



## Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

## Are You Doing All You Can to Save Tax? Shift Income, Save Tax

Are you doing all you can to save tax? Here are some income-splitting strategies to consider.

Given Canada's progressive tax rate system, an individual's marginal rate of tax increases as their income surpasses various brackets. To fall into a lower tax bracket, individuals may look for ways to split income with family members such as spouses/common-law partners (CLPs) or (grand)children. In addition to income-tax savings, it may help preserve income-tested benefits such as Old Age Security (OAS).

Splitting Pension Income — Up to 50 percent of eligible pension income may be split between eligible spouses/CLPs on their respective tax returns. This may also allow both spouses to claim the pension income tax credit of up to \$2,000 per year depending on the age of the couple. For those ages 65 or over, payments from sources such as a life annuity, registered pension plan or Registered Retirement Income Fund (RRIF) could qualify. For those under 65, payments from a registered pension plan and certain other payments received resulting from the death of a spouse could qualify. OAS payments do not qualify.

**CPP Pension Sharing** — Spouses/CLPs can also apply for pension sharing to have their Canada Pension Plan (CPP) pensions split between them. It is important to note that the CPP pension-sharing rules are separate from the pension income-splitting rules and work differently. For example, pensioners must apply proactively for CPP pension sharing, whereas a couple can elect to apply pension income splitting when they are filing their income tax returns after they have already received the pension income.

**Transferring Unrealized Capital Losses** — In some situations, it may be possible to transfer unrealized losses in a portfolio between spouses using the superficial loss rules. This could allow a spouse who cannot effectively utilize unrealized capital losses (i.e. due to lack of capital gains and/or being in a low tax bracket) to transfer those losses to a spouse who would be able to realize and utilize capital losses more effectively.

**Gifting to Adult Kids** — Gifting money to an adult child who is in a lower tax bracket can put subsequent capital gains and income in the hands of the child. The adult child may also be able to contribute

the funds into their tax-sheltered account such as a Tax-Free Savings Account (TFSA). However, it is important to consider the loss of control over the funds once they have been gifted.

Spousal RRSP — By contributing to a spousal Registered Retirement Savings Plan (RRSP) for the benefit of a spouse who is expected to have lower income in retirement, future withdrawals may be taxed in the lower-income spouse's hands. While pension income-splitting rules allow you to allocate income drawn from the RRIF to a spouse for tax purposes, consider that this can only be done after reaching the age of 65 and is limited to 50 percent of the withdrawal. A spousal RRSP can provide income splitting at any age and may offer more flexibility, since the full amount can be included in the lower-income spouse's tax return.

**Household Expense Allocation** — The higher-income spouse/CLP may consider paying for the family's expenses, freeing up the lower-income earner's funds to be used for investment purposes to enable future investment income to be taxed at their lower marginal tax rate.

**Business Planning** — For family businesses, reasonable salaries for services rendered may be paid to lower-income family members. Business owners who operate through a corporation should also consider speaking with a tax advisor about succession planning, to identify potential tax-planning strategies which could reduce taxes associated with the eventual sale of the business or passing down the business to the next generation (which could be a significant taxable event without proper planning).

## Plan Ahead

While some income-splitting techniques can be implemented without much advance planning (i.e. pension income splitting, gifting to adult children); others, such as maximizing spousal RRSP benefits, require planning well in advance. For more information or advice relating to your particular situation, please consult a tax advisor.

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