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Death and taxes: The question you need to ask that's not on your return

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As you sit down for the annual ritual of tax preparation, do you ever ask yourself whether someone else would be able to file them if you weren't around?

While death may not always seem as inevitable as taxes, accountants say some preparation now makes life much easier for the people you leave behind.

"Advanced planning is key in a lot of areas when it comes to dealing with taxes, but it becomes really important in the case where someone dies," said Bryan Hubbell, a senior tax manager at Manning Elliott LLP.

"Because in many cases the ability to plan affairs, that's gone."

The advanced work is important because the tax situation can be quite complicated. Along with a regular filing, all assets including vacation property, non-registered portfolios, and business assets are deemed to be sold at fair market value when someone dies, possibly triggering capital gains and surprising tax consequences.

"Death is a significant tax triggering event," said Hubbell.

Figuring out those taxes becomes even more complicated when the deemed executor of the estate isn't aware of all the assets owned by the deceased, he said.

"One of the challenges for the family, for the executor, is locating assets…It can become rather difficult when you have someone who's been secretive."

Locating and recovering assets that have been squirreled away can involve a long, onerous process, and some assets are never found.

When money in bank accounts remains unclaimed and inactive for a decade it is transferred to the Bank of Canada, which as of the end of last year held about 1.9 million unclaimed balances worth some $742 million.

As more tax and financial management goes online, it’s important that the executor has access to those accounts as well, including where they are and possibly the passwords to gain access.

Preparation should also include a list of income sources including employer or pension plan administrator, the purchase price of assets to calculate capital gains, and any continuing sources of income like dividends or potentially carried-over net losses.

Once the financial documents are gathered, the executor needs to file a final tax return for the year of death on the standard following April deadline. They can be granted a short extension if the person died late in the year, said Dean Paley, an accountant in Burlington, Ont.

A second tax filing, known as a trust return, also needs to be filed within 90 days on any income after death such as rental income or investments, he said.

While an emotional time, it’s important that the family or executor not put off dealing with the tax issues, risking both the overhang of stress and the penalties for late filing, said Paley.

“One of the biggest mistakes is waiting too long.”

The final tax return can actually be filed any time after death, potentially relieving the stress of uncertain tax liabilities. If more assets or income is later found it’s fairly straightforward to amend the filing, Paley added.

Once the paperwork is filed, the executor can then ask for a clearance certificate from the Canada Revenue Agency, clarifying that all taxes are paid and the funds of the estate can be distributed.

And while proper document preparation will make filing easier for everyone, it’s also important to talk to family members about plans, said Paley.

“Make sure the family is informed with what’s going on, that’s one of the things that helps the survivors at least deal with what happens when someone passes away.”