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TAX MATTERS

# Ten income-splitting ideas for Canadians

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Last week, I introduced the concept of income splitting. Today, I want to share the top 10 income-splitting ideas.

**1. Lend money to your spouse.**
On Jan. 5, I wrote about lending money to your spouse and charging the prescribed rate of interest on the loan.

Provided you charge this rate of interest (just 1 per cent today) and your spouse pays the interest by Jan. 30 for the prior year's interest charge, your spouse can invest the borrowed funds and avoid the attribution rules (which can attribute back to you any income earned by your spouse).

With this idea, your spouse will pay the tax on any income earned on the loaned funds.

**2. Create second-generation income.**
If you want to lend or give money to your spouse to invest, but don't want to charge interest on the loan, you can still avoid the attribution rules on the second-generation income – that is, income on the income earned by your spouse. So, take any income earned on your spouse's portfolio each year and move it to a separate investment account. There will be no attribution of income earned in that account.

**3. Swap assets with a family member.**
If you have income-producing assets, consider moving those assets to a lower-income family member in exchange for other, non-income-producing assets of equal value (such as jewellery, or your spouse's half of the family home, provided he or she paid for it). Your family member will pay the tax on any income earned in his or her hands after the swap. Keep in mind that a transfer for this purpose takes place at fair market value, so a tax bill could result if the transferred assets have appreciated in value. Visit a tax pro to talk over this idea – you'll want to do it right.

**4. Have the higher-income spouse pay expenses.**
If the higher-income spouse pays the household expenses, this can free-up any income earned by the lower-income spouse to invest. This will create investment income that will be taxed at a lower rate.

**5. Transfer eligible pension income to your spouse.**
If you receive eligible pension income from an employer pension plan (this doesn't include Canada Pension Plan or Quebec Pension Plan benefits, among certain other types of pension income), you can transfer up to one-half of that income to a lower-income spouse each year.

**6. Contribute to a spousal RRSP.**
If your spouse is likely to have less income than you in retirement, consider contributing to a spousal RRSP for him or her. You'll get the tax deduction, but your spouse will pay the tax on the withdrawals later. Your spouse's withdrawals will be taxed in your hands, not his, if you make a contribution to the spousal plan in the year of the withdrawal or the previous two years. So, watch the timing of withdrawals.

**7. Invest in a minor child's name.**
I mentioned last week that you can put investments in the name of a minor child by setting up an in-trust account for him or her. Any capital gains (but not interest or dividends) earned in the account will avoid the attribution rules and will be taxed in the hands of your child. So, focus on capital growth in this situation.

**8. Transfer money for business purposes.**
If you lend or give money to a spouse or child to earn income from a business, you'll avoid the attribution rules and any business income will be taxable in your family member's hands.

**9. Make a corporate loan to a related student.**
If you own a corporation, consider having your company lend money to an adult child who is a student. The amount of the loan will be added to your child's income if it's not repaid by the end of the company's fiscal year following the year of the loan. The good news? Your child is likely to pay little or no tax on that amount if he or she has little income. Then, when your child graduates and is working full time, and needs some tax deductions, your child will be entitled to a deduction for every dollar paid back to your corporation at that time.

**10. Report your spouse's dividends on your return.**
You're able to make an election to report all of your spouse's Canadian dividends on your tax return, which can make sense if your spouse's income is low. This will reduce your spouse's income, increase the spousal credit (in fact, you can only use this idea if this credit is increased), and will provide you with a dividend tax credit. All of this can result in less tax over all.