What happens to your bank and investment accounts after you pass away?

It's important to know where the leftover dollars in your various accounts could go.

Conversations about finance and mortality can feel overwhelming, but they don't have to be. [Addressing these considerations sooner] will help to alleviate some of those swirling anxieties and is an integral part of good financial planning.

While the specifics of everyone's situation will differ, after you die, your accounts, savings, and investments do live on, at least until your estate is settled and the remains of your financial legacy—after taxes, fees, and other expenses—are passed on to your beneficiaries.

Here's a quick overview of the basics to help ensure your assets flow as you intended after you're gone.

Bank accounts

If you are the sole holder of a bank account, your bank will transfer the account to your estate when you die. Any interest earned in the year of your death, prior to the actual event, is reported as income on your final tax return. Interest earned after you die is treated as your estate's income and is taxed on its return.

Joint accounts are trickier. In many cases, the balance is transferred to the other account holder, typically a spouse or common-law partner. **This happens outside of your estate** under what's known as Joint Tenancy with Right of Survivorship (JTWROS) so there are no probate fees. But be aware: JTWROS does not automatically apply to all joint accounts.

The other most common type of joint account is a Joint Tenancy in Common (JTIC). In this instance when one owner dies, **their share of the account goes to their estate**, where it is subject to probate. If that owner wants their co-owner to have the assets in the account—say the adult child of an elderly parent who helped with day-to-day needs—they must make a gift of those shares in their will. Make sure to speak with an estate planner to fully understand the nuances of your plan and avoid any unintended consequences that can arise from missing certain details.

Non-registered investments

If you're the sole owner of a non-registered investment account, your assets are deemed to have been sold for a fair market value when you die (i.e., [a "deemed disposition")]. Inside your estate, they are subject to various taxes on your final tax return, including income taxes and capital gains, as well as potential probate fees.

If you hold the account jointly, one of two things can happen. If the other owner is your spouse or common-law partner, they'll receive the account assets under the right-of-survivorship with no immediate tax consequences.

If the person is **not** a life partner, there is a "deemed disposition" on your assets the day of your passing (just as if you were a sole owner of the account), **and then** your assets can be transferred. Be aware that joint ownership is becoming increasingly complicated, so speaking with an estate planning specialist about your unique situation is crucial.

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RRSPs and RRIFs

How your Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) travel after your death depends on who you want to receive the assets. If the beneficiary is your estate, a fair market value of the investments at the time of your death is calculated and reported as income on your final tax return.

You can also name a beneficiary for your RRSPs and RRIFs. If that person is your spouse, common-law partner, or dependent child, your accounts are usually transferred into their own RRSPs and RRIFs on a tax-deferred basis. Your beneficiary will only pay income tax when funds are withdrawn. These transfers must be made by December 31 in the year following your death.

If your beneficiary is not a spouse, common-law partner, or dependent child, they will receive the value of your accounts at the time of your death. However, your estate will be responsible for paying tax on the fair market value of the accounts when you died. Also, if the value of your accounts grows between the time you die and your beneficiary receives their payout, your beneficiary will have to pay income tax on the growth as well as any taxes incurred following the transfer.

Finally, RRIFs have a special provision for spouses and common-law partners. You can name them as a "successor annuitant." If you do, your spouse or partner essentially becomes the new owner of your RRIF after your death. This transfer happens outside your estate and avoids probate, and your successor annuitant only pays tax on payments from the RRIF. Just remember that the payments must be made according to the schedule you originally set out. And again, the transfer must take place by December 31 of the year following your death.

For a more detailed discussion of RRIFS and RRSPs, see our article "How beneficiaries really work."

TFSAs

The value of your Tax-Free Savings Account (TFSA) at the time of your death is not taxed to you or your estate, just as TFSA investment growth and withdrawals are not taxed during your life. However, any growth inside the TFSA after the date of death is taxed in the beneficiary's hands. Things continue to get a bit more complicated after that.

If you have a spouse or common-law partner, you can designate them as a "successor holder" of your TFSA. This is similar to having a successor annuitant for your RRIF. Your partner becomes the new owner of the account, a transfer that happens outside of probate. The transfer also has no impact on your partner's TFSA contribution room.

Alternatively, you can name your spouse or common-law partner as the beneficiary of your TFSA. In this case, the fair market value of your TFSA is transferred into their own account while using up available contribution room. Once more, this transfer must occur by December 31 in the year following your death.

Finally, you can name someone other than your spouse or common-law partner as the beneficiary of your TFSA. They'll receive the fair market value of the account tax-free. Your beneficiary can then shelter the gift from further taxes inside their own RRSP or TFSA, if they have the contribution room.

While no one likes to talk about what happens after they pass away, it's important to know where the leftover dollars in your various accounts could go. You can then work with a financial advisor to create an estate plan that best suits you and your family's needs.