Canada Revenue Agency
Agence du revenu du Canada

Preparing Returns for Deceased Persons

2016

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Canada

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 with the *General Income Tax and Benefit Guide*.

Which return should you use?

You should use the tax package for the province or territory where the deceased lived at the time of death. To find out how to get a tax package online, or to request a printed copy of a forms book and guide for a particular province or territory, go to **cra.gc.ca/formspubs/rqst-eng.html**.

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 2016?

Canada child benefit – Beginning in July, 2016, the Canada child benefit (CCB) replaced the Canada child tax benefit (CCTB), the National child benefit supplement (NCBS), and the Universal child care benefit (UCCB) programs.

Estate Donations – For deaths that occur after 2015, charitable donations made by will and designation donations (direct distribution of proceeds to a qualified donee who is the beneficiary of a registered retirement savings plan, registered retirement income fund, tax-free savings account, or life insurance policy) are no longer deemed to be made by an individual immediately before the individual's death. Instead, these donations are deemed to be made by the individual's estate. For more information, see Line 349 – Donations and gifts on page 17.

Home accessibility expenses – You may be able to claim an amount on the deceased's final return for eligible expenses incurred for work performed or goods acquired for an eligible dwelling. For more information, see Line 398 – Home accessibility expenses on page 16.

Disposition of a principal residence – If there was a disposition (deemed or otherwise) of the deceased's principal residence in 2016, the sale must now be reported, along with any principal residence designation, on Schedule 3, *Capital Gains (or Losses).* Go to **cra.gc.ca/gncy/bdgt/2016/qa11-eng.html** and select question 10 for more information on reporting requirements. See also Chapter 6, in Guide T4037, *Capital Gains*.
Under proposed changes, the CRA will be able to accept a late designation in certain circumstances, but a penalty may apply. For more information, go to **cra.gc.ca/gncy/bdgt/2016/qa11-eng.html** and select question 7.

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La version française de ce guide est intitulée *Déclarations de revenus de personnes décédées*.

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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 – refers to a relationship or a transaction between persons who act in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their separate interests.

"Related persons" are not considered to deal with each other at arm's length. Related persons include individuals connected by blood relationship, marriage, common-law partnership or adoption (legal or in fact). A corporation and another person or two corporations may also be related persons.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following criteria will be considered to determine whether parties to a transaction are not dealing at arm's length:

- whether there is a common mind which directs the bargaining for the parties to a transaction;
- whether the parties to a transaction act in concert without separate interests; "acting in concert" means, for example, that parties act with considerable interdependence on a transaction of common interest; or
- whether there is de facto control of one party by the other because of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1-F5-C1, *Related persons and dealing at 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, land, buildings, equipment used in a business or rental operations, and securities such as stocks, bonds, and units of a mutual fund trust.

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, and this current relationship has lasted at least 12 continuous months;

Note
In this definition, "12 continuous months" includes any period that you were living separate and apart for less than 90 days because of a breakdown in the relationship.

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.

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 – 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.

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.

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 as part of a gifting arrangement that is a tax shelter. 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 tax shelters and gifting arrangements, 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.

Graduated rate estate (GRE) – Effective December 31, 2015, a GRE of an individual at any time is the estate that arose on and as a consequence of the individual's death, if that time is no more than 36 months after the death of the individual, and the estate is at that time a testamentary trust that meets the following conditions:

- The estate designates itself, by filing a T3 return of income for its first taxation year (or, if the estate arose before 2016, for its first taxation year that ends after 2015), as the deceased individual's GRE.
- No other estate designates itself as the GRE of the deceased individual.
- The estate must include the deceased individual's social insurance number in its T3 return of income for each taxation year of the estate that ends after 2015 during the 36 month period after the death of the individual.

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 – generally refers to a relationship or transaction between persons who are related to each other.

However, a non-arm's length relationship might also exist between unrelated individuals, partnerships or corporations, depending on the circumstances. For more information, see the definition of **arm's length** on the previous page.

Qualified donees – are as follows:

- registered charities;
- registered Canadian amateur athletic associations;
- registered national arts service organizations;
- registered housing corporations resident in Canada set up only to provide low-cost housing for the aged;
- registered municipalities in Canada;
- registered municipal or public bodies performing a function of government in Canada;
- the United Nations and its agencies;
- registered universities outside Canada that are prescribed to be universities, the student body of which ordinarily includes students from Canada;
- Her Majesty in right of Canada, a province, or a territory; and
- before June 23, 2015 registered foreign charitable organizations to which Her Majesty in right of Canada has made a gift. For gifts made on or after June 23, 2015, registered foreign charities (which include foreign charitable foundations) to which Her Majesty in right of Canada has made a gift.

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 an individual or trust institution named in a will and confirmed by a court to settle the 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 us 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. As the executor, you must report these fees on a T4 slip. For more information see "Employment by a Trustee" in Chapter 1 of the T4001, *Employers' Guide – Payroll Deductions and Remittances*.

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 **cra.gc.ca/forms**, or call **1-800-959-8281**.

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

- a copy of the death certificate;
- 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. The deceased individual's social insurance number (SIN) must be provided on any request or on any documents that you are sending to us; and
- the new mailing address of the estate.

Note
If you are a family member of the deceased and you are unable to obtain the legal documents required to establish yourself as the legal representative, send a written request explaining your situation to the Taxpayer Representative Identification System (TRIS) Unit of the deceased's tax centre. To find the applicable address, go to **cra.gc.ca/cntct/prv/txcntr-eng.html**.

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** or go to **canada.ca/en/contact.html.**

This guide deals only with your responsibilities under the *Income Tax 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 9.

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 at **cra.gc.ca/forms** or by calling **1-800-959-8281**.

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 32 to find out what income to report on the T3 return.

Under proposed changes, for 2016 and future years, where a beneficiary of an alter ego trust, spousal or common-law partner trust, or the last surviving beneficiary of a joint spousal or common-law partner trust dies, there is a deemed year end of the trust on the date of death of the beneficiary. All the income of the trust for that year must be included in the income reported on the beneficiary`s final T1 return.

Under proposed changes, for 2016 and future years, where the primary beneficiary of a spousal and common-law partner trust or similar trust dies, the income that is deemed to be recognized upon the death of the primary beneficiary will be taxed inside the trust.

However, in the case of a testamentary spousal or common law partner trust, a joint election can be filed to report this income in the beneficiary's final return. This income would include amounts reported on a T3 slip for the trust where the trust has designated all or part of it as income of the beneficiary. For the joint election to be valid **all** the following requirements must be met:

- Immediately before death, the beneficiary was a resident of Canada.

- The trust is a testamentary trust that is a post-1971 spousal or common-law partner trust and was created by the will of a taxpayer who died before 2017.
- The trust and the beneficiary's graduated rate estate (GRE) jointly elect in a prescribed form. We define a GRE in "Definitions," which begins on page 4.
- A copy of the joint election is filed with both the final T1 return of the beneficiary and the T3 return for the deemed year end of the trust.

As the legal representative of the deceased beneficiary, you need to attach to the final return the joint election in the form of a letter which contains:

- the T1 and T3 account numbers;
- the income amount that was allocated in the T3 slip and reported on the T1 return of the deceased beneficiary; and
- the signatures, names and addresses of both the trustee and the executor for the deceased beneficiary.

Note
If you would like to have **online access** to the taxpayer's account, you can register for Represent a Client at **cra.gc.ca/representatives** prior to sending a copy of the legal documents. Once you have registered with the Represent a Client service, make sure to provide your RepID when you are submitting all the required documents naming you as the legal representative.

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.

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 **1-800-387-1193**, 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 if he or she filed an income tax and benefit return. The GST/HST credit payments will be based on his or her net income alone.

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), universal child care benefit (UCCB), and/or Canada child benefit (CCB) payments 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, UCCB, and/or, beginning in July of 2016, CCB 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, UCCB, and/or CCB 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:

- using the "Apply for child benefits" online service on My Account at **cra.gc.ca/myaccount**; or
- completing and sending us Form RC66, *Canada Child Benefits Application*, which is available at **cra.gc.ca/forms** or by calling **1-800-387-1193**.

If the deceased is an eligible child, entitlement to CCTB, UCCB, and/or CCB 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 clearance certificate, you can be liable for any amount the deceased owes. A clearance 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 your regional 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 address of your regional tax services office on Form TX19.

For 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 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 19. You can also claim any related deductions as outlined in Chart 1 on page 30. 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 33 for a list of forms and publications referred to in this guide.
- Complete 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 9. For information on optional returns, see Chapter 3, which begins on page 19.
- 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 32.
- When you have received the notice of assessment for all required returns, you can apply for a clearance certificate. See "Clearance certificate" earlier on this 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. 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 paid to the estate must be reported on the *T3 Trust Income Tax and Information Return* for the estate of the deceased in the year it is received by the estate. The estate will pay tax on that amount unless the death benefit is payable to a beneficiary in the year it is received by the estate, in which case a T3 slip will be issued in the beneficiary's name and the beneficiary will be required to include the amount on his or her T1 return. For deaths occurring after 2015, the resulting estate cannot elect to have the benefit taxed in the estate if it is actually income of the beneficiary in the year and the estate otherwise has taxable income.

Where the CPP or QPP death benefit is the only income of the estate and a T3 return is not required to be filed, the death benefit can be reported directly on the T1 return of the beneficiary.

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 this amount on the return for the deceased person. 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 20 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 payment will be issued to the estate. However, the payment 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 32. For more information, see the T4013, *T3 Trust Guide*.

Tax tip
In addition to the final return, you may be able 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 19, and Chart 1 on page 30.

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 2016 (unless the expenditures made in the course of carrying on the business were mainly the cost or capital cost of tax shelter investments), 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, 2016, but on or before the filing due date for his or her 2016 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 2016 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 2016 return. However, any balance owing on the surviving spouse's or common-law partner's 2016 return must still be paid on or before April 30, 2017, 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 2017, 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 2016 tax year. The legal representative can then request a reassessment of the return in the following year (2018) to apply any tax changes introduced for the 2017 tax year.

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: Cancel or Waive Penalties or Interest*, **or** include a letter with the return explaining why you filed the return late. For more information, go to **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 20) and the deemed disposition of capital property (see page 26).

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 *General Income Tax and Benefit Guide*.

Step 1 – 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.

Foreign income

If the deceased earned foreign income, or owned or held foreign property at any time in 2016, see "Specified foreign

property” and “Reporting foreign income and other foreign amounts” in the *General Income Tax and Benefit Guide*.

Step 2 – 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 20.

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 32).

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 20. 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 32.

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 on line 232, is more than $73,756, all or part of the old age security benefits may have to be repaid. For details, see line 235 in the *General 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 or 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*.

Do **not** report a CPP or QPP death benefit shown in box 18 on the final return. This amount will be reported on a *T3 Trust Income Tax and Information Return* for the estate unless the death benefit is payable to the beneficiary in the year it is received by the estate. In this case a T3 slip will be issued in the beneficiary’s name and the beneficiary will be required to include the amount on their T1 return. For deaths occurring after 2015, the resulting estate cannot elect to have the benefit taxed in the estate if it is actually income of the beneficiary in the year, and the estate otherwise has taxable income.

Where the CPP or QPP death benefit is the only income of the estate and a T3 return is not required to be filed, the death benefit can be reported directly on the T1 return of the beneficiary.

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 14.

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 15.

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 G 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 2016 return (see "What date is the final return due?" on page 9). This form **must** be attached to the paper return of **both** the deceased and his or her spouse or common-law partner. 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 legal representative of the deceased person's estate must sign the form. In some cases, the legal representative 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 $63,500, part of these benefits may have to be repaid. For details, see line 235 in the *General 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 all 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 20. 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 23.

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 15.

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 or a PRPP Member*, 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 6 – Amounts from a deceased annuitant's RRSP, in Chapter 5 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 more information, see Information Sheet RC4177, *Death of an RRSP Annuitant or a PRPP Member*.

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 and future years, the existing RRSP rollover rules discussed in the previous section 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 or 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, because 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*.

For more information, go to **cra.gc.ca/rdsp** or see Information sheet RC4177, *Death of an RRSP Annuitant or a PRPP Member*.

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 or pooled registered pension plan (PRPP) 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, go to **cra.gc.ca/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 or to a PRPP. 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 in the following sections. For more information, see line 130 in the *General Income Tax and Benefit Guide*.

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 *General Income Tax and Benefit Guide* 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 12. 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 more information, 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 7 – Amounts from a deceased annuitant's RRIF, in Chapter 5 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 more information, 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 and future years, 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 or 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, because 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*.

For more information on this topic, go to **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 more information, see the *General Income Tax and Benefit Guide*.

Step 3 – Net income

Line 208 – RRSP/PRPP deduction

Use this line to deduct registered retirement savings plan (RRSP) or eligible pooled registered pension plan (PRPP) contributions the deceased made before his or her death. These include contributions to both the deceased's RRSPs or PRPPs 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 page 13.

Saskatchewan Pension Plan (SPP) contributions generally have the same rules as RRSP contributions. For more information about the SPP, visit **saskpension.com**.

A PRPP is a retirement savings option for individuals, including those who are self-employed, who do not have access to a workplace pension plan. For more information, go to **cra.gc.ca/prpp** or see Guide T4040, *RRSPs and Other Registered Plans for Retirement*.

After a person dies, no one can contribute to the deceased person's RRSPs or PRPPs. 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 2016 is usually based on the deceased's 2016 RRSP/PRPP deduction limit. You can also deduct amounts for contributions the deceased made for certain amounts 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 to 235), see the *General Income Tax and Benefit Guide*.

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 G of this form.

Form T1032 must be filed by the filing due date for the 2016 return (see "What date is the final return due?" on page 9). This form **must** be attached to the paper return of **both** the deceased and his or her spouse or common-law partner.

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 legal representative of the deceased person's estate must sign the form. In some cases, the legal representative may be the spouse or common-law partner in which case this person must sign for the deceased person too.

Step 4 – Taxable income

Line 253 – Net capital losses of other years

For information about these losses, see Chapter 5, which begins on page 27.

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*.

Step 5 – Federal non-refundable tax credits

Personal amounts (lines 300 to 306, 367)

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, go to **cra.gc.ca/tx/nnrsdnts/ndvdls/lvng-eng.html**.

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 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 $83,427, 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 *General Income Tax and Benefit Guide*.

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 *General Income Tax and Benefit Guide*), 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 *General Income Tax and Benefit Guide*. Calculate the amount for line 305 on Schedule 5, and report it on Schedule 1, both of which are included in the forms book.

Lines 352 and 367 – Family caregiver amount for infirm children under 18 years of age
The deceased can claim an amount for each of the deceased's or the deceased's spouse's or common-law partner's children who:

- are under 18 years of age at the end of the year;
- lived with **both** the deceased and the deceased's spouse or common-law partner throughout the year (or up to the date of death in the case of the deceased); and
- have an impairment in physical or mental functions.

For more information, see lines 352 and 367 in the *General Income Tax and Benefit Guide*.

Line 306 – Amount for infirm dependants age 18 or older
If the deceased is entitled to claim 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 308 – CPP or QPP contributions through employment
If the deceased made Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions in the year of death shown in boxes 16 and 17 of his or her T4 slip(s), the claim may have to be adjusted due to the proration of the annual maximum pensionable earnings.
See Schedule 8, *Canada Pension Plan Contributions and Overpayment*, for more information.

Line 398 – Home accessibility expenses
If the deceased is a qualifying individual or an eligible individual making a claim for a qualifying individual, you may be able to claim up to $10,000 on the deceased's final return for eligible expenses incurred to make renovations to an eligible dwelling to make it more accessible.

A qualifying individual is an individual who is eligible to claim the disability tax credit at any time in a tax year, or an individual who is 65 years of age or older at the end of a tax year. If an individual died in 2016 prior to turning 65 but would have turned 65 during 2016 had he or she been alive, the individual is considered to be a qualifying individual.

For more information, see line 398 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 *General Income Tax and Benefit Guide*, 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*. Calculate the amount for line 315 on Schedule 5, and report it on Schedule 1, both of which are included in the forms book. For more information, see Guide RC4064, *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 *General Income Tax and Benefit Guide*.

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 RC4065, *Medical Expenses*, and Income Tax Folio S1-F1-C1, *Medical Expense Tax Credit*.

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 2016 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);
- 2016 tuition, education, and textbook amounts (line 323); and
- the family caregiver amount for infirm children under 18 years of age (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 1999 or later

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

- $2,237; 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 $1,187 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*.

For more information on medical expenses, see line 330 in the *General 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 and complete Schedule 9, *Donations and Gifts*.

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.

A first-time donor's super credit (FDSC) will increase the value of the federal charitable donations tax credit by 25% on donations made after March 20, 2013, if neither the deceased nor his or her spouse or common-law partner has claimed the credit since 2007. The FDSC will apply on up to $1,000 in donations of money claimed in respect of any one taxation year from 2013 to 2017. For more information, see line 349 in the *General Income Tax and Benefit Guide*.

As the legal representative, you must attach supporting documentation for the donations made. The type of supporting documentation 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 **designation donation** (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 policyholder or an assignee of the deceased person's interest in the policy.

For deaths that occurred before 2016, the **eligible amount** of gifts that a deceased person gave in the year of death, including estate donations (donations made by will and designation donations) could be claimed on the deceased's final return and the return for the preceding year.

For deaths that occur after 2015, estate donations are no longer deemed to be made by an individual immediately before the individual's death. Instead, these donations are deemed to be made by the individual's estate and where certain conditions are met, by the individual's graduated

rate estate (GRE). We define a GRE in "Definitions," which begins on page 4.

GRE donations are donations by a graduated rate estate to a qualified donee. The donated property must be property that was acquired by the estate on and as a consequence of the death (or property that was substituted for such property). GRE donations include those made through the will and designation donations.

You can allocate a GRE donation among any of:

- the taxation year of the GRE in which the donation is made,
- an earlier taxation year of the GRE, or
- the last two taxation years of the deceased individual (the final return and the return for the preceding year).

In addition, under proposed changes, for 2016 and future taxation years, a gift made after the 36 month period but within 60 months after the date of death by a former GRE that continues to meet all of the requirements of a GRE except for the 36 month time limit, can be allocated among any of:

- the taxation year of the estate in which the donation is made; or
- the last two taxation years of the deceased individual (the final return and the return for the preceding year).

An estate, whether it is a GRE or not, can claim a charitable donations tax credit for an estate donation in the year in which the donation is made or in any of the five following years (or 10 years for a gift of ecologically sensitive land made after February 10, 2014). However, an estate that is not a GRE or a former GRE (within 60 months of the date of death) **cannot** allocate a donation made by the estate to a taxation year of the individual or an earlier year of the estate.

Generally, when an individual dies, the individual is deemed to have disposed of all capital property immediately before the individual's death.

Where the estate of an individual donates property that was the subject of a deemed disposition by the individual immediately before the individual's death, and the property's fair market value upon transfer to the qualified donee has changed, the difference will result in a gain or loss to the estate that will generally be recognized for income tax purposes. This will be the case whether or not the donation is a GRE donation or a former GRE donation.

If the property is certified cultural property or ordinarily benefits from a capital gains inclusion rate of zero, see the sections called "Gifts of certified cultural property" and "Capital gains realized on gifts of certain capital property" in Pamphlet P113, *Gifts and Income Tax*. However, if the property donated:

- is a property that benefits from a capital gains exemption or exclusion when donated as described in the sections of Pamphlet P113 referenced above; and
- where the estate is a GRE and the donation is a GRE donation,

the same treatment will apply to the capital gain on the deemed disposition of the property immediately before the individual's death. Under proposed changes, this treatment will also apply to former GRE donations.

Additional special rules exist for the proceeds of disposition and cost amount of gifts of art, from the artist's inventory, on and as a consequence of the artist's death.

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 amount of the gift(s) that may be claimed on the deceased's final return for purposes of the tax credit must be the **lesser** of:

- the **eligible amount of the gift(s)** (defined in "Definitions," which begins on page 4), made in the year of death (For deaths that occurred before 2016, this includes gifts made by will and designation donations. For deaths that occurred after 2015, this may include gifts made by a GRE or a former GRE), 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.

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, which limits 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 as part of 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 (unless it was gifted after February 10, 2014, and was acquired as part of a gifting arrangement that is a tax shelter);
- 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 as part of a gifting arrangement that is a tax shelter, the eligible amount will be reported in box 13 of Form T5003, *Statement of Tax Shelter Information*.

Sometimes, a capital property may be gifted. At the time the property is gifted to a qualified donee, 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 to designate 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 *General Income Tax and Benefit Guide*, and Pamphlet P113, *Gifts and Income Tax*.

Line 363 – Canada employment amount

Employees are eligible to claim an employment amount.

Claim the **lesser** of:

- $1,161; and
- the total of the employment income reported on line 101 and line 104 of the deceased's return.

Step 6 – Refund or balance owing

You will find the details you need about tax and credits in "Line 484 – Refund" or "Line 485 – Balance owing" in the *General Income Tax and Benefit Guide*.

> **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*. Attach Form T691 to 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 *General Income Tax and Benefit Guide*.

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

Optional 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 30 summarizes the information in this chapter. You may also want to get Interpretation Bulletin IT-326, *Returns of Deceased Persons as "Another Person."*

You may be able 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 graduated rate estate (GRE). We define a GRE in "Definitions," which begins on page 4.

Note
Do not confuse the optional return for income from a graduated rate estate with the *T3 Trust Income Tax and Information Return*, described in "What are your responsibilities as the legal representative?" on page 6. 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 32 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 fisher and used the cash method;
- inventory of an artist who has elected to value his or her inventory at nil;
- 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 AgriInvest 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 10.

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, call **1-888-863-8657**.

How to cancel a return for rights or things

If you file a return for rights or things before the due date, but later want to cancel it, we will cancel the return if, on or before the filing due date for the rights or things return, you send us a note asking us to cancel the 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.

If you choose not to file this optional return, report all business income on the final return.

Example
A person who had a business died on May 28, 2016. The business has a March 31 fiscal year end.

You have two choices when you report the person's 2016 income:

- One choice is to include the business income from April 1, 2015, to May 28, 2016, 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, 2015, to March 31, 2016. On the return for a partner or proprietor, report the business income from April 1, 2016, to May 28, 2016.

How to file – If you decide to file an optional 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, the *General Income Tax and Benefit Guide*, and Guide RC4015, *Reconciliation of Business Income for Tax Purposes*.
4. To determine the business income to be reported on the final return and the optional return, follow the instructions in the section "Death of a partner or proprietor in the year," in Part 2 of Chapter 2 of Guide RC4015.

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?" on page 9 and "What is the due date for a balance owing?" on page 10.

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

3. Return for income from a graduated rate estate

You can file an optional return for a deceased person who received income from a graduated rate estate (GRE). We define a GRE in "Definitions," which begins on page 4. The GRE 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 GRE, 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 GRE on the final return.

Example
A husband gets income from a testamentary trust with a fiscal year from April 1 to March 31. The trust was formed as a result of his wife's death on March 31, 2015 and designates itself as a GRE of the wife in its return of income for March 31, 2016. The husband died on June 11, 2016.

You have two choices when you report the husband's income from the trust:

- One choice is to include the husband's income from the GRE from April 1, 2015, to June 11, 2016, on his final return.
- The other choice is to file a return for income from the GRE in addition to the final return. On the husband's final return, include the income from the GRE from April 1, 2015, to March 31, 2016. On the optional return for income from the GRE, report the income from April 1, 2016, to June 11, 2016.

How to file – If you decide to file a return for income from a graduated rate estate, 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, 2017 (or June 15, 2017, 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 family caregiver amount for children under 18 years of age (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 transferred 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 amount (line 364);
- home buyers' amount (line 369);
- children's arts amount (line 370);
- home accessibility expenses (line 398); 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 $2,237 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 $2,237 or 3% of the total net income. In this example, the reduction is $1,200 ($40,000 × 3%), which is lower than $2,237.

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
	=	$5,200
Amounts for medical expenses on rights or things return		$3,000
	–	400
	=	$2,600

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);
- social benefits repayment (line 422); and
- federal dividend tax credit (line 425).

Example
A deceased person's total employment income in the year of death was $30,000, and the CPP contribution 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 contribution of $773. On the return for rights or

things, you include income of $1,000 and claim a CPP contribution 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)/pooled registered pension plan (PRPP) 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 (ABILs) (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 transferred 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 30.

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 later on this 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 2016*, 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 2016 from:

- dispositions or deemed dispositions of qualified farm or fishing property;
- dispositions or deemed dispositions of qualified small business corporation (QSBC) shares; and
- a reserve brought into income from either of the above.

The lifetime capital gains exemption is $824,176 for dispositions of QSBC shares in 2016. Since the inclusion rate for capital gains and losses is 50%, the lifetime capital gains deduction limit is $412,088 (50% of $824,176) for dispositions of QSBC shares in 2016.

For dispositions of qualified farm or fishing property after April 20, 2015, an additional deduction is available which increases the LCGE limit to $1,000,000. Accordingly, the lifetime capital gains deduction limit is increased to $500,000 (50% of $1,000,000) for those properties. This additional deduction does **not** apply to dispositions of QSBC shares.

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 27.

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 page 25.

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, as the legal representative of the deceased, need more time to meet this condition, you can make a written request to the director at your tax services office before the end of the 36 month time period.

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 before the end of the 36 month time period.

Where these conditions are met, 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 elect 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 23) or a net capital loss on the deceased’s final return. It may be more beneficial 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” 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 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 these transfers, you may be able to use a special amount (as explained in the next paragraph) 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 / Capital cost of all the property in the same class that had not been disposed of previously	×	Undepreciated capital cost of all of the deceased's property in the same class

Example
A woman had two trucks that were used in her business. The woman died in July 2016, 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
- $\frac{\$22{,}500}{\$50{,}000} \times \$33{,}500 = \$15{,}075$.

The deemed proceeds are $15,075.

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

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

- the property was acquired in a **non-arm's length** transaction (see "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 elect 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 23) on the final return. It may be more beneficial 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 or 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 or fishing 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 before the end of the 36 month period.
- The deceased, the deceased's spouse or common-law partner, or any child or parent of the deceased was using the farm or fishing property mainly for farming, fishing, or a combination of both 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 **1-800-959-5525**.

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 previously are met, you can choose to have the deemed proceeds equal to 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 elect 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 23) or a net capital loss on the final return. It may be more beneficial 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 on the previous 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:

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

Example
A man who owned three fishing boats died in August 2016. 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
- $\frac{\$45,000}{\$100,000} \times \$90,000 = \$40,500$.

The deemed proceeds are $40,500.

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

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

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

For more information, call **1-800-959-5525**.

Tax tip
You can elect 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 23) on the final return. It may be more beneficial 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 and 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, call **1-888-863-8657**.

Chapter 5 – Net capital losses

In this chapter, we discuss how to apply a net capital loss that was incurred 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.

Note
Net capital losses cannot be carried forward from a T1 return to a T3 return.

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**. 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**.

For 2016, the inclusion rate is one-half. Therefore, an allowable capital loss is one-half of a capital loss and a taxable capital gain is one-half of a capital gain.

Net capital losses in the year of death

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

Method A – You can carry back a 2016 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 2013, 2014, or 2015, 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, 2016. You have the following details about his tax matters:

Net capital loss in 2016	$11,000
Taxable capital gains in 2014	$ 4,000
Taxable capital gains in 2013	$ 2,000
Total capital gains deductions claimed to date	$ 4,000

He did not claim any capital gains deductions for 2013 or 2014.

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 2014 taxable capital gains to zero ($11,000 – $4,000). Then, you can use the remaining balance of $7,000 to reduce his 2013 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 2016 or 2015 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 2016 of $11,000. You can now use the remaining $7,000 to reduce the man's other income for 2016 or 2015, 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 2016 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 2016, 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 2016 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 2016.

To apply a previous year loss to 2016, 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 ÷ (2 × 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 2016 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 × 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 2016. You have these details about her tax matters:

Net capital loss in 1999, never applied	$18,000
Taxable capital gain in 2016	$ 6,000
Capital gains deductions claimed to date	$ 4,000

You decide to use the 1999 loss to reduce the 2016 taxable capital gain and to use any amount left to reduce other income for 2016.

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 × 2/3 = $12,000

To reduce the 2016 taxable capital gain, use the lower of:

- $12,000 (adjusted net capital loss); and
- $6,000 (2016 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 2016.

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 × 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 2016. If you decide not to use the total of this balance in 2016, you can use the amount that is left to reduce other income for 2015.

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 first tax year of a deceased person's graduated rate estate, you can elect to treat all or part of these losses as losses of the deceased on the deceased's final return. A net capital loss realized in this first tax year cannot be applied to any tax year before 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 *General Income Tax and Benefit Return*	**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 graduated rate estate 104(23)(d)**
Total income	101 to 146	■ all income received before death ■ all income from deemed dispositions ■ all periodic payments (for example, rent, salary, and accrued interest)	■ salary, commissions, and vacation pay owed before the death and paid after death (Note 1) ■ retroactive salary adjustments owed and paid after death ■ OAS, CPP/QPP paid after the date of death for the month of death ■ CPP and EI arrears ■ universal child care benefit (UCCB) ■ accounts receivable, supplies, and inventory (Note 2) ■ uncashed matured bond coupons ■ bond interest earned but not received before death ■ dividends declared before the date of death, but not received ■ crops, livestock (Note 3) ■ work in progress (Note 4)	■ income from the business from the end of the business' fiscal period ending in the calendar year of death to the date of death	■ income from the trust from the end of the trust's fiscal period ending in the calendar year of death to the date of death
Deductions for calculating net income	207 to 232	■ all deductions from lines 207 to 232 that are allowable	■ universal child care benefit (UCCB) repayment ■ generally, none of the other deductions can be claimed	■ same as for the rights or things 70(2) return	■ same as for the rights or things 70(2) return
	235	■ social benefits repayments	Note 5	not applicable	not applicable
Deductions for calculating taxable income	**Split deductions** (Note 6)				
	244	■ Canadian Forces personnel and police deduction	Note 7	not applicable	not applicable
	248	■ home relocation loans	Note 7	not applicable	not applicable
	249	■ security options deductions	Note 7	not applicable	not applicable
	250	■ other payments	not applicable	not applicable	not applicable
	251-255	■ losses or other deductions	no	no	no
	256	■ vow of perpetual poverty	yes	not applicable	not applicable
Federal non-refundable tax credits (Note 13)	300-306 367	■ all personal amounts	yes – in full	yes – in full	yes – in full
	315	■ caregiver amount	yes – in full	yes – in full	yes – in full
	Split amounts (Note 6)				
	308	■ CPP or QPP contributions	Note 7	not applicable	not applicable
	310	■ CPP or QPP contributions on self-employed income	not applicable	yes	not applicable
	312	■ EI premiums	Note 7	not applicable	not applicable
	313	■ adoption expenses	yes	yes	yes

(continued on next page)

Chart 1 – Returns for the year of death (continued)					
Section of *T1 General Income Tax and Benefit Return*	**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 graduated rate estate 104(23)(d)**
Federal non-refundable tax credits (Note 13) (continued)		**Split amounts** (Note 6)			
	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
	362	■ volunteer firefighters' amount	yes	yes	yes
	363	■ Canada employment amount	yes	no	no
	364	■ public transit amount	yes	yes	yes
	369	■ home buyers' amount	yes	yes	yes
	370	■ children's arts amount	yes	yes	yes
	395	■ search and rescue volunteer amount	yes	yes	yes
	398	■ home accessibility expenses	yes	yes	yes
Refund or balance owing	412	■ investment tax credit	no	no	no
	422	■ social benefits repayment	Note 5	not applicable	not applicable
	425	■ federal dividend tax credit	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
	459	■ Children's fitness tax credit	no	no	no

Notes

1. Salary, commissions, and vacation pay are rights or things if **both** of these conditions are met:
   - the employer owed them to the deceased on the date of death; and
   - they are for a pay period that ended before the date of death.
2. Accounts receivable, supplies on hand, and inventory are rights or things if the deceased's business used the cash method. The inventory of an artist who has elected to value his or her inventory at nil is also a rights or things.
3. 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*.

(continued on next page)

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

Notes (continued)

4. **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.
5. If OAS or EI benefits have been reported on this return, this amount can be claimed.
6. Claims split between returns cannot be more than the total that could be allowed if you were only filing the final return.
7. If related employment income has been reported on this return, this amount can be claimed.
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 $2,237 or 3% of the total net income reported on **all** the returns in the same proportion as the medical expenses claimed.
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 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 **cra.gc.ca/forms** or by calling **1-800-959-8281**.

Forms

RC4288 *Request for Taxpayer Relief: Cancel or Waive Penalties or Interest*

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*

T3RET *T3 Trust Income Tax and Information Return*

TX19 *Asking for a Clearance Certificate*

Guides

P113 *Gifts and Income Tax*

RC4060 *Farming Income and the AgriStability and AgriInvest Programs Guide*

RC4064 *Disability – Related Information*

RC4065 *Medical Expenses*

RC4112 *Lifelong Learning Plan (LLP)*

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 and Fishing Income*

T4013 *T3 Trust Guide*

T4037 *Capital Gains*

T4040 *RRSPs and Other Registered Plans for Retirement*

T4055 *Newcomers to Canada*

Income tax folios

S1-F1-C1 *Medical Expense Tax Credit*

S1-F1-C2 *Disability Tax Credit*

S1-F1-C3 *Disability Supports Deduction*

S1-F5-C1 *Related persons and dealing at arm's length*

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-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*

Information sheets

RC4111 *What to Do Following a Death*

RC4177 *Death of an RRSP Annuitant or a PRPP Member*

RC4178 *Death of a RRIF Annuitant*

For more information

What if you need help?

If you need more information after reading this guide, go to **cra.gc.ca/deceased** or call **1-800-959-8281**.

Forms and publications

To get our forms and publications, go to **cra.gc.ca/forms** or call **1-800-959-8281**.

Tax services offices

You can find the address of your tax services office at **cra.gc.ca/tso**.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling **1-800-267-6999**. For more information about TIPS, go to **cra.gc.ca/tips**.

Teletypewriter (TTY) users

If you have a hearing or speech impairment and use a TTY call **1-800-665-0354** during regular business hours.

Service Complaints

You can expect to be treated fairly under clear and established rules, and get a high level of service each time you deal with the Canada Revenue Agency (CRA); see the *Taxpayer Bill of Rights*.

You can file a service complaint if you are not satisfied with the service you get from the CRA.

There are three steps to resolve your service-related complaint.

Step 1 – Talk to us first

If you are not satisfied with the service you received, you can file a service complaint. Before you do this, we recommend that you try to resolve the matter with the employee you have been dealing with or call the telephone number provided in the CRA's correspondence. If you do not have contact information, go to **cra.gc.ca/contact**.

If you still disagree with the way your concerns were addressed, you can ask to discuss the matter with the employee's supervisor.

Step 2 – Contact the CRA Service Complaints Program

The CRA Service Complaints Program is for individuals and businesses. The program provides another level of review if you are not satisfied with the results from step 1 in the service complaint process. Generally, service-related complaints refer to the quality and timeliness of our work.

To file a complaint with the CRA Service Complaints Program, fill out Form RC193, *Service-Related Complaint*.

For more information on the CRA Service Complaints Program and how to file a complaint, go to **cra.gc.ca/complaints**.

Step 3 – Contact the Office of the Taxpayers' Ombudsman

If, after following steps 1 and 2, your service-related complaint is still not resolved, you can submit a complaint with the Office of the Taxpayers' Ombudsman.

For information about the Office of the Taxpayers' Ombudsman and how to submit a complaint, go to **oto-boc.gc.ca**.

Reprisal complaint

If you believe that you have experienced reprisal, fill out Form RC459, *Reprisal Complaint*.

For more information about reprisal complaints, go to **cra.gc.ca/reprisalcomplaints.**

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