**What does "deemed disposition on death" mean?**

If you've ever heard an estate-planning presentation or read an article about it, you've no doubt heard of the "deemed disposition on death". This brief phrase has enormous implications for every estate, so it's important to understand what it means and how it affects your estate planning.

The phrase means that everything you own (house, investments, shares in a business, RRSP, vehicles, you name it) is deemed to have been sold or cashed in by you one minute before you died. Deemed by who, you ask? By Canada Revenue Agency and the various laws of Wills.

Since you didn't actually liquidate everything immediately before passing away, it is only *deemed* to have happened, and we all have to behave as if it did.

The major impact this will have on your estate has to do with taxation. The deemed disposition will trigger the payment of income tax on any assets that you are holding on a tax-deferred basis. For example, the money you've put into your RRSP has not yet been taxed. Taxes are deferred until you take the money back out. If you cashed it in right before you passed away then you've taken the money out and you have to pay all of the tax on it. Since you have passed away, your estate has to pay it.

Deemed disposition of other assets also triggers capital gains and capital losses. For example, if you own a cottage or a rental property, you are deemed to have sold it at fair market value right before you passed away. The difference in value from the time you acquired it to the date you disposed of it is called the capital gain (if it increased in value) or a capital loss (if it decreased in value). If there is a gain, half of the gain is taxable and again, your estate will have to pay that. Note that capital gains do NOT apply to your principal residence.

The end result of all of this tax treatment is that sometimes estates end up with less cash than the deceased person thought he or she would have. It's not at all uncommon for people who don't go through lawyers or financial planners to forget to take taxation into account. This can mean very unfair divisions of estates even though the testator had intended an equal split.