

TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



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Passing on: when wealth transitions

A guide to managing final tax liabilities and preserving more for the next generation.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



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It is often said that only two things in life are certain: death and taxes. What is less commonly understood is how closely the two are linked. In Canada a deceased taxpayer's assets are treated as if they were sold at their fair market value (FMV).

For high-net-worth Canadians, this deemed disposition can mean that taxes owing at death can reach into the millions of dollars. Without proactive planning, these liabilities can reduce the wealth passed to beneficiaries, disrupt businesses and force the sale of cherished assets.

This guide provides financial advisors and their clients with a practical overview of the tax implications that arise upon death in Canada, and highlights planning strategies that can help reduce or defer taxes.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



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Investments

Taxes at death

Unlike many other jurisdictions, Canada does not have an explicit “inheritance tax”. Instead, the tax consequences of death flow from the deemed disposition rules. At the moment of death, the law assumes that the deceased individual sold all of the capital assets they owned at their fair market value (FMV). Even if no actual sale occurs, the tax bill is real.

For families, this means that the moment of death can crystallize decades of unrealized growth into a single, concentrated tax bill. The question is not whether taxes will arise, but how to prepare for and manage them effectively.

The executor's role and why advisors matter

When someone passes away, the executor (liquidator in Quebec) steps into a role that is both administrative and fiduciary. From a tax perspective, the executor must file all required returns, ensure taxes are paid, and, in many cases, obtain a clearance certificate from the Canada Revenue Agency (CRA) before distributing estate assets. Without the certificate, the executor could be personally liable if the estate later turns out to owe more than expected. Consult [Mackenzie's Executor checklist](#) for a comprehensive list of the main duties and responsibilities of an executor.

For financial advisors, this is where proactive planning and clear communication can make an enormous difference. Clients often do not realize the liquidity challenge: taxes are due in cash, even when the estate consists mostly of illiquid assets like real estate, business interests or long-term investments. Advisors can provide valuable support in helping clients anticipate these obligations and arrange sources of liquidity, such as life insurance, pre-arranged credit or planned asset sales.

Not all assets are treated the same at death. Some trigger immediate capital gains or income inclusions, while others may benefit from special rollovers or exemptions. Understanding the differences is essential for effective estate planning.



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TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

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Tax treatment of assets at death

Non-registered investments

For taxable portfolios such as individual stocks, bonds, ETFs and mutual funds, the general deemed disposition rule applies. These assets are treated as though they were sold at FMV immediately before death. Any accrued gains are realized and reported on the terminal return.

One of the most common ways to reduce this burden is through the spousal rollover provisions. When assets are left to a surviving spouse, common-law partner or to a spousal trust, they can pass at their original adjusted cost base rather than at FMV. This defers the capital gain until the surviving spouse or common-law partner disposes of the assets or dies. It is a deferral, not an elimination of tax, but it often provides crucial breathing room and helps preserve family wealth.

However, the spousal rollover is not always the right choice. For example, if the deceased has large unused capital losses, it might make sense to opt out of the rollover and realize some gains in the final return, using the losses to offset them. This is an example of where professional tax and financial advice is indispensable.

Québec: Unlike other provinces, Québec generally does not allow beneficiary designations on investment accounts unless they are structured as insurance contracts. Non-registered accounts must pass through the estate, while RRSPs, RRIFs, TFSAs and FHSAs held with banks or brokers require the beneficiary designation to be made in the will. This can materially affect estate administration and liquidity planning for Québec residents.

CASE EXAMPLE

Sarah bought a portfolio of stocks years ago for \$500,000, and it is worth \$2 million on her date of death. The government treats her assets as though she sold the entire portfolio immediately before she died. That creates a \$1.5 million capital gain, and half of that, \$750,000, becomes taxable income on her terminal tax return. Depending on her province of residence and marginal tax rate, the tax bill could exceed \$350,000.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

RRSP and RRIF often represent the single largest source of taxable income at death. Unless certain conditions are met, the FMV of the account is included as income on the deceased's terminal return. At death, the full value of an RRSP or RRIF is treated as if it were withdrawn all at once by the annuitant (i.e., the account holder).

For example, if an RRSP has grown to \$800,000 at death, the full \$800,000 could be added to income in that year, potentially pushing the estate into the top marginal tax bracket. In Ontario, that could mean taxes exceeding \$400,000.

Tax-deferred rollovers

Spouse or common-law partner

Fortunately, the tax rules provide for important rollovers. If the spouse or common-law partner is named as a beneficiary, the RRSP or RRIF can usually be transferred directly to their own RRSP or RRIF plan. No tax is payable until the surviving spouse withdraws the funds or dies.

A spouse or common-law partner can be named as a successor annuitant on a RRIF. This allows the surviving spouse to take over the RRIF directly, with no income inclusion in the deceased's terminal return and the account continuing seamlessly in the survivor's name. The RRIF simply carries on as if the survivor had always been the annuitant. Any minimum payment not yet withdrawn for the year of death must still be taken, but it is reported on the survivor's tax return rather than that of the deceased. Going forward, the RRIF minimums continue to be calculated based on the original age used to set up the RRIF. If the surviving spouse wishes to have the RRIF minimum calculated based on their own age they will need to transfer the existing RRIF to a new RRIF.

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TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



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Investments

CASE EXAMPLE

Spouse as a successor annuitant vs. beneficiary vs. estate

John dies with a RRIF valued at \$600,000. The minimum withdrawal required for the year is \$36,000. By the date of his death, John has already withdrawn \$20,000, leaving \$16,000 still to be withdrawn for the year.

His wife, Mary, survives him.

Scenario A – Mary named as a successor annuitant

John's RRIF becomes Mary's RRIF automatically.

There is no deemed income inclusion on John's terminal return, except for the \$20,000 withdrawn during the year before his death, which is included in his income.

Mary simply continues to own the RRIF, with the same investments and terms, and reports withdrawals as her own income going forward.

The remaining \$16,000 RRIF minimum withdrawals will be taxable to Mary.

No tax slips, forms or additional reporting are required as a result of John's death. John and Mary will only receive tax slips as it relates to the minimum withdrawals received.

Scenario B – Mary named as a beneficiary

If Mary is the sole designated beneficiary of John's RRIF, and the funds (less any outstanding minimum withdrawals) are transferred directly to her own RRSP or RRIF by December 31 of the year after the year of death, the rollover occurs automatically; no income is reported on John's final return and no T4RIF is issued to his estate.

Instead, the amount is reported to Mary on a T4RIF slip, and she claims a matching offsetting deduction for the transfer.

The remaining \$16,000 RRIF minimum must be withdrawn before the rollover occurs and is taxable to Mary.

Scenario C – Estate named as a beneficiary

If John names his estate as the RRIF beneficiary and Mary is a beneficiary under his will, a T4RIF for the entire \$600,000 RRIF is issued in John's name.

To restore the tax deferral, Mary and the executor must complete a joint election to treat the RRIF payment as a "designated benefit" under the Income Tax Act.

This requires:

CRA Form T1090 (Death of a RRIF Annuitant – Designated Benefit or Joint Designation on the Death of a PRPP Member), signed by both Mary and the legal representative of John's estate; and a rollover of the RRIF proceeds to Mary's own RRSP, RRIF or eligible annuity.

The transfer must be completed by December 31 of the year following John's death.

If Form T1090 is not filed or the transfer is mishandled, the \$600,000 remains taxable on John's final return, creating an unnecessary tax liability of over \$320,000 in Ontario at top rates.

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TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
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Child or grandchild

Similarly, if the beneficiary is a financially dependent child or grandchild, special rollover options may apply.

A child or grandchild is generally considered financially dependent on the deceased if, before death, they ordinarily lived with and relied on the annuitant for support, and their income was below certain thresholds. Specifically, dependency is recognized when:

- the child's net income for the prior year was less than the basic personal amount; or
- the child had a physical or mental disability, and their income was not more than the basic personal amount plus the disability amount for that year.

A child who is temporarily away for school is still deemed to have resided with the annuitant. In cases where the child or grandchild did not live with the deceased but received substantial financial support, the CRA may still accept that they were financially dependent, provided the executor submits a written explanation to the local tax services office explaining the circumstances.

In the case of a minor child or grandchild, the funds can be used to purchase an annuity that pays until age 18, effectively spreading the tax burden over several years. For a child or grandchild with a disability, the funds may be rolled into their own RRSP, RRIF or Registered Disability Savings Plan (RDSP), which will extend the tax deferral period.

To qualify for a rollover, transfers from a deceased annuitant's RRSP or RRIF to a spouse, common-law partner or dependent child's plan must generally be completed by December 31 of the year following the year of death.

In the case of a financially dependent adult child or grandchild, the RRSP or RRIF income inclusion can be reported on their own tax return instead of the deceased's final return, allowing the tax burden to shift to a potentially lower tax bracket; however, unlike minors or infirm beneficiaries, no rollover to an annuity or registered plan is permitted.

Estate

When the estate is named as the beneficiary of an RRSP or RRIF, rather than an individual directly, the plan's FMV at death is normally included in the deceased annuitant's final tax return. However, if a spouse, common-law partner or financially dependent child or grandchild is the beneficiary of the estate under the will, a tax-deferred rollover may still be available.

In these situations, the executor and the qualifying beneficiary can jointly elect to treat all or part of the RRSP or RRIF proceeds paid to the estate as though they were transferred directly to that beneficiary. This preserves the same rollover treatment that would have applied had the beneficiary been named directly on the plan.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
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CASE EXAMPLE

Financially dependent disabled child as a beneficiary

Robert, age 62, passed away with an RRSP valued at \$250,000. His will names his estate as the RRSP beneficiary and his daughter Emma, who has a severe physical disability, as the sole beneficiary of the estate. Emma's income is below the disability threshold, and she already has a Registered Disability Savings Plan (RDSP) with \$60,000 of prior contributions.

Ordinarily, the entire \$250,000 would be included on Robert's final return, creating a large tax bill. However, because Emma is financially dependent due to her disability, the executor and Emma can jointly elect to treat part of the RRSP proceeds as a refund of premiums and transfer it tax-free to Emma's RDSP.

Here's how this works in practice

The RRSP issuer issues a T4RSP slip in Robert's name for \$250,000.

The executor reports this amount on Robert's terminal return but files Form T2019 (Death of an RRSP Annuitant – Refund of Premiums) and Form RC4625 (Rollover to a Registered Disability Savings Plan (RDSP)), signed by both the executor and Emma (or Emma's legal representative if she lacks capacity).

The entire \$250,000 is designated as a refund of premiums, removing it from Robert's income.

Of that total, \$140,000 (Emma's remaining RDSP contribution room) is rolled directly to her RDSP tax-free.

The remaining \$110,000 cannot go into the RDSP because of the \$200,000 lifetime contribution limit. However, because Emma was financially dependent on Robert due to her disability, the remaining \$110,000 can be transferred to Emma's RRSP or RRIF without any need for contribution room.

Transferring excess funds to an RRSP or RRIF for a disabled individual can affect their eligibility for provincial social assistance programs such as ODSP. In situations where the rollover amount exceeds the RDSP limit, directing the excess to a properly structured Henson trust, while taxable to Emma in the year received, may be a more effective strategy to preserve long-term benefits.

The rollover must be completed by December 31 of the year following Robert's death. The \$140,000 rolled into the RDSP does not attract new government grants or bonds but continues to grow tax-deferred inside the plan.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

Be
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Whose tax liability is it?

Where an independent adult child is named as the beneficiary, there is no rollover available. The entire value of the plan is taxable to the deceased in the year of death.

Many people are not aware that beneficiaries of these accounts may also find themselves jointly and severally liable for any unpaid taxes. Section 160.2 of the Income Tax Act allows the CRA to pursue the recipient of an RRSP or RRIF for a portion of the tax owing if the estate does not pay. This liability is limited to the amount of tax that relates to the RRSP or RRIF distribution, but it can still create major problems.

This rule is particularly relevant where the estate is insolvent, for example, where there are few liquid assets outside the registered plan, but large personal debts or other tax obligations. In such cases, the CRA can and will collect from the beneficiary directly, even though the account was supposed to pass outside the estate.

Planning implications

The joint and several liability rule highlights the importance of liquidity and coordination in estate planning. Clients often assume that naming children directly as RRSP or RRIF beneficiaries is a tax-smart move, since it avoids probate. In fact, if there is no rollover available, it may create more risk, not less.

Financial advisors should encourage clients to:

- Review beneficiary designations to ensure they align with the estate's overall liquidity plan.
- Assess whether the estate will have sufficient assets to cover the tax liability.
- Discuss the use of life insurance to provide cash at death, so beneficiaries are not left responsible for unexpected taxes.

For advisors working with high-net-worth families, raising this issue in advance can prevent costly surprises and potential conflict between heirs.

CASE EXAMPLE

Adult children as beneficiaries

Consider Maria, a widowed retiree with two financially independent adult children. At her death, Maria has a RRIF valued at \$400,000 and a modest non-registered investment account valued at \$50,000. She names her daughter and son as 50/50 beneficiaries of the RRIF.

On Maria's final return, the entire \$400,000 RRIF must be reported as income. Assuming she is in the top marginal bracket, this creates a tax liability of approximately \$200,000. The \$50,000 non-registered account is not nearly enough to cover this bill.

If the estate lacks sufficient funds, the CRA will assess the tax against Maria's beneficiaries. Each child, having received \$200,000 from the RRIF, may be liable for their share of the unpaid tax in this case, about \$100,000 each. Because these amounts are paid as a result of death, no withholding tax is taken on payments to beneficiaries.

This outcome often surprises beneficiaries. From the children's perspective, they thought they were inheriting \$200,000 each. In reality, once the CRA enforces joint and several liability, their inheritance could be closer to \$100,000 each — less than half of what they expected.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

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Pension plans

For many Canadians, particularly professionals, pension entitlements are one of the largest components of retirement wealth. Yet the rules at death can be surprisingly complex and families are often unprepared for what happens next.

Defined benefit (DB) pensions

A defined benefit pension typically provides guaranteed monthly income for life. What happens upon death depends on the plan terms and pension legislation:

- If the member is survived by a spouse or common-law partner, most plans must provide a survivor pension, often 50% to 100% of the original amount.
- If there is no eligible spouse, benefits may cease entirely, unless the plan includes a guaranteed period (for example, payments for a minimum of 10 years).
- Children and other heirs usually do not inherit DB pensions directly.

For families, this can mean that a significant retirement asset disappears at the first or second death, leaving little flexibility for estate planning. Clients may choose to commute their pension or supplement pensions with insurance or savings to ensure heirs still receive an inheritance.

Defined contribution (DC) pensions

With defined contribution pensions, the situation is more straightforward. The account balance is deemed to have been disposed of at FMV at death and is generally taxable income unless transferred to a spouse, common-law partner or dependent child. In practice, DC pensions behave like RRSPs, with the same rollover and inclusion rules.

Québec: Survivor entitlements under Québec-based pension plans (such as those governed by provincial legislation) follow Québec-specific rules, which may differ from those applicable to federally regulated or out-of-province plans. Pension treatment ultimately depends on the legislation governing the pension plan, not the member's province of residence.

Canada Pension Plan (CPP) and Québec Pension Plan (QPP)

CPP and QPP provide both retirement benefits and survivor benefits.

At death:

- A survivor's pension may be payable to a spouse or common-law partner, typically a percentage of the deceased's CPP/QPP entitlement.
- Dependent children may qualify for a children's benefit.
- A one-time death benefit, currently capped at \$2,500, may be paid to the estate or to an eligible individual.

CPP and QPP benefits are taxable to the recipients, and while modest in size compared to private pensions, they provide predictable income for survivors.

The CPP survivor's pension is a monthly benefit paid to the surviving spouse or common-law partner of a CPP contributor. If the survivor is 65 or older, the benefit is generally 60% of the deceased contributor's CPP retirement pension, subject to a maximum set by CPP rules. However, when the survivor is already receiving their own CPP retirement pension, the combined total of their pension, plus the survivor benefit cannot exceed the maximum CPP retirement pension. In these cases, the survivor benefit is reduced, effectively acting as a "top-up" to bring the survivor's total CPP entitlement up to, but not beyond the maximum allowable amount.

Québec: The QPP survivor pension amount will depend on various factors and vary based on the survivor's age and family situation.

Old Age Security (OAS)

OAS is a government-funded pension that stops at death. There are no survivor benefits, and any overpayment after death must be repaid by the estate.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

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Invested.**

Tax-Free Savings Account (TFSA)

TFSA is often misunderstood in the context of estate planning. Many clients assume that because it is called "tax-free," no issues can arise at death. The reality is more nuanced.

When a TFSA holder dies, the account's value at the date of death can be paid to a named beneficiary or to the estate without triggering any tax. That part is straightforward.

Any growth in the account after the date of death is not tax-sheltered. There is, however, an important exception for spouses and common-law partners. The way the account is passed to a spouse or partner can dramatically change the outcome. Advisors should understand the distinction between naming a successor holder and naming a beneficiary.

Spouse or common-law partner as a successor holder

If a spouse or common-law partner is named as the successor holder, the TFSA essentially rolls over intact. The surviving spouse steps into the deceased's shoes and becomes the new account holder. All existing investments remain sheltered from tax, and any future growth continues to accumulate tax-free. No contribution room is needed, and no special filings are required. Only a spouse or common-law partner can be named as the successor.

Spouse or common-law partner as a beneficiary

By contrast, if the spouse or common-law partner is simply named as beneficiary, the TFSA terminates at the date of death. The value at that time can still be transferred tax-free to the spouse's own TFSA, but only up to the FMV on the date of death. Any growth in the TFSA between the date of death and the eventual transfer to the spouse is taxable to the spouse.

Note: Proposed amendments to the Income Tax Act (ITA), intended to apply to deaths on or after January 1, 2026, would update the TFSA rules so that post-death income or growth remains tax-free where a surviving spouse or common-law partner is named as the beneficiary. These rules are not yet law and will only take effect once legislation is enacted.

To preserve the tax-free status under current rules, the spouse or common-law partner must contribute the proceeds to their own TFSA and file Form RC240 ("Designation of an Exempt Contribution") within 30 days of making the contribution. This process is less seamless and can create unintended taxable amounts if there are delays.



TAXES AT DEATH

The executor’s role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION

Estate or non-spouse beneficiary

For non-spouse beneficiaries, the distinction does not exist; they are treated only as beneficiaries. They will receive the TFSA value at death tax-free, but any post-death growth before distribution is taxable in their hands.

The surviving spouse or common-law partner must contribute the inherited TFSA amount to their own TFSA by December 31 of the year following the year of death to qualify as an “exempt contribution.”

Planning implications

When a spouse or common-law partner is intended to inherit a TFSA, naming them as a successor holder is almost always preferable to naming them as a beneficiary. It preserves the account’s tax-free status without administrative burden or risk of unintended taxation.

Advisors should review client TFSA documentation to confirm that the intended designations are in place. In many cases, a small change on a beneficiary form can save thousands in taxes and prevent headaches for surviving spouses.

CASE EXAMPLE

Successor holder vs. beneficiary

At the time of her death, Maria’s TFSA was valued at \$100,000. By the time the estate processed her accounts, the TFSA had grown to \$105,000.

Scenario A: Successor holder

Maria named her husband, Carlos, as the successor holder. Carlos takes over the account and the TFSA continues with its full \$105,000 value. Future growth remains tax-free. No contribution room or special filings are required.

Scenario B: Beneficiary

If Maria had named Carlos as a beneficiary, only the \$100,000 value at the date of death is eligible for a tax-free transfer as an “exempt contribution”. If Carlos promptly contributes that amount to his own TFSA and files Form RC240 within 30 days of making the contribution, the \$100,000 remains tax-free. However, the \$5,000 of growth after Maria’s death is taxable income to Carlos in the year he receives it. If Carlos wants to contribute the \$5,000 to his own TFSA, it uses his available TFSA contribution room.

While the difference in this example is only \$5,000, for larger accounts or in cases where probate or estate administration causes delays, the taxable amount can be much more significant.



MACKENZIE
Investments

Be
Invested.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

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Registered Education Savings Plan (RESP)

RESPs are designed to encourage saving for post-secondary education, but what happens if either the subscriber (the person who sets up and funds the plan) or the beneficiary (the student) dies?

Death of the subscriber

If an RESP is held jointly with rights of survivorship (except in Quebec) with a spouse or common-law partner, the surviving joint subscriber automatically continues as the sole subscriber. This transition is relatively straightforward and avoids disruption in the children's education funding.

If there is no joint subscriber, the treatment depends on the deceased subscriber's will. A successor subscriber can be appointed in the will to take over the plan. If one is not named, the legal representative of the estate assumes responsibility and may collapse the RESP or appoint a new subscriber, depending on the language in the will. Without direction in the will, the RESP may fall into the residue of the estate, forcing the executor to close it and repay government grants instead of preserving it for the intended beneficiary's education.

If the plan is collapsed, contributions are returned to the estate, while government grants must be repaid. In some cases, the investment earnings may be paid to the estate as an Accumulated Income Payment (AIP), taxable at regular income tax rates plus a 20% penalty tax.

A common misconception is that the RESP beneficiary automatically becomes the beneficiary of the subscriber's estate. In reality, the RESP beneficiary only receives education-related payments from the plan; they do not inherit the RESP itself. The RESP remains part of the subscriber's estate unless a successor subscriber has been appointed.

Death of the beneficiary

If the RESP is a family plan with multiple beneficiaries, the surviving children can continue to use the plan's funds. In a single-beneficiary plan, a replacement beneficiary can sometimes be named, provided they are under 21 and a sibling of the deceased. If no replacement is possible, the plan must be collapsed, triggering repayment of grants and possible AIP taxation.

For families where grandparents often act as RESP subscribers, advisors should encourage naming a successor subscriber in the will to prevent complications.





TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

**Be
Invested.**

Registered Disability Savings Plan (RDSP)

The RDSP is a powerful tool for Canadians with disabilities, offering long-term tax-deferred growth and government grants.

Death of the holder

If the holder is not the beneficiary (for example, a parent, grandparent or guardian), their death does not collapse the plan. Instead, a new holder must be appointed. This may be the beneficiary (if they are of legal age and competent) or the holder's executor until either a qualifying family member or legal guardian of the beneficiary is added to the account.

Death of the beneficiary

If the beneficiary dies, the RDSP must be collapsed by the end of the following calendar year. Any government grants or bonds received in the 10 years before death (the "assistance holdback amount") must be repaid to the government. Contributions are returned to the beneficiary's estate tax-free. However, any growth in the plan, including investment earnings and retained grants older than 10 years, becomes taxable to the deceased beneficiary.

CASE EXAMPLE

An RDSP holds \$80,000 at the beneficiary's death, consisting of \$20,000 in contributions, \$35,000 in government grants and bonds (all received within the last 10 years), and \$25,000 in growth. The \$35,000 in grants is repaid, \$20,000 is distributed tax-free to the estate and the \$25,000 in growth is taxable income on the terminal return.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

**Be
Invested.**

First Home Savings Account (FHSA)

The FHSA provides prospective first-time homebuyers with tax-deductible contributions and tax-free qualified withdrawals. At death, however, an FHSA does not offer the same range of rollover opportunities as other registered plans (such as RRSPs, RRIFs, TFSAs). The tax consequences depend entirely on who is named as the successor holder or beneficiary of the account.

On death, the FHSA does not result in an income inclusion on the deceased holder's terminal return. Instead, the fair market value of the account is generally taxable to the beneficiary (or to the estate, if no beneficiary is named), subject to any available rollover to a spouse or common-law partner.

Spouse or common-law partner as a successor holder

The simplest and most favourable option is for the FHSA holder to name their spouse or common-law partner as the successor holder. The account rolls over and continues on a tax-deferred basis. The spouse or common-law partner may keep the FHSA (if still eligible) or transfer the balance to their RRSP or RRIF without requiring contribution room. In this situation the FHSA simply continues to grow tax-sheltered.

Spouse or common-law partner as a beneficiary

When the spouse or common-law partner is named as the beneficiary (rather than as successor holder), the FHSA generally collapses at death, but the spouse or common-law partner still has an opportunity to do a tax-deferred transfer. The amount they receive can be transferred into their own FHSA (if they still qualify to hold an FHSA) or into their RRSP or RRIF, and this can all be done without requiring contribution room. To keep the transfer tax-deferred, it must be completed by December 31 of the year following the year of death, and the surviving spouse or common-law partner will need to confirm that the amount is being moved under the rollover rules on the transfer form. If they don't complete the transfer by that deadline, or choose to take the amount as cash, the full value of the FHSA becomes taxable to the beneficiary in the year they receive it, rather than to the deceased on the terminal return.

Estate or non-spouse beneficiary

If the beneficiary is not a spouse or the estate is named, no rollover is available. Amounts paid from the FHSA are taxable to the recipient (or to the estate, if no beneficiary is named).



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



Be Invested.

Real estate

Real estate often carries both financial and emotional weight within an estate. For the family home, the principal residence exemption usually shelters any capital gain, provided the property qualified as the taxpayer's principal residence for all the years it was owned. If a couple owned only one home together, the exemption often eliminates tax entirely.

The situation becomes more complex when there is a second property, such as a cottage, rental property or vacation home. Only one property per family unit (which includes both spouses and minor children) can be designated as a principal residence for any given year. If the surviving spouse inherits both the family home and the cottage, for example, the exemption can only apply to one of the properties for each year after the rollover. The spousal rollover under subsection 70(6) of the Income Tax Act allows real estate to pass to a surviving spouse at its original cost rather than FMV, deferring the tax until the surviving spouse disposes of the property or dies. While this deferral is helpful, it does not eliminate the issue: eventually the second property will trigger a taxable capital gain.

This poses a strategic question: which property should be designated as the principal residence, and for which years? The answer depends on which property has appreciated more relative to its years of ownership. Advisors and tax professionals can run comparative calculations to determine which designation yields the greatest overall tax savings.

Inter vivos gifting of property

When parents transfer a cottage or other secondary property to their children during their lifetime, the transfer is a deemed disposition at FMV. Capital gains tax is payable on any accrued gain up to the date of transfer. For example, if a cottage was purchased for \$200,000 and is now worth \$1 million, the gift will trigger an \$800,000 capital gain, half of which is taxable.

Despite the upfront tax cost, families sometimes pursue inter vivos gifting to lock in current values, to shift future appreciation to the children, and simplify succession planning. There are two additional benefits: probate savings and the capital gains reserve.

Probate savings

Probate fees (often called estate administration tax) are usually levied as a percentage of the estate's value. For a \$1 million cottage in Ontario, probate could cost approximately \$15,000. By gifting the property to children during lifetime, the cottage may bypass the estate and avoid probate altogether. Over time, especially for large estates, these savings can be significant.

That said, the probate savings must be weighed against the immediate capital gains tax and loss of control. Paying hundreds of thousands in tax today to save tens of thousands in probate later may not always be optimal. However, where families value privacy (since probated wills become public) or speed of administration, the probate advantage may be a motivating factor.

Québec: Québec does not charge probate or estate administration tax. Only wills that are not notarial require homologation, a low-cost court process. As a result, probate avoidance strategies that may be beneficial elsewhere in Canada generally offer no financial advantage for Québec residents.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

**Be
Invested.**

Capital gains reserve

If the transfer is structured as a sale (even if the parents do not receive the full proceeds immediately) they can claim a reserve and spread recognition of the capital gain over up to five years. For instance, if parents “sell” a \$1 million cottage to their children with only \$200,000 payable each year, they can report one-fifth of the gain each year over five years. This can smooth out the tax liability and prevent it from being taxed entirely at the highest marginal rate in one year.

Importantly, this does not require the children to pay cash immediately. The transaction can be structured using a demand loan or promissory note payable to the parents. The note satisfies the “proceeds” requirement for the sale, allowing the capital gains reserve to be claimed. Later, on the parents’ death, the loan can be forgiven in their wills, effectively converting the arrangement back into a gift. This approach gives the family the benefit of the capital gains reserve while still achieving the ultimate goal of passing the property to the next generation.

Double taxation trap when selling below FMV

A common mistake occurs when parents try to “help” their children by selling the cottage for less than it’s worth. Using the same numbers, let’s assume the cottage was purchased for \$200,000 and is now worth \$1 million. If the parents sell it to their children for \$300,000, the tax rules deem the parents to have sold the property for the full \$1 million and must report the full \$800,000 capital gain.

The problem does not end there. The children’s adjusted cost base (ACB) is generally the amount they paid — \$300,000 — not \$1 million. If they later sell the cottage, even at the same \$1 million value, they may be taxed again on the \$700,000 difference. The same appreciation is effectively taxed twice: once in the parents’ hands, and a second time when the children dispose of the property.

By contrast, an outright gift (while still triggering the parents’ capital gain), avoids the second layer of tax for the children and typically results in a more straightforward, favourable overall tax outcomes.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

Be
Invested.

Private company shares

For Canadians who own shares in a private corporation, the tax challenges at death can be significant. Unlike liquid securities that can be sold to fund taxes, private company shares often represent a concentrated, illiquid asset. The deemed disposition at death creates a capital gain, but extracting funds from the corporation to pay those taxes can lead to a second and sometimes even a third layer of taxation.

Here is how it works:

1. Upon death, the shares are deemed to be disposed of at their FMV, creating a capital gain in the deceased's terminal return.
2. When the estate redeems or sells the shares to the corporation to obtain cash, the proceeds are generally taxed as dividends in the hands of the estate.
3. If the corporation itself must liquidate appreciated assets to fund the redemption, corporate-level tax may also apply.

Taken together, the combined effect of these layers can exceed 70% of the company's value. Clearly, this is not a sustainable outcome for families who want to preserve their business legacy.

Fortunately, Canadian tax law and planning practice provide several solutions, which will be covered below from a high level. For detailed analysis and examples, refer to our "[Business Owner Kit](#)".

Post-mortem tax planning strategies

The loss carryback strategy

One of the most common approaches to avoiding double taxation is known as the loss carryback. When an estate redeems private company shares, the redemption often creates a deemed dividend but also a capital loss in the estate. Section 164(6) of the Income Tax Act allows the executor of an estate that qualifies as a graduated rate estate to carry that loss back to the deceased's final return. The result is that the capital gain originally reported at death can be offset, leaving only the dividend tax to be paid.

The subsection 164(6) election must be made within the estate's first taxation year. For deaths occurring after August 12, 2024, this timeline has been extended to within the first three taxation years of the estate.

While this strategy reduces or eliminates double taxation, it is not always perfect. Dividend income is generally taxed at higher rates than capital gains. Moreover, the carryback must be implemented within strict timelines, usually in the estate's first three taxation years. That means executors and advisors need to act quickly, which can be challenging if probate or estate disputes cause delays.

Still, when a corporation has balances in its Capital Dividend Account (CDA) or Refundable Dividend Tax on Hand (RDTOH), the loss carryback can be particularly attractive. These balances allow for tax-free or refundable dividend payments that help lessen the impact of higher dividend tax rates.

The pipeline strategy

The pipeline strategy takes a different approach. Instead of redeeming the shares and triggering dividends, the estate transfers the shares to a newly created company in exchange for a promissory note. This new company then amalgamates with the original corporation, and over time, the promissory note is repaid to the estate. Because loan repayments are not taxable, the estate receives cash without a second layer of tax.

The only tax in this scenario is the capital gain that arose on death. This can reduce the effective tax rate from over 70% to roughly 25–30%, depending on the situation. However, the pipeline strategy is more complex, requires careful structuring, and typically takes longer to implement. The CRA has issued guidance confirming that it will respect pipeline transactions if certain conditions are met, such as maintaining the business or investment activities of the corporation for at least one year before repaying the note. Ultimately, the pipeline strategy comes with higher risk as it relies on the CRA's administrative policy instead of a specific



TAXES AT DEATH

The executor’s role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

Be
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section in the Income Tax Act, like the loss carryback strategy.

The bump strategy

A third option, often used in conjunction with the pipeline, is the bump strategy. Here, the adjusted cost base of certain corporate assets can be “bumped up” to their FMV when ownership of the corporation changes as a result of death. By increasing the cost base of non-depreciable assets, such as real estate or investments, the strategy reduces or eliminates the capital gains that would otherwise arise when those assets are sold.

The rules around the bump are complex and not all assets qualify, but for estates holding significant appreciated property inside a corporation, it can be a valuable tool.

Combining strategies

In practice, estates often combine these approaches. For example, an executor might use the loss carryback to take advantage of RDTOH balances, then transition into a pipeline to extract the remaining value at capital gains tax rates. Each estate is unique, and the choice of strategy depends on the corporation’s tax attributes, the heirs’ goals, and the liquidity needs of the estate.

What is certain, however, is that doing nothing is the most expensive choice. Advisors should raise these

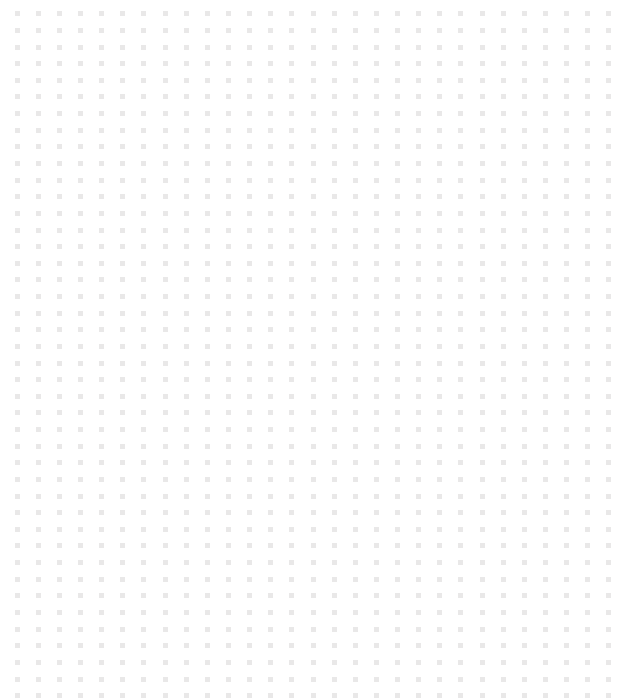
strategies with clients well before death and ensure executors are empowered in the will to act quickly.

Insurance as a planning tool

No discussion of taxes at death is complete without considering life insurance. While strategies like the pipeline or loss carryback can reduce the rate of tax, they do not make the tax bill disappear. The liability still exists, and it must be paid in cash.

Life insurance provides liquidity at precisely the time it is needed most. For private company owners, corporate-owned life insurance is especially powerful. Upon death, the net death benefit (the amount received less the policy’s adjusted cost base) is credited to the corporation’s CDA. This balance can then be distributed to the estate as a tax-free capital dividend.

For families, this means the corporation can generate cash at death, pay it to the estate tax-free, and use it to cover personal tax liabilities. In many cases, insurance is not just a safety net but a central pillar of the post-mortem plan.





TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

**Be
Invested.**

Digital assets

Digital assets are an increasingly important component of modern wealth, and they introduce estate planning challenges that traditional strategies do not always address.

Cryptocurrency

Bitcoin, Ethereum and other cryptocurrencies are considered capital property by the CRA. At death, they are deemed disposed of at FMV, just like stocks or real estate. If a wallet purchased for \$50,000 is worth \$500,000 at death, a \$450,000 capital gain is realized, with half taxable. As capital assets, where the assets are left to a surviving spouse or common-law partner, they can pass at their original ACB deferring the capital gains.

The bigger issue is often access. Without private keys or login credentials, beneficiaries may not be able to recover the assets at all. Billions of dollars of cryptocurrency worldwide have been lost due to inaccessible wallets after death.

Other digital assets

Beyond cryptocurrency, many people have significant value in online accounts, from PayPal balances and e-commerce stores to loyalty points and monetized social media channels. These assets may or may not have clear legal frameworks, but executors need instructions and access if they are to be preserved or transferred.

Planning implications

Advisors should encourage clients to:

- Maintain a secure but accessible record of digital keys, log-in credentials and account inventories.
- Include digital assets in wills or memoranda of wishes.
- Treat cryptocurrency holdings as part of the overall tax and liquidity plan, since their volatility can magnify tax consequences.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION

Charitable donations as a planning strategy

Charitable giving can be one of the most effective tools for reducing taxes at death while leaving a meaningful legacy. Under current rules, donations made through a will or by designating a charity as beneficiary of an RRSP, RRIF, TFSA or life insurance policy are deemed to be made by the estate at the time the gift is transferred. If the estate qualifies as a Graduated Rate Estate (GRE), the executor can apply the donation credit against the deceased's final return, the prior year's return or the estate's own return.

At death, donation limits are more generous: up to 100% of net income can be offset in the final return or the year prior. This means charitable gifts can often eliminate most, if not all, of the tax triggered by deemed dispositions or registered accounts.

Donating publicly traded securities in-kind is particularly attractive since accrued gains are eliminated, and the estate receives a credit for the full FMV. For example, leaving \$2 million of appreciated shares to a charity wipes out the taxable gain and provides a credit large enough to offset other estate income.

Charitable giving can also be integrated with other strategies. Naming a charity as RRSP beneficiary avoids the large income inclusion otherwise triggered, while corporate donations may increase the Capital Dividend Account, allowing tax-free dividends to beneficiaries.

In short, charitable donations are not only about legacy, but they are also a highly effective tax planning tool.

CASE EXAMPLE

David dies with an RRSP valued at \$500,000 and names his favourite charity as the sole beneficiary.

- Without planning: \$500,000 is added to David's final return, taxed at top rates, with a bill of about \$250,000. His heirs receive what's left after tax.
- With the charity as beneficiary: \$500,000 is still included as income, but the estate also claims a \$500,000 donation credit (100% of net income). The tax is eliminated, the charity receives the full \$500,000, and no RRSP tax is payable.



MACKENZIE
Investments

Be
Invested.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION



MACKENZIE
Investments

Practical considerations for advisors

Advanced planning tools

Beyond post-mortem strategies, there are several proactive steps that can be taken during lifetime.

An estate freeze, for example, allows a business owner to “freeze” the current value of their shares and pass future growth to the next generation. This ensures that any further appreciation is taxed in the hands of children or grandchildren rather than adding to the eventual tax liability on the founder's death.

Trusts can also play a role. Testamentary spousal trusts defer tax until the second spouse's death, while alter ego and joint partner trusts allow individuals to transfer assets during lifetime without triggering tax. These tools are especially useful for clients seeking to maintain control during their lives while smoothing the eventual tax burden. To learn more about Trusts consult Mackenzie's "[Fundamentals of trusts](#)" guide.

Key points to address with clients

For advisors working with high-net-worth families, the most important takeaway is that death creates both certainty and urgency. The certainty is that taxes will arise. The urgency comes from the strict timelines for special elections and tax-deferred rollovers.

Some of the strategies require the estate to be a Graduated Rate Estate (GRE). To be a GRE, the estate must designate itself in its first T3 return. Only a GRE can access special tax treatment such as the 164(6) loss carryback and flexible charitable donation allocations.

Cross-border considerations also matter. Canadians who own US real estate or securities may face US estate tax obligations, even if they are not US citizens. Advisors should work closely with cross-border specialists in these cases.

Québec: Advisors working with Québec residents must account for differences in beneficiary designations, matrimonial regimes, family patrimony rules and liquidator responsibilities. These factors can materially change estate liquidity and tax outcomes.

Finally, communication is key. Families are often unprepared for the scale of the tax liability, and estates may lack sufficient liquidity. By raising these issues early and offering concrete planning solutions such as insurance, trusts and post-mortem strategies, advisors can help clients preserve wealth and avoid unnecessary stress for their heirs.

Be
Invested.



TAXES AT DEATH

The executor's role and why advisors matter

TAX TREATMENT OF ASSETS AT DEATH

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

PRACTICAL CONSIDERATIONS FOR ADVISORS

CONCLUSION

Conclusion

For Canadian families, the taxes triggered at death can be daunting. In the absence of planning, estates can lose a large share of their value to taxes. Yet with foresight and proper strategy, the tax burden can often be reduced dramatically.

Financial advisors play a critical role in this process. By helping clients understand how different assets are taxed, exploring planning options and ensuring liquidity is available, advisors can ensure that more of a client's wealth passes to their loved ones, and less to the CRA.

Death is certain, and so are taxes, but smart planning can keep more of your client's legacy in the hands of those they love.



MACKENZIE
Investments

**Be
Invested.**

Taxes at death

The executor's role and why advisors matter

Tax treatment of assets at death

Non-registered investments

Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Fund (RRIF)

Pension plans

Tax-Free Savings Account (TFSA)

Registered Education Savings Plan (RESP)

Registered Disability Savings Plan (RDSP)

First Home Savings Account (FHSA)

Real estate

Private company shares

Digital assets

Charitable donations as a planning strategy

Practical considerations for advisors

Conclusion



MACKENZIE
Investments

**Be
Invested.**

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