



Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

TFSA: Different Beneficiaries May Have Different Implications

With the lifetime contribution amount totaling \$81,500 in 2022 (for those eligible since 2009), the Tax-Free Savings Account (TFSA) has become a significant investment vehicle. If it will play a substantial role in your estate plan, understanding the impact of naming different beneficiaries is important.

While any income or capital gains earned in the TFSA to the date of death are exempt from tax, keep in mind that the way that beneficiaries are named and structured may have differing financial implications. As such, it is important to carefully plan ahead.

If you haven't revisited your TFSA beneficiary designations since opening the account, perhaps now is a good time to review them. Here are some things to consider:

Deciding "Where" to Designate a Beneficiary — In all provinces except Quebec, you may designate a beneficiary of your TFSA by naming them in the plan documentation or in your Will.¹ If a beneficiary is designated within the TFSA plan documentation, the main benefit is that you'll be able to minimize probate taxes as the value of the TFSA will generally not pass through the estate.

Naming a Spouse — If you intend for a spouse (or common-law partner) to be the plan's beneficiary, they can be designated as a "successor holder," which is a designation only available to spouses. This allows the spouse to automatically become the holder of the TFSA at your death, simply through a name change on the account. If the spouse already has their own TFSA, they will now have two accounts. If they wish to consolidate accounts, they can directly transfer part or all of the value from one account to the other. This transfer doesn't affect their own TFSA contribution room.² If the spouse is designated only as a beneficiary, as with any designated beneficiary, any increase in the value of the TFSA after the deceased's date of death will be subject to taxes.

Planning for a Minor as Beneficiary — Careful planning should be done when designating a minor as the TFSA beneficiary. Depending on the applicable provincial laws, proceeds will

generally need to be paid to a parent on behalf of the minor child, a court-appointed guardian of property, or an appointed trustee (i.e., such as through a testamentary trust created under a Will for the benefit of the minor). In some cases, a parent may not automatically be considered the guardian of a child's property and as such may need to apply to the courts. In other cases, if no trustee is named, TFSA proceeds may be paid into the courts. Keep in mind that the involvement of the courts can be a time-consuming and costly process. As such, it is advised to consult with a legal advisor to plan for naming a minor beneficiary.



Designating a Charity — If you wish to make a gift to charity as part of your estate plan and are seeking opportunities to minimize the taxes paid by your estate, consider designating a charity as a beneficiary of a registered plan. With the TFSA, any value on the date of passing would not be considered as taxable income. However, the full value of a registered Retirement Savings Plan (RSP) or registered Retirement Income Fund (RIF) is considered to be taxable income in the year of passing (unless there is a successor or spouse beneficiary who can roll the amount into their own registered plan). A charitable donation tax credit can be used to reduce taxes payable in the year of death.

Please seek the advice of tax or legal professionals as it relates to your particular situation.

1. In Quebec, beneficiaries cannot be named within plan documentation; they must be named within the Will; 2. Unless there is an excess amount in the deceased's TFSA at the time of death.

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