should report these fees on your income tax and benefit return even if you do not receive a T4 slip.

### 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. You can advise us by calling **1-800-959-8281**, by sending us a letter, or a completed *Request for the Canada Revenue Agency to Update Records* form. This form is included with our

Information Sheet RC4111, *What to Do Following a Death*. To get a copy of this publication, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms), or call 1-800-959-2221.

To keep our records up to date, also send us the following information:

- a copy of the death certificate; and
- a complete copy of the will or other legal document such as a grant of probate or letters of administration showing that you are the legal representative.

You must provide the deceased individual's social insurance number with any request you are making or with any information that you are sending to us.

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

#### Note

Service Canada should also be advised of the deceased's date of death. For more information or to get the address of the Service Canada centre nearest you, call 1-800-622-6232.

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

- file all required returns for the deceased;
- ensure that all taxes owing are paid; 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**. For more information, see Chapter 2, which begins on page 8.

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 at 1-800-959-8281. If you have to file a return for a year before the year of death, use a *T1 General Income Tax and Benefit Return* for that year. Previous year returns are available on our Web page at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling 1-800-959-2221.

You have to file a *T3 Trust Income Tax and Information Return*, for income the **estate** earned after the date of death. If the terms of a trust were established by the will or a court order in relation to the deceased individual's estate under provincial or territorial dependant relief or support law, you also have to file a *T3 Trust Income Tax and Information Return* for that trust. However, you may not have to file a T3 return (not to be confused with the final return, which always has to be filed) if the estate is distributed immediately after the person dies, or if the estate did not earn income before the distribution. In these cases, you should give each beneficiary a statement showing his or her share of the estate. See the T4013, *T3 Trust Guide*, for more information and, where a trust is created, to determine whether that return has to be filed. See Chart 2 on page 30 to find out what income to report on the T3 return.

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

You can contact us for information from 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 death certificate;
- the deceased's social insurance number; and
- a complete copy of the will or other legal document such as a grant of probate, trust agreement, or letters of administration showing that you are the legal representative.

If you make an appointment to see an agent at one of our tax services offices to get information from the 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

Generally, GST/HST credit payments are issued on the fifth day of the month in July, October, January, and April. If the deceased was receiving GST/HST credit payments, we may still send out a payment after the date of death because we are not aware of the death. If this happens, you should return the payment to the tax centre that serves your area.

#### Note

We administer provincial programs that are related to the GST/HST credit. If the deceased was receiving payments under such a program, you do not have to take any further action. We will use the information provided for the GST/HST credit payments to adjust the applicable credit.

## What if the deceased was single, separated, divorced, or widowed and received the GST/HST credit?

If the recipient died **before** the scheduled month in which we issue the GST/HST credit, we cannot make any more payments in that person's name or to that person's estate.

If the recipient died **during or after** the scheduled month in which we issue the credit and the payment has not been cashed, return it to us so that we can send the payment to the person's estate.

If the deceased was getting a credit for a child, the child's new caregiver should contact us at 1-800-959-1953, as he or she may qualify to receive GST/HST credit payments for that child.

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

If the deceased had a spouse or common-law partner, that person may now be eligible to receive the GST/HST credit payments based on his or her net income alone. If the deceased's GST/HST credit included a claim for that spouse or common-law partner, he or she should:

- contact us at **1-800-959-1953** and ask to receive the GST/HST credit payment for the remainder of the year for himself or herself and any eligible children, if applicable; and
- file an *Income Tax and Benefit Return* for the applicable previous year if he or she has not already done so.

## What if the surviving spouse's or common-law partner's GST/HST credit included a claim for the deceased?

If the surviving spouse's or common-law partner's GST/HST credit included an amount for the deceased, the payments will be recalculated based on the surviving spouse's or common-law partner's net income and will only include a claim for himself or herself and any eligible children, if applicable.

## What if the deceased is an eligible child?

Entitlement to GST/HST credit payments for a deceased child stops the quarter after the child's date of death. You should notify us of the date of death so that we can update our records.

## Canada Child Tax Benefit (CCTB) and/or Universal Child Care Benefit (UCCB) credit received after the date of death

Contact us at **1-800-387-1193** and provide us with the date of death. If the deceased person was receiving CCTB and/or UCCB payments (which could include payments from related provincial or territorial child benefit and credit programs) for a child and the surviving spouse or common-law partner is the child's parent, we will usually transfer the CCTB and/or UCCB payments to that person.

If anyone else, other than the parent, is now primarily responsible for the child, that person will have to apply for benefit payments for the child by:

- completing and submitting Form RC66, *Canada Child Benefits Application*, or
- using the "Apply for child benefits" online service on My Account at [www.cra.gc.ca/myaccount](http://www.cra.gc.ca/myaccount).

If the deceased is an eligible child, entitlement to CCTB and/or UCCB payments for the deceased child stops the month after the child's date of death. You should notify us of the date of death so that we can update our records.

## 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 request a certificate, complete Form TX19, *Asking for a Clearance Certificate*, and send it to the Assistant Director, Audit, at your tax services office. Do **not** include Form TX19 with a return. Send it only **after** you have received the notices of assessment for all the returns filed, and paid or secured all amounts owing. You can find the mailing address of your tax services office at [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso).

If you need more information about clearance certificates, call **1-800-959-8281**. You can also see Information Circular IC82-6, *Clearance Certificate*.

## Getting started

This section covers the information you may 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 Service Canada Centre at **1-800-622-6232**, 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. We explain optional returns in Chapter 3, which begins on page 18. You can also claim any related deductions as outlined in Chart 1 on page 28. If a slip is not available, ask the payer to give you a note that shows 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, registered 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 *T1 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, security options 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 "References" on page 31 for a list of 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, which begins on page 8. For information on optional returns, see Chapter 3, which begins on page 18.
- 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. Estate amounts can appear on T4A slips, T4RSP slips, or in a letter from the issuing institution. See Chart 2 on page 30.
- When you have received the notice of assessment for all required returns, you can apply for a clearance certificate. See "Clearance certificate" on the previous page.

## 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 cannot be deducted.
- Q. Who reports a death benefit that an employer pays?
- A. That depends on who received the death benefit. A death benefit is income of either the estate or the beneficiary who receives it. Up to \$10,000 of the total of all death benefits paid (other than CPP or QPP death benefits) is not taxable. If the beneficiary received the death benefit, see line 130 in the *General Income Tax and Benefit Guide* or the guide that came with the beneficiary's return. If the estate received the death benefit, see the T4013, *T3 Trust Guide*.
- Q. On what return do I report Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) death benefits for the estate of the deceased?
- A. A CPP or QPP death benefit can be reported either on the tax return of the recipient beneficiary of the deceased person's estate, or on a *T3 Trust Income Tax and Information Return*, for the estate of the deceased. If the estate then pays the death benefit to the beneficiary, a T3 slip will be issued in the beneficiary's name. The amount of the CPP or QPP death benefit is shown in box 18 of Form T4A(P), *Statement of Canada Pension Plan*

*Benefits*. Do **not** report the amount on the deceased's return. Unlike a death benefit that an employer may pay to the estate or to a named beneficiary, this benefit is not eligible for the \$10,000 death benefit exemption. You have to report all other CPP or QPP benefits on the deceased's return. For more information, see line 114 on page 11.

- Q. Who reports amounts an employer pays for vacation and unused sick leave?
- A. Vacation pay is income of the deceased person and can be reported on a return for rights or things. See page 18 for more information. Payment for unused sick leave is considered a death benefit and is income of the estate or beneficiary who receives it. For more information, see Interpretation Bulletin IT-508, *Death Benefits*.
- Q. The deceased had investments in a Tax-Free Savings Account (TFSA). Who reports any income earned in the TFSA?
- A. When the holder of a deposit or an annuity contract under a TFSA dies, the holder is considered to have received, immediately before death, an amount equal to the fair market value (FMV) of all the property held in the TFSA at the time of death. As a result, no income should be reported by the deceased on the final return or any optional returns. After the holder's death, the annuity contract is no longer considered a TFSA and all earnings after the holder's death are taxable to the beneficiaries in the year they receive this income. For more information, see Guide RC4466, *Tax-Free Savings Account (TFSA), Guide for Individuals*.
- Q. If the deceased person was paying tax by instalments, do I have to continue making those instalment payments?
- A. No. The only instalments we require are those that were due before the date of death but not paid.
- Q. Why do I have to return the deceased person's GST/HST credit?
- A. Since the payments are an advance on purchases for the current calendar year, you have to return GST/HST credit payments that were paid to the deceased after his or her death. If the deceased was single and the estate is entitled to the payment, another cheque will be issued to the estate. However, the cheque that was issued to the deceased person must be returned to us before we reissue the payment to the estate.

## Chapter 2 – Final return

This chapter explains how to complete and file the final return.

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 on page 30. For more information, see the T4013, *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 report the same income on both the final and an optional return but you can claim certain credits and deductions on more than one return.

Although you do not have to file any of the optional returns, there may be a tax advantage if you file one or more of them in addition to the final return. You may be able to reduce or eliminate tax that you would otherwise have to pay for the deceased.

For more information, see "Chapter 3 – Optional returns", which begins on page 18, and Chart 1 on page 28.

must still be paid on or before April 30, 2012, to avoid interest charges. For previous year returns that are already due but were not filed by the deceased, the due dates for filing those returns, as well as payment of any related taxes owing remain the same.

The deceased's will or a court order may set up a **testamentary spousal or common-law partner trust**. When testamentary debts of the deceased or the estate are being handled through the trust, the due date for the final return is extended to 18 months after the date of death. We define **testamentary spousal or common-law partner trust** and **testamentary debts** in "Definitions", which begins on page 4. However, you have to pay any taxes owing on the final return by the due date shown in "What is the due date for a balance owing?", later on this page.

### Note

If a person dies in 2012, the legal representative may choose to file the final return at any time after the date of death. The returns will generally be processed at that time as a service to the estate. In these cases, the returns will generally be processed using tax legislation applicable to the 2011 tax year. The legal representative can then request a reassessment of the return in the following year (2013) to apply any tax changes introduced for the 2012 tax year.

## What date is the final return due?

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

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

### Note

The due date for filing the T1 return of a surviving spouse or common-law partner who was living with the deceased is the same as the due date for the deceased's final return indicated in the chart above. However, any balance owing on the surviving spouse's or common-law partner's return still has to be paid on or before April 30 of the next year to avoid interest charges.

If the deceased or the deceased's spouse or common-law partner was carrying on a business in 2011 (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 final return if a business is being carried on
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, 2011, but on or before the filing due date for his or her 2011 return. If he or she has not filed that return, the due date for filing the return and paying any balance owing is **six months** after the date of death. The due date for filing the 2011 T1 return of a surviving spouse or common-law partner who was living with the deceased is the same as the due date for the deceased's 2011 return. However, any balance owing on the surviving spouse's or common-law partner's 2011 return

## 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.

### Tax tip

Even if you cannot pay the full amount owing by the due date, you can avoid this penalty by filing the return on time.

In certain situations, we may cancel this penalty and interest if you file the return late because of circumstances beyond your control. If this happens, complete Form RC4288, *Request for Taxpayer Relief*, or include a letter with the return explaining why you filed the return late. For more information, go to [www.cra.gc.ca/taxpayerrelief](http://www.cra.gc.ca/taxpayerrelief) or see Information Circular IC07-1, *Taxpayer Relief Provisions*.

## 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 due date of the return to the date you pay the amount owing.

In some cases, you can make an election to delay paying part of the amount due. For instance, you can delay paying part of the amount owing from rights or things (see page 19) and the deemed disposition of capital property (see page 25).

## How to complete the final return

In this section, we cover the most common lines on a deceased person's return. For more information on these and other lines on a return, see the guide that came with the deceased's return. 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 *T1 General Income Tax and Benefit Return*. 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 on the date of death.
- Tick 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.

### Foreign income

If the deceased earned foreign income, or owned or held foreign property at any time in 2011, see "Foreign income" in the guide that came with the deceased's 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:

- certain 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 information about amounts receivable on or before the date of death, see "1. Return for rights or things" on page 18.

### 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 on page 30).

Some of these amounts may be **rights or things**, and you may be able to report them on an optional return. For more information, see "1. Return for rights or things", on page 18. 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 on page 30.

### 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 Guide T4002, *Business and Professional Income*, to determine 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 or things return.

**Do not report** on line 113 the amount in 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), **minus** the amounts reported on lines 117 and 125, **plus** the amount deducted on line 213 and/or any repayment of registered disability savings plans income (line 232), is more than \$67,668, 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 – CPP or QPP benefits**

Report the total Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits in box 20 of the deceased’s T4A(P) slip, **minus** any amount in box 18. The amount in box 20 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.

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*, or the *Special Income Tax and Benefit Guide*.

**Do not report** a CPP or QPP death benefit shown in box 18 on the final return. This amount will be reported either by the recipient beneficiary of the deceased person’s estate on his or her return, or on a T3 *Trust Income Tax and Information Return* for the estate.

A CPP or QPP death benefit will generally not be taxable where the recipient deals at arm’s length with the estate (is not the beneficiary of the estate) and the benefit is received in the following circumstances:

- the amount is received by a taxpayer who paid the deceased’s funeral expenses;
- the amount does not exceed the actual funeral expenses; and
- the deceased has no heirs and there is no other property in the estate.

**Line 115 – Other pensions or superannuation**

Report any other pensions or superannuation the deceased received from January 1 to the date of death, such as amounts shown in box 016 on T4A slips and box 31 on T3 slips. If there is a lump-sum amount shown in box 018 of the T4A slip or box 22 of the T3 slip, report it on line 130.

If the deceased received annuity or registered retirement income fund (RRIF) payments, including life income fund (LIF) payments, 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. Regardless of age, report the RRIF income on line 115 if the deceased received the RRIF payments because his or her spouse or common-law partner died. In all other cases, report the RRIF income on line 130 of the return. For more information, see “Income from a registered retirement income fund (RRIF)” on page 13.

If the deceased person jointly elected with his or her spouse or common-law partner to split the pension, annuity, and RRIF (including LIF) payments that were reported on line 115 by the pensioner, the elected split-pension amount transferred from the pensioner to the pension transferee can be deducted on line 210. For more information, see “Line 210 – Deduction for elected split-pension amount” on page 14.

**Line 116 – Elected split-pension amount**

To make this election, the deceased and his or her spouse or common-law partner must have jointly elected to split pension income by completing Form T1032, *Joint Election to Split Pension Income*. The elected split-pension amount from line E of Form T1032 must be entered on line 116 for the pension transferee.

Form T1032 must be filed by the filing due date for the 2011 return (see “What date is the final return due?” on page 9). This form **must** be attached to **both** the deceased’s paper return and his or her spouse’s or common-law partner’s paper return. The information provided on both forms **must** be the **same**.

Both the deceased person and his or her spouse or common-law partner must have signed Form T1032. If the form is being completed **after** the date of death, the surviving spouse or common-law partner **and** the executor of the deceased person’s estate must sign the form. In some cases, the executor may be the spouse or common-law partner, in which case this person must sign for the deceased person too.

**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), **minus** the amounts reported on lines 117 and 125, **plus** the amount deducted on line 213 and/or any repayment of registered disability savings plans income (line 232), is more than \$55,250, 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 Service Canada, he or she may be entitled to a deduction. For more information, see line 232 in the *General Income Tax and Benefit Guide*.

**Lines 120 and 121 – Investment income**

Report investment income the deceased 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 “1. Return for rights or things” on page 18. Report interest that accumulates after the date of death on a *T3 Trust Income Tax and Information Return*.

**Line 125 – Registered disability savings plan (RDSP) income**

If the beneficiary of an RDSP dies, the RDSP must be closed no later than December 31 of the year following the year of the beneficiary’s death. Any funds remaining in the RDSP, after any required repayment of government bonds and grants, will be paid to the estate. If a disability assistance payment (DAP) had been made and the beneficiary is deceased, the taxable portion of the DAP must be included in the income of the beneficiary’s estate in the year the payment is made.

**Line 127 – Taxable capital gains**

For information about this type of income, see Chapter 4, which begins on page 21.

**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.

If the deceased person jointly elected with his or her spouse or common-law partner to split RRSP annuity payments that the pensioner received up until the date of death and reported on line 129, the elected split-pension amount can be deducted on line 210. For more information, see “Line 210 – Deduction for elected split-pension amount” on page 14.

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

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

If the surviving spouse or common-law partner is the beneficiary of the estate, that person 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 or common-law partner. Attach a copy of the written election to the return of the surviving spouse or common-law partner. The election has to specify that this person 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 or common-law partner, see Guide T4040, *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.

Generally, we consider a deceased 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 annuitant. 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 Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

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

Sometimes there can be an **increase** in the value of an RRSP between the date of death and the date of final distribution to the beneficiary or estate. This amount has to be included in the income of the beneficiary or the estate for the year it is received. A T4RSP slip will be issued for this amount. For more information, see Chart 4 – Amounts from a deceased annuitant’s RRSP, in Chapter 3 of Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Sometimes, the FMV of the property of an unmatured RRSP can **decrease** between the date of death and the date of final distribution to the beneficiary or the estate. If the total of all distributions from the RRSP is less than the FMV of the property that was included in the deceased annuitant’s income for the year of death, the deceased’s legal representative can request that the difference between the FMV and the total of all distributions be deducted on the deceased’s final return. Generally, for the deduction to be allowed, the final distribution must occur by the end of the year that follows the year of death. For further details, see Information Sheet RC4177, *Death of an RRSP Annuitant*.

If the amounts from the RRSP are paid to a beneficiary other than the deceased’s spouse or common-law partner, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

**Rollover of RRSP proceeds to a Registered Disability Savings Plan (RDSP)** – For deaths occurring in 2011, the existing RRSP rollover rules discussed in the section above are extended to allow a **specified RDSP payment** from the deceased person’s RRSP to the RDSP of an **eligible individual**.

An **eligible individual** is a child or grandchild of a deceased annuitant under an RRSP, a RRIF, or of a deceased member of a registered pension plan, who was financially dependent on the deceased for support at the time of the deceased's death, by reason of an impairment in physical or mental function.

A **specified RDSP payment** is a payment that:

- is made to an RDSP under which the eligible individual is the beneficiary;
- is made after June 2011; and
- satisfies contribution conditions described in Guide RC4460, *Registered Disability Savings Plan*.

In addition, when the death of the annuitant occurs after 2007 and before 2011, the payment must be made before 2012.

For more information on this topic, go to [www.cra.gc.ca/rdsp](http://www.cra.gc.ca/rdsp) or see Information sheet, RC4177, *Death of an RRSP Annuitant*.

**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 his or her death can be designated as a repayment. However, you do not have to report these amounts when the legal representative and the surviving spouse or common-law partner jointly elect to have the surviving spouse or common-law partner continue to make the repayments. For more information, see Guide RC4135, *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 Guide RC4112, *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. We discuss some of the types of income you report on this line below. For more information, see line 130 in the guide that came with the deceased's return.

**Death benefits (other than Canada 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 106 of the T4A slip or box 26 of the T3 slip. A death benefit payable in respect of the deceased person is not reported on the final return for the deceased; rather, it 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 more information, see line 130 in the guide that came with the deceased's return or 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 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 or common-law partner, see "Line 115 – Other pensions or superannuation" on page 11. In all other cases, report the RRIF income on line 130.

If the annuitant made a written election in the RRIF contract or in the will to have the RRIF payments continue to be paid to his or her spouse or common-law partner after death, that person becomes the annuitant and will start to get the RRIF payments as the new annuitant.

If the annuitant did not elect in writing to have the RRIF payments continue to be paid to his or her spouse or common-law partner, that person 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 or common-law partner becoming the annuitant, and the RRIF carrier agrees to continue the payments under the deceased annuitant's RRIF to the surviving spouse or common-law partner.

A T4RIF slip will not be issued in the deceased annuitant's name for the fair market value (FMV) of the property at the time of death if **all** of the following conditions exist:

- All of the property held by the RRIF is to be paid to the surviving spouse or common-law partner (as specified in the RRIF contract).
- The **entire** eligible amount of the designated benefit is directly transferred to the surviving spouse's or common-law partner's RRIF, RRSP, or to an issuer to buy an eligible annuity for the surviving spouse or common-law partner.
- All the RRIF property is distributed **before** the end of the year following the year of death.

In this case, the surviving spouse or common-law partner will receive a T4RIF slip, has to report the payment on his or her return, and is eligible to claim a deduction equal to the amount directly transferred.

For all other situations, we consider that the deceased received, immediately before death, an amount equal to the 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 Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Sometimes there can be an **increase** in the value of a RRIF between the date of death and the date of final distribution to the beneficiary or estate. Generally, this amount has to be included in the income of the beneficiary or the estate for the year it is received. A T4RIF slip will be issued for this amount. For more information, see Chart 5 – Amounts from



a deceased annuitant's RRIF, in Chapter 3 of Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

Sometimes, the FMV of the property of a RRIF can **decrease** between the date of death and the date of final distribution to the beneficiary or the estate. If the total of all distributions from the RRIF is less than the FMV of the property that was included in the deceased annuitant's income for the year of death, the deceased's legal representative can request that the difference between the FMV and the total of all distributions be deducted on the deceased's final return. Generally, for the deduction to be allowed, the final distribution must occur by the end of the year that follows the year of death. For further details, see Information Sheet RC4178, *Death of a RRIF Annuitant*.

**Rollover of RRIF proceeds to a Registered Disability Savings Plan (RDSP)** – For deaths occurring in 2011, the existing RRIF rollover rules discussed in the section above are extended to allow a **specified RDSP payment** from the deceased person's RRIF to the RDSP of an **eligible individual**.

An **eligible individual** is a child or grandchild of a deceased annuitant under an RRSP, a RRIF, or of a deceased member of a registered pension plan, who was financially dependent on the deceased for support at the time of the deceased's death, by reason of an impairment in physical or mental function.

A **specified RDSP payment** is a payment that:

- is made to an RDSP under which the eligible individual is the beneficiary;
- is made after June 2011; and
- satisfies contribution conditions described in Guide RC4460, *Registered Disability Savings Plan*.

In addition, when the death of the annuitant occurs after 2007 and before 2011, the payment must be made before 2012.

For more information on this topic, go to [www.cra.gc.ca/rdsp](http://www.cra.gc.ca/rdsp) or see Information sheet RC4178, *Death of a RRIF Annuitant*.

#### **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 he or she will receive 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 common-law partner, or spousal or common-law partner 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 is available only if the deceased was a resident of Canada right before death. For a transfer to a spouse or common-law partner, that person also has to have been a resident of Canada right before the deceased's death. For a transfer to a spousal or common-law partner 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 "Definitions", which begins on page 4.

The spouse or common-law partner, or spousal or common-law partner trust includes in income an amount equal to the reserve that is on Form T2069. This income has to be included 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(s). For details, see 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 the deceased's spouse or common-law partner's RRSPs, but do not include repayments under a Home Buyers' Plan or Lifelong Learning Plan described on pages 13.

After a person dies, no one can contribute to the deceased person's RRSPs. However, the deceased individual's legal representative can make contributions to the surviving spouse's or common-law partner's RRSPs in the year of death or during the first 60 days after the end of that year.

The amount you can deduct on the deceased's return for 2011 is usually based on the deceased's 2011 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 Guide T4040, *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.

##### **Line 210** – Deduction for elected split-pension amount

If the deceased person jointly elected with his or her spouse or common-law partner to split pension income by completing Form T1032, *Joint Election to Split Pension Income*, the pensioner can deduct on this line, the elected split-pension amount from line E of this form.

Form T1032 must be filed by the filing due date for the 2011 return (see "What date is the final return due?" on page 9). This form **must** be attached to both the deceased's paper

return and his or her spouse's or common-law partner's paper return.

Both the deceased person and his or her spouse or common-law partner must have signed the Form T1032. If the form is being completed **after** the date of death, the surviving spouse or common-law partner **and** the executor of the deceased person's estate must sign the form. In some cases, the executor may be the spouse or common-law partner in which case this person must sign for the deceased person too.

## Taxable income

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

For information about these losses, see Chapter 5, which begins on page 25.

For information on other deductions the deceased may be entitled to (lines 244 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.

## Federal non-refundable tax credits

### Personal amounts (lines 300 to 306)

If the deceased was a resident of Canada from January 1 to the date of death, claim the full personal amounts.

If the deceased was a resident of 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. The result is the amount you can claim on the deceased's return. If the deceased immigrated to Canada in the year of death, see Pamphlet T4055, *Newcomers to Canada*. If the deceased emigrated from Canada in the year of death, see Guide T4056, *Emigrants and Income Tax*.

The credits we refer to in this section are federal credits, which are claimed on Schedule 1, *Federal Tax*. If the deceased was a resident of a province or territory other than Quebec, use the appropriate form included in the forms book to calculate his or her provincial or territorial tax credits. For more information, see the provincial or territorial pages in the deceased's forms book.

### 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 \$76,541, 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. For more information, see line 301 in the guide that came with the deceased's return.

### Line 303 – Spouse or common-law partner amount

If the net income of the spouse or common-law partner is less than the base amount for the year (see line 303 in the guide that came with the deceased's return), you may be able to claim all or part of this amount. Use the net income of the spouse or common-law partner for the whole year, not just up to the deceased's date of death.

### Line 305 – Amount for an eligible dependant

If the deceased is entitled to claim this amount, use the dependant's net income for the whole year, not just up to the deceased's date of death. For more information, see line 305 in the guide that came with the deceased's return. Calculate the amount for line 305 on Schedule 1, and complete the appropriate part of Schedule 5, both of which are included in the forms book.

### Line 306 – Amount for infirm dependants age 18 or older

If the deceased is entitled to claim this amount, use the dependant's net income for the whole year, not just up to the deceased's date of death. For more information, 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 \$2,000. For more information, see line 314 in the guide that came with the deceased's return, and complete the chart for line 314 on the *Federal Worksheet* included in the forms book.

If the deceased and his or her spouse or common-law partner elected to split pension income, follow the instructions at Step 4 on Form T1032, *Joint Election to Split Pension Income*, to calculate the amount to enter on line 314.

### Line 315 – Caregiver amount

You may be able to claim this amount if the deceased cared for certain dependants. See line 315 in the *General Income Tax and Benefit Guide*, and complete the chart for line 315 on the *Federal Worksheet* included in the forms book. For more information, see Guide RC4064, *Medical and Disability-Related Information*.

### Line 316 – Disability amount (for self)

You can claim a disability amount if the deceased met certain conditions. For more information about these conditions, see line 316 in the guide that came with the deceased's return.

#### Tax Tip

If the deceased or anyone else paid for certain eligible expenses, such as 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 information, see "Attendant care or care in an establishment" in Guide RC4064, *Medical and Disability-Related Information*, and Interpretation Bulletin IT-519, *Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction*.

### Line 318 – Disability amount transferred from a dependant

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 more information, see line 318 in the *General Income Tax and Benefit Guide*, and

complete the chart for line 318 on the *Federal Worksheet* included in the forms book.

**Line 319 – Interest paid on your student loans**

You can claim an amount for most of the interest paid in 2011 or the preceding five years on loans made to the deceased under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, or similar provincial or territorial government laws for post-secondary education. Enter the total amount shown on the receipts. Attach the receipts to the return. For more information, see the *General Income Tax and Benefit Guide* or Pamphlet P105, *Students and Income Tax*.

**Line 326 – Amounts transferred from your spouse or common-law partner**

Sometimes there are amounts that a spouse or common-law partner does not need to reduce his or her federal income tax to zero. In these situations, you can transfer the remaining 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 remaining amounts to the return of the spouse or common-law partner. 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 if the person transferring the credit meets the requirements for the credit:

- the age amount (line 301);
- the pension income amount (line 314);
- the disability amount (line 316);
- 2011 tuition, education, and textbook amounts (line 323); and
- the amount for children born in 1994 or later (line 367).

If you do transfer any of these amounts, complete Schedule 2, *Federal Amounts Transferred From Your Spouse or Common-law Partner*, and attach it to the final return for the deceased.

**Line 330 – Medical expenses for self, spouse or common-law partner, and your dependent children born in 1994 or later**

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

- \$2,052; and
- 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 \$1,089 if you have an amount on line 215, "Disability supports deduction," or line 332, the allowable portion of medical

expenses. Use the net income from the deceased's final return, and the spouse's or common-law partner's net income for the entire year, to calculate this credit. For details, see line 452, "Refundable medical expense supplement," in the *General Income Tax and Benefit Guide*, or in the *Special Income Tax and Benefit Guide*.

For more information 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, or his or her spouse or common-law partner, made before the date of death. If you are using a *T1 General Income Tax and Benefit Return*, complete Schedule 9, *Donations and Gifts*. If you are using a *T1 Special* or *T1S-A* return, calculate the allowable amount on Schedule 1.

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 or common-law partner'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.

You may be able to claim a charitable donations tax credit for a donation of a direct distribution of proceeds to a qualified donee from an RRSP (including a group RRSP), RRIF, a tax-free savings account (TFSA), or life insurance policy (including a group life insurance policy) as a result of a beneficiary designation. The above does not apply if the qualified donee is the policy holder or an assignee of the deceased person's interest in the policy.

The deceased may have donated amounts in the five years before the year of death. As long as the deceased did not previously claim the amounts, 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, if applicable.

**Note**

Charitable donations cannot be carried forward from a *T1* return to a *T3* return.



The most you can claim is the **lower** of:

- the **eligible amount of the gift(s)** (defined in “Definitions”, which begins on page 4), donated in the year of death (including gifts by will), plus the unclaimed portion of the eligible amount of any gifts made in the five years before the year of death; and
- 100% of the deceased’s net income (line 236) on the return.

Under proposed changes, for a gift of property made to a qualified donee, special rules may apply to limit the fair market value (FMV) of the property gifted, and thereby limit the eligible amount of the gift that can be used in computing the donation tax credit amount. When the rules apply, the FMV of the donated property will be deemed to be the **lesser** of the property’s:

- FMV otherwise determined; and
- cost (or its adjusted cost base if it is capital property), at the time the gift was made. We define “**fair market value**” and “**adjusted cost base**” in “Definitions”, which begins on page 4.

The limitation on the eligible amount of a gift **will** apply where:

- the donated property was acquired under a gifting arrangement that is a tax shelter; or
- the property is being gifted otherwise than as a consequence of the taxpayer’s death, and the property was acquired less than 3 years, or in some cases, less than 10 years, before making the gift.

The limitation on the eligible amount of a gift will **not** apply to gifts of:

- inventory;
- real property or an immovable property located in Canada;
- certified cultural property;
- ecologically sensitive land (including a covenant, an easement, or in the case of land in Quebec, a real servitude);
- a share, debt obligation, or right listed on a designated stock exchange;
- a share of the capital stock of a mutual fund corporation;
- a unit of a mutual fund trust;
- an interest in a related segregated fund trust;
- a prescribed debt obligation;
- shares of controlled corporations in certain circumstances; or
- property acquired by a corporation in certain circumstances where the property was acquired under a tax-deferred rollover.

There are also special anti-avoidance rules that may apply where a taxpayer has attempted to avoid the application of the limitation rules. For more information, see Pamphlet P113, *Gifts and Income Tax*.

If the property was acquired through a tax shelter that is a gifting arrangement, the eligible amount will be reported in box 13 of Form T5003, *Statement of Tax Shelter Information*.

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 capital property may be gifted. At the time the deceased gives the property, its FMV may be more than its adjusted cost base (ACB).

When the FMV is **more** than the ACB, you may designate an amount that is **less** than the FMV to be the proceeds of disposition. This may allow you to reduce the capital gain otherwise calculated. If you choose to designate an amount that is less than the FMV as the amount to be used as the proceeds of disposition, this will be the eligible amount of the donation. You can choose an amount that is **not greater than** the FMV and **not less** than the greater of:

- any **advantage** (defined in “Definitions”, which begins on page 4) in respect of the gift; and
- the ACB of the property (or, where the property was depreciable property, the lesser of its ACB and the undepreciated capital cost of the class of the property), at the time you made the donation.

Treat the amount you choose as the proceeds of disposition when you calculate any capital gain.

For more information about charitable donations and the special rules that may apply, see the guide that came with the deceased’s return, and Pamphlet P113, *Gifts and Income Tax*.

### **Line 363 – Canada employment amount**

Employees are eligible to claim an employment amount.

Claim the **lesser** of:

- \$1,065; and
- the total of the employment income reported on line 101 and line 104 of the deceased’s return.

### **Refund or Balance owing**

You will find the details you need about tax and credits in “Refund or Balance owing” in the guide that came with the deceased’s return.

#### **Note**

We cannot accept direct deposit applications for individuals who died in the year, or the preceding year.

### **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 part or all of the minimum tax the deceased paid in those years from the tax owing for the year of death. To do this, complete Part 8 of Form T691,

*Alternative Minimum Tax.* Include Form T691 with the return.

#### **Line 453 – Working income tax benefit (WITB)**

If the deceased died after June 30, he or she may qualify for the WITB. This benefit is for low-income individuals and families who have earned income from employment or business. For more information, see line 453 in the guide that came with the deceased's return.

#### **Provincial and territorial tax**

Use Form 428 included in the forms book to calculate the provincial or territorial tax for the province or territory where the deceased was living at the time of death.

To calculate the tax for the province of Quebec, you must use a Quebec provincial return.

#### **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 on page 28 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 of the following optional returns for certain income:

- 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*, described in "What are your responsibilities as the legal representative?" on page 5. After someone dies, a will or a court order may create a trust, and the trustee, executor, or administrator may be required to file a T3 return. Also, an individual may be required to file a T3 return to report income earned after the date of death or for CPP or QPP death benefits. For more information, see Chart 2 on page 30 and the T4013, *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 had not been paid to the deceased at the time of his or her 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 return for rights or things.

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. The beneficiary must report the income from the transferred rights or things on his or her 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:

- old age security (OAS) benefits that were due and payable before the date of death;
- 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 (in Quebec an advocate or notary), 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 information 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:

- elected split-pension amounts;
- 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 (RRSP) 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 *T1 General Income Tax and Benefit Return*.
2. Write "70(2)" in the top right corner of page 1 of the return.
3. Follow the instructions in this guide and the *General Income Tax and Benefit Guide*.

You have to file this return by the **later** of:

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

However, the due date for any balance of tax owing on a rights or things return depends on the date of death. See "What is the due date for a balance owing?" on page 9.

### **Election to delay payment of income tax**

In some cases, you can delay paying part of the amount owing from rights or things. However, we still charge interest on any unpaid amount from the day after 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 information, contact the Collections Division of your tax services office by calling 1-888-863-8657.

### **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 end of the business's fiscal period 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, 2011. The business has a March 31 fiscal year end. You have two choices when you report the person's 2011 income:

- One choice is to include the business income from April 1, 2010, to May 28, 2011, 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, 2010, to March 31, 2011. On the return for a partner or proprietor, report the business income from April 1, 2011, to May 28, 2011.

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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 *T1 General Income Tax and Benefit Return*.
2. Write "150(4)" in the top right corner of page 1 of the return.
3. Follow the instructions in this guide and the *General Income Tax and Benefit Guide*.

The due date for this optional return is the same as for the final return. The due date for a balance owing depends on the date of death. See "What date is the final return due?" and "What is the due date for a balance owing?" on page 9.

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. The trust may have a fiscal period (tax year) that does not start or end on the same dates as the calendar year. If the person died after the end of the fiscal period of the trust, 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 income from the trust on the final return.

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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, 2011. 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, 2010, to June 11, 2011, 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, 2010, to March 31, 2011. On the optional return for income from the trust, report the trust income from April 1, 2011, to June 11, 2011.

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

1. Get a *T1 General Income Tax and Benefit Return*.
2. Write "104(23)(d)" in the top right corner of page 1 of the return.
3. Follow the instructions 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, 2012 (or June 15, 2012, if the deceased was a self-employed individual, although any balance owing is still due on April 30); and
- 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 (line 300);
- the age amount (line 301);
- the spouse or common-law partner amount (line 303);
- the amount for an eligible dependant (line 305);
- the amount for infirm dependants age 18 or older (line 306);
- the amount for children born in 1994 or later (line 367); and
- the caregiver amount (line 315).

## 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:

- adoption expenses (line 313);
- disability amount for the deceased (line 316);
- disability amount transferred from a dependant (line 318);
- interest paid on certain student loans (line 319);
- tuition, education, and textbook amounts for the deceased (line 323);
- tuition, education, and textbook amounts you transfer from a child (line 324);
- charitable donations that are not more than the net income you report on that return (line 349);
- cultural, ecological, and Crown gifts (line 342 of Schedule 9);
- public transit passes amount (line 364);
- children's fitness amount (line 365);
- home buyers' amount (line 369); and
- medical expenses (line 330), 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 \$2,052 or 3% of the **total** net income you report on all returns.

### Example

In the year a woman died, her total medical expenses were \$9,000. 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 \$9,000 of medical expenses and claim two-thirds on the final return and one-third on the rights or things return.

2/3 of \$9,000	=	\$6,000 (to claim on final return)
1/3 of \$9,000	=	\$3,000 (to claim on rights or things return)

The medical expense reduction is the lower of \$2,052 or 3% of the total net income. In this example, the reduction is \$1,200 (\$40,000 × 3%), which is lower than \$2,052.

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

2/3 of \$1,200	=	\$800
1/3 of \$1,200	=	\$400

Amounts for medical expenses on final return	\$6,000	
	-	800
	=	<u>\$5,200</u>
Amounts for medical expenses on rights or things return	\$3,000	
	-	400
	=	<u>\$2,600</u>

The amounts for medical expenses are \$5,200 on the final return and \$2,600 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:

- Canadian Forces personnel and police deduction (line 244);
- employee home relocation loan deduction (line 248);
- security options deductions (stock options and shares) (line 249);
- vow of perpetual poverty deduction (line 256);
- Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions (line 308 or line 310);
- Employment Insurance premiums (line 312);
- pension income amount (line 314);
- Canada employment amount (line 363); and
- social benefits repayment (line 422).

### 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** normally claim on an optional return. They include:

- registered pension plan (RPP) deduction (line 207);
- registered retirement savings plan (RRSP) deduction (line 208);
- annual union, professional, or like dues (line 212);
- child care expenses (line 214);
- disability supports deduction (line 215);
- allowable business investment losses (line 217);
- moving expenses (line 219);
- support payments made (line 220);
- carrying charges and interest expenses (line 221);
- exploration and development expenses (line 224);

- losses from other years (lines 251 – 253);
- capital gains deduction (line 254);
- northern residents deduction (line 255); and
- amounts you transfer from a spouse or common-law partner (line 326).

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

For more information on other credits, see Chart 1 on page 28.

## 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 and fishing 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 at 1-800-959-8281.

We define some of the terms in this chapter in "Definitions", which begins 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 that the person has 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 or personal-use 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 on the next page.

### What is a capital gain?

When the proceeds or deemed proceeds of disposition of a capital property are **more** than its adjusted cost base, the result is a capital gain. In most cases, one-half of the capital gain is the taxable capital gain.

Use Schedule 3, *Capital Gains (or Losses) in 2011*, to calculate the taxable capital gain to report on the final return.

### 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 or deemed disposition of certain capital property.

You may be able to claim the capital gains deduction on taxable capital gains the deceased had in 2011 from:

- dispositions or deemed dispositions of qualified farm property or, after May 1, 2006, qualified fishing property;
- dispositions or deemed dispositions of qualified small business corporation shares; and
- a reserve brought into income from either of the above.

The lifetime capital gains exemption has been increased from \$500,000 to \$750,000 for dispositions after March 18, 2007. Since the inclusion rate for capital gains and losses is 50%, the lifetime capital gains deduction limit has been increased from \$250,000 (one-half of \$500,000) to \$375,000 (one-half of \$750,000) for dispositions after March 18, 2007.

For more information, see Guide T4037, *Capital Gains*.

## What is a capital loss?

When the proceeds or deemed proceeds of disposition of a capital property are **less** than its adjusted cost base, the result is a capital loss. One-half of the capital loss is the allowable capital loss. You cannot have a capital loss on the disposition of depreciable property or personal use property.

For more information on claiming a capital loss, see “Net capital losses in the year of death” on page 25.

## Recaptures and terminal losses

For depreciable property, when the proceeds or deemed proceeds of disposition are **more** than the undepreciated capital cost, you will usually have a recapture of capital cost allowance (see the definition of capital cost allowance in “Definitions”, which begins on page 4). Include the recapture in income on the deceased’s final return.

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

### Note

A terminal loss is not allowed for depreciable property that was personal-use property of the deceased.

For more information 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. The rules for calculating the deemed proceeds for depreciable property are explained in “Depreciable property” on the next page. If there is a transfer of farm or fishing property to a child, see “Farm or fishing property transferred to a child” on the next page.

## Deceased’s deemed proceeds – Transfer to spouse or common-law partner, or testamentary spousal or common-law partner trust

There may be a transfer of capital property (including farm property, or fishing property) from a deceased person who was a resident of Canada immediately before death to a spouse or common-law partner, or a testamentary spousal or common-law partner trust.

**For a transfer to a spouse or common-law partner**, 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 or common-law partner was a resident of Canada right before the person’s death.
- The property becomes locked-in for the spouse or common-law partner 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 testamentary spousal or common-law partner 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 testamentary spousal or common-law partner trust is resident in Canada right after the property becomes locked-in for this trust.
- The property becomes locked-in for the testamentary spousal or common-law partner 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 or common-law partner, and both of the conditions for transfer to a spouse or common-law partner 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 21) 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 common-law partner, or spousal or common-law partner 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 or fishing property to a child, see "Farm or fishing property transferred to a child" later on this page.

## Deceased's deemed proceeds – Transfer to spouse or common-law partner, or testamentary spousal or common-law partner trust

There may be a transfer of depreciable property (including depreciable farm property or fishing property) to a spouse or common-law partner, or a testamentary spousal or common-law partner 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. 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 common-law partner, or testamentary spousal or common-law partner trust.

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

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

Capital cost of the property	×	Undepreciated capital cost of all of the deceased's property in the same class
Capital cost of all the property in the same class that had not been disposed of previously		

### Example

A woman had two trucks that were used in her business. The woman died in July 2011, and the will transferred one truck to her husband. Both of the conditions for transfer to a spouse or common-law partner 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; and
- $\$22,500 \times \$33,500 = \$15,075$ .  
\$50,000

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 "Definitions", which begins on page 4);
- the property was previously used for something other than gaining or producing income; or
- the part of a property used for gaining or producing income changed.

For more information, contact us at **1-800-959-8281**.

### 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 claim a capital gains deduction (see page 21) 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 common-law partner, or spousal or common-law partner 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 or fishing property transferred to a child

In this section, we explain how to determine the deemed proceeds when there is a transfer of farm or fishing property to a child. For this kind of transfer, 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. The transfer postpones any gain, recapture, or terminal loss to the date the beneficiary disposes of the property.

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

**Farm property** includes land and depreciable property of a prescribed class used for farming.

**Fishing property** includes land and depreciable property of a prescribed class used for fishing.

A **child** includes:

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

## Conditions

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

- The farm or fishing property is used principally in a farming or fishing business carried on in Canada.
- 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.
- The deceased, the deceased's spouse or common-law partner, 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 rollover provisions available for farm property also apply to land and depreciable property used principally in a woodlot farming business. They apply where the deceased, the deceased's spouse or common-law partner, or any of the deceased's children was engaged in the woodlot operation as required by a **prescribed forest management plan** in respect of the woodlot. These provisions apply to transfers of property that occur after December 10, 2001. For more information, see IT-373, *Woodlots*, or contact us at **1-800-959-8281**.

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*.

You may also be able to use a special amount for the deemed proceeds when a share of the capital stock of a family fishing corporation or an interest in a family fishing partnership is transferred to a child.

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

If all four conditions listed above 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 claim the capital gains deduction (see page 21) 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 or fishing property to a child

If there is a transfer of depreciable farm property, or depreciable fishing property, you may be able to use a special amount for the deemed proceeds. To use this special amount, the four conditions listed earlier on this page 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; and
- the result of the following calculation:

Capital cost of the property	×	Undepreciated capital cost of all of the deceased's property in the same class
Capital cost of the property in the same class that had not been disposed of previously		same class

### Example

A man who owned three fishing boats died in August 2011. His will transferred one boat to his son. The four conditions for transfer of fishing property to a child are met. You have the following details:

Undepreciated capital cost of the three boats right before death	\$ 90,000
Capital cost of the transferred boat	\$ 45,000
Capital cost of all three boats	\$100,000

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

- \$ 45,000; and
- $\$ 45,000 \times \$90,000 = \$40,500$ .

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 something other than gaining or producing income; or
- the part of a property used for gaining or producing income changed.

For more information, contact us at 1-800-959-8281.

#### 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 claim the capital gains deduction (see page 21) 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 information, see Interpretation Bulletin IT-349, *Intergenerational Transfers of Farm Property on Death*, or contact us. You may also refer to Guide T4003, *Farming Income*, or Guide T4004, *Fishing Income*.

#### Election to delay payment of income tax

Generally, you have to pay any amount owing on a return when the return is due. 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 day after 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 information, contact the Collections Division of your tax services office by calling 1-888-863-8657.

## Chapter 5 – Net capital losses

In this chapter, we discuss how to apply a net capital loss that occurred in the year of death. 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 "Definitions", which begins on page 4.

## What is a net capital loss?

Generally, when allowable capital losses are more than taxable capital gains, the difference is a **net capital loss**. An allowable capital loss is one-half of a capital loss.

Generally, a taxable capital gain is one-half of a capital gain. The rate used to determine the taxable part of a capital gain and the allowable part of a capital loss is called an **inclusion rate**.

## 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 2011 net capital loss to reduce any taxable capital gains in any of the three tax years before the year of death. If you are applying it against taxable capital gains realized in 2008, 2009, or 2010, you do not need to make any adjustment because the inclusion rate is the same in all three years. The loss you carry back cannot be more than the taxable capital gains in those years. To ask for a loss carryback, complete "Section III – Net capital loss for carryback" on Form T1A, *Request for Loss Carryback*, and send it to your tax centre.

**Do not** file an amended return for the year to which you want to apply the loss.

After you carry back the loss, there may be an amount left. You may be able to use some of the remaining 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 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 any remaining net capital loss in the year of death, you should claim it as a negative amount in brackets at line 127 of the final return.

#### 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 or territorial 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 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.

If you claim any remaining net capital loss in the year of death, you should claim it as a negative amount in brackets at line 127 of the final return.

### Example

A man died on June 20, 2011. You have the following details about his tax matters:

Net capital loss in 2011	\$11,000
Taxable capital gains in 2009	\$ 4,000
Taxable capital gains in 2008	\$ 2,000
Total capital gains deductions claimed to date	\$ 4,000

He did not claim any capital gains deductions for 2008 or 2009.

You can use Method A or Method B.

### Method A

If you choose Method A, you can use the net capital losses to reduce his 2009 taxable capital gains to zero (\$11,000 – \$4,000). Then, you can use the remaining balance of \$7,000 to reduce his 2008 taxable capital gain to zero (\$7,000 – \$2,000).

After you subtract his capital gains deductions (\$5,000 – \$4,000), you still have \$1,000 left to reduce the man's other income for 2011 or 2010 or for both years.

### Method B

If you choose to use this method, you will first deduct his capital gains deductions of \$4,000 from his net capital loss in 2011 of \$11,000. You can now use the remaining \$7,000 to reduce the man's other income for 2011 or 2010, or for both years.

### Note

If you claim any remaining net capital loss in the year before the year of death, you will need to complete Form T1-ADJ, *T1 Adjustment Request*, or send us a signed letter providing the details of your request. Send your Form T1-ADJ or letter **separately** from the deceased's final return. Applying a 2011 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 the net capital loss arose after 1987 and before 2001, you will need to make an adjustment to the inclusion rate as explained below. 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.

### Note

You cannot use the net capital losses of other years to create a negative taxable income for any year.

You have to apply net capital losses of earlier years before you apply net capital losses of later years. For example, if you have net capital losses in 1997 and 1999 and want to apply them against your taxable capital gains in 2011, you have to follow a certain order. First, apply your 1997 net capital loss against your taxable capital gain. Then apply your 1999 net capital loss against it.

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 of 1/2 for 2011 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 2011.

To apply a previous year loss to 2011, you will need to adjust the loss as follows:

- For a net capital loss from **1987 or earlier**, there is no adjustment required.
- For a net capital loss from **1988 or 1989**, multiply the loss by 3/4.
- For a net capital loss from **1990 to 1999**, multiply the loss by 2/3.
- For a net capital loss from **2000**, multiply the loss by  $[1 \div (2 \times \text{IR})]$ , where **IR** is the inclusion rate for 2000. This rate is from line 16 of Part 4 of the deceased's Schedule 3 for 2000, or from the deceased's notice of assessment or latest notice of reassessment for 2000.
- For a net capital loss from **2001 or later**, there is no adjustment required.

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; and
- 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 do this, you may have to calculate the amount you can use.

If you had to adjust the loss before applying it to the 2011 taxable capital gain, you will now have to readjust the loss that remains as follows:

- For a net capital loss from **1987 or earlier**, there is no adjustment required.
- Multiply any adjusted net capital losses from **1988 or 1989** by 4/3.
- Multiply any adjusted net capital losses from **1990 to 1999** by 3/2.
- Multiply any adjusted net capital losses from **2000** by  $2 \times \text{IR}$ , where **IR** is the inclusion rate for 2000.
- For a net capital loss from **2001 or later**, there is no adjustment required.

The result is your **readjusted balance** of net capital losses. From this balance, subtract 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 2011. You have these details about her tax matters:

Net capital loss in 1999, never applied	\$18,000
Taxable capital gain in 2011	\$ 6,000
Capital gains deductions claimed to date	\$ 4,000

You decide to use the 1999 loss to reduce the 2011 taxable capital gain and to use any amount left to reduce other income for 2011.

You have to adjust the 1999 net capital loss before you can apply it. Multiply it by  $2/3$  to get the adjusted net capital loss:

$$\$18,000 \times 2/3 = \$12,000$$

To reduce the 2011 taxable capital gain, use the lower of:

- \$12,000 (adjusted net capital loss); and
- \$6,000 (2011 taxable capital gain).

After you use \$6,000 of the loss to reduce the gain to zero, you still have \$6,000 (\$12,000 – \$6,000) left. You can use this amount to reduce the deceased’s other income for 2011.

To determine the amount to use, you have to readjust the \$6,000. Because the loss occurred in 1999, multiply the amount left by  $3/2$  to get the readjusted balance:

$$\$6,000 \times 3/2 = \$9,000$$

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

$$\$9,000 - \$4,000 = \$5,000$$

You can use \$5,000 to reduce the deceased’s other income for 2011. If you decide not to use the total of this balance in 2011, you can use the amount that is left to reduce other income for 2010.

**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 Guide T4037, *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 *T3 Trust Income Tax and Information Return*. However, in the trust’s first tax year, you can choose to claim all or part of these losses on the deceased’s final return. Any net capital loss realized after the date of death can only be applied to the year of death. For more information, see “164(6) election” in Chapter 3 of the T4013, *T3 Trust Guide*.

# Appendix

**Chart 1 – Returns for the year of death**

Section of T1 <i>General Income Tax and Benefit Return</i>	Line	Final return 70(1)	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>■ OAS, CPP/QPP paid after the date of death for the month of death</li> <li>■ CPP and EI arrears</li> <li>■ Universal Child Care Benefit (UCCB)</li> <li>■ accounts receivable, supplies, and inventory (Note 2)</li> <li>■ uncashed matured bond coupons</li> <li>■ bond interest earned but not received 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>■ Universal Child Care Benefit (UCCB) repayment</li> <li>■ generally, none of the other deductions can be claimed</li> </ul>	<ul style="list-style-type: none"> <li>■ same as for the rights or things 70(2) return</li> </ul>	<ul style="list-style-type: none"> <li>■ same as for the rights or things 70(2) return</li> </ul>
	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>				
	244	<ul style="list-style-type: none"> <li>■ Canadian Forces personnel and police deduction</li> </ul>	Note 7	not applicable	not applicable
	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>■ security options deductions</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>Federal non-refundable tax credits (Note 13)</b>	300-306, 367	<ul style="list-style-type: none"> <li>■ all personal amounts</li> </ul>	yes – in full	yes – in full	yes – in full
	315	<ul style="list-style-type: none"> <li>■ caregiver amount</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
	313	<ul style="list-style-type: none"> <li>■ adoption expenses</li> </ul>	yes	yes	yes

(continued on next page)

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

<b>Section of T1 General Income Tax and Benefit Return</b>	<b>Line</b>	<b>Final return 70(1)</b>	<b>Return for rights or things 70(2)</b>	<b>Return for a partner or proprietor 150(4)</b>	<b>Return for income from a testamentary trust 104(23)(d)</b>
<b>Federal non-refundable tax credits (Note 13) (continued)</b>	<b>Split amounts (Note 6)</b>				
	314	■ pension income amount	Note 8	not applicable	Note 8
	316	■ disability amount	yes	yes	yes
	318	■ disability amount transferred from a dependant	yes	yes	yes
	319	■ interest on student loans	yes	yes	yes
	323-324	■ tuition, education, and textbook amounts	yes	yes	yes
	326	■ amounts transferred from spouse or common-law partner	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
	363	■ Canada employment amount	yes	no	no
	364	■ public transit passes amount	yes	yes	yes
	365	■ children's fitness amount	yes	yes	yes
	369	■ home buyers' amount	yes	yes	yes
<b>Refund or balance owing</b>	412	■ investment tax credit	no	no	no
	422	■ social benefits repayment	Note 5	not applicable	not applicable
	425	■ dividend tax credits	Note 11	not applicable	Note 11
	427	■ minimum tax carryover	no	no	no
	452	■ refundable medical expense supplement (Note 12)	no	no	no
	453	■ Working income tax benefit (WITB)	no	no	no

**Notes**

- 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.
- Accounts receivable, supplies on hand, and inventory are rights or things if the deceased's business used the cash method.
- This includes harvested farm crops and livestock that is not part of the basic herd. For more information, see interpretation bulletins IT-234, *Income of deceased persons – Farm crops*, and IT-427, *Livestock of farmers*.
- Work in progress** is a right or thing if the deceased was a sole proprietor and a professional [accountant, dentist, lawyer (in Quebec an advocate or notary), 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, see Interpretation Bulletin IT-212, *Income of deceased persons – Rights or things*, and its Special Release.
- If OAS or EI benefits have been reported on this return, this amount can be claimed.
- Claims split between returns cannot be more than the total that could be allowed if you were only filing the final return.
- If related employment income has been reported on this return, this amount can be claimed.

(continued on next page)

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

#### Notes (continued)

8. If pension or annuity income has been reported on line 115 or line 129 of this return, this amount can be claimed.
9. The medical expenses can be split between the returns. Allowable medical expenses have to be reduced by the lesser of \$2,052 or 3% of the total net income reported on **all** the returns.
10. The amount that can be claimed is the **lesser** of the eligible amounts of charitable donations or 100% of the net income reported on this return. Also, the total charitable donations claimed on **all** the returns cannot be more than the eligible amount of charitable donations.
11. If dividend income has been reported on this return, this amount can be claimed.
12. Use the deceased's net income from the final return and the spouse's or common-law partner's net income for the entire year to calculate this credit.
13. If the deceased was a resident of a province or territory other than Quebec, he or she may now also be able to claim provincial or territorial tax credits. See the provincial or territorial pages in the deceased's forms book.

### 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 later year.

Type of income	Information slip
1. Severance pay received because of death. Since this is a death benefit, up to \$10,000 may be non-taxable.	T4A, Box 106
2. Future adjustments to severance pay regardless of when the collective agreement was signed.	T4A, Box 028
3. Refund of pension contributions payable because of death.	T4A, Box 018
4. Guaranteed minimum pension payment (this is not a death benefit).	T4A, Box 018
5. Deferred profit-sharing plan payment.	T4A, Box 018
6. Pension or superannuation periodic payments	T4A, Box 016
7. I.A.A.C. annuity	T4A, Box 024
8. Income earned in a RRIF after annuitant dies	T4RIF, Box 22
9. Income earned in an RRSP after annuitant dies	T4RSP, Box 28
10. 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 at [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or by calling 1-800-959-2221.

### Forms

- RC4288 *Request for Taxpayer Relief*
- T1A *Request for Loss Carryback*
- T1013 *Authorizing or Cancelling a Representative*
- 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 the AgriStability and AgriInvest Programs Guide*
- RC4064 *Medical and Disability – Related Information*
- RC4112 *Lifelong Learning Plan (LLP)*
- RC4135 *Home Buyers' Plan (HBP)*
- RC4408 *Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide*
- RC4466 *Tax-Free Savings Account (TFSA), Guide for Individuals*
- 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

- IC82-6 *Clearance Certificate*
- IC07-1 *Taxpayer Relief Provisions*

### 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-456 *Capital property – Some adjustments to cost base, and its Special Release*
- 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*

## For more information

### What if you need help?

If you need help after reading this publication, go to [www.cra.gc.ca/deceased](http://www.cra.gc.ca/deceased) or call 1-800-959-8281.

If we cannot resolve your enquiry by telephone, you can meet with an agent in person at a tax services office. Call us at the number listed above to make an appointment with an agent.

### Forms and publications

To get our forms or publications, go to [www.cra.gc.ca/forms](http://www.cra.gc.ca/forms) or call 1-800-959-2221.

### Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling 1-800-267-6999.

### Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

### Our service complaint process

#### Step 1 – Talk to us

If you are not satisfied with the service that you have received from us, you can make a formal complaint. Before you do this, we recommend that you try to resolve the matter with the CRA employee you have been dealing with or call the telephone number that you have been given.

If you are not pleased with the way your concerns are addressed, you can ask to discuss the matter with the employee's supervisor.

#### Step 2 – Contact CRA – Service Complaints

The CRA – Service Complaints program is available to individual and business taxpayers, as well as benefit recipients. This program gives you another level of review if you are not pleased with the results from the **first step** of our complaint process. Generally, service-related complaints refer to the quality and timeliness of the work that we performed.

To bring your complaint to the attention of CRA – Service Complaints, complete Form RC193, *Service-Related Complaint*, which you can get by going to [www.cra.gc.ca/complaints](http://www.cra.gc.ca/complaints) or by calling 1-800-959-2221.

#### Step 3 – Contact the Taxpayers' Ombudsman

If, after following steps 1 and 2, you are still not satisfied with our service, you can file a complaint with the Office of the Taxpayers' Ombudsman.

For information about the Taxpayers' Ombudsman and how to file a complaint with him or her, please visit [www.oto-boc.gc.ca](http://www.oto-boc.gc.ca).

### Your opinion counts!

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:



**Taxpayer Services Directorate**  
**Canada Revenue Agency**  
750 Heron Road  
Ottawa ON K1A 0L5



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