

Designating Beneficiaries

Tax-Free Savings Accounts

Introduced in 2009, a Tax-Free Savings Account (“TFSA”) is a registered account in which Canadians aged 18 or over¹ may save and invest tax-free within defined contribution limits. While annual contributions to a TFSA are capped, unused contribution room can be carried forward indefinitely. Income earned on contributions, including interest and capital gains, is not taxable and the account holder (“holder”) may withdraw funds from the account at any time without restrictions or tax consequences. However, unlike Registered Retirement Saving Plans (“RRSP”), contributions to the account are not tax-deductible.

In addition to the favourable tax benefits of using a TFSA, they are also an important estate planning tool. A TFSA account holder may designate a successor holder and/or a beneficiary who will receive the funds in the account on the holder’s death. These designations vary from province to province. In Quebec, for example, transfers can only be done through the estate of the deceased account holder. In those provinces where a beneficiary or successor account holder may be designated, funds in the account can bypass the estate of the deceased and; therefore not be subject to probate fees. If no beneficiary or successor account holder is designated, the account will default to the estate.

A “successor holder” may only be the account holder’s married or common-law spouse. On the death of the account holder the designated successor holder becomes the owner of the deceased’s TFSA with no impact on the successor account holder’s own TFSA contribution room. However, to the extent there was an over contribution of funds to the deceased holder’s account at the time of death, such excess is treated as a contribution made by the successor holder to their own TFSA. The successor holder may continue to hold the two accounts separately and maintain the alternate beneficiaries designated by the original account holder. The successor holder is also entitled to name a new successor holder and/or designate new beneficiaries. Alternatively, the successor holder may transfer the funds in the deceased account holder’s TFSA into his or her own plan. In either case, his or her own contribution limits remain unaffected.

A designated “beneficiary” may be anyone, including a married or common-law spouse of the holder or a “qualified donee.” A “qualified donee” is a registered charity. If the designated beneficiary was the married or common-law spouse of the account holder at the time of death, the beneficiary can elect to receive the funds as an exempt contribution into their own TFSA without affecting their own contribution room.

This exempt transfer must be made before December 31 of the year following the original account holder’s year of death. However, any appreciation in value after the date of death of the original account holder cannot be included in the exempt transfer to the TFSA of the beneficiary. Any such amount will be included in the income of the beneficiary as a TFSA taxable amount, and the surviving spouse/partner beneficiary would need sufficient contribution room to transfer the post-death growth to their own TFSA.

A married or common-law spouse may be designated as either a successor holder or a beneficiary and, in each case, the account will not pass through probate. However it is only as a successor holder that the surviving spouse can be assured that there will be no tax consequences.

If an account holder names both a successor holder and a beneficiary, on the holder’s death the successor holder becomes the owner of the account and the original beneficiary designation remains effective unless changed by the new account holder. In cases where no successor holder or beneficiary is designated, on the account holder’s death the assets in the account will pass to their estate.

A financial institution's TFSA documentation may allow an account holder to designate both a successor holder and a beneficiary in the event that the successor holder predeceases or dies at the same time as the account holder. In provinces that recognize beneficiary designations, the designation may also be made and revoked by an instrument signed by the holder or by a Will.

It is important to understand what options your TFSA plan provides and to ensure that your choice to designate a successor holder and/or beneficiary is aligned with your estate planning objectives.



For more information, speak with your BMO financial professional.



¹Subject to the age of majority in their province/territory

BMO Wealth Management provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Wealth Management cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Wealth Management is a brand name that refers to Bank of Montreal and certain of its affiliates in providing wealth management products and services. Not all products and services are offered by all legal entities within BMO Wealth Management.

BMO Private Banking is part of BMO Wealth Management. Banking services are offered through Bank of Montreal. Investment management services are offered through BMO Private Investment Counsel Inc., an indirect subsidiary of Bank of Montreal. Estate, trust, planning and custodial services are offered through BMO Trust Company, a wholly owned subsidiary of Bank of Montreal.

BMO Nesbitt Burns Inc. provides comprehensive investment services and is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. All insurance products and advice are offered through BMO Estate Insurance Advisory Services Inc. by licensed life insurance agents, and, in Quebec, by financial security advisors.

© "BMO (M-bar Roundel symbol)" is a registered trademark of Bank of Montreal, used under licence.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Wealth Management.