

Income Splitting Between Spouses II

Saving tax is a topic that almost everyone is interested in. Despite rules in the Income Tax Act to limit ways to save tax, there are still some ways to accomplish tax savings through income splitting with your family members.

This article will examine some of the methods available with your spouse. The next article in this series will focus on income splitting opportunities with children.

Why Income Split?

The purpose behind income splitting is simple. It is designed to shift income from an individual in a high tax bracket to an individual in a lower tax bracket. The result is tax dollars saved and therefore more family income and more capital in the hands of the lower income individual.

Income Splitting With a Spouse

For many people, income splitting with a spouse is very attractive as many couples find themselves in different tax brackets for most of their lifetimes. Although there are attribution rules contained in the Income Tax Act that limit income splitting with your spouse, there remain some legal methods.

Spousal RSP

The most obvious income splitting strategy between spouses is the spousal RSP. Although there are no immediate tax savings as you still receive the deduction, there are tax savings in the future when your spouse receives income from the RSP. This income will be taxed at their marginal tax rate instead of yours.

The attribution rules will cause income to be taxed in your hands however if your spouse withdraws money from the spousal RSP and you have made a contribution in that year or the previous two years to any spousal plan.

Invest Your Spouse's Excess Income

If both you and your spouse work, and there is excess income that is being invested, this income should be invested in the hands of the individual in the lower tax bracket. Therefore, the spouse with the higher income should pay all the house hold expenses, with the lower income spouse saving the excess funds in their hands. Future income on the invested funds will be taxed at a lower rate. Note that you only need to continue this strategy until both spouses are in the same tax bracket.

Pay Your Spouse a Salary

If you own your own business, you can pay your spouse a salary for work that they perform. Remember however that it must be reasonable in the circumstances and that usually means that you would pay your spouse the same as what you would pay someone else for work of equal value.



Split Your CPP Payments

When you apply to start receiving your CPP payments, you can elect to split them with your spouse. As long as you are in a higher tax bracket this strategy makes sense as the amount of tax paid by the family will be decreased.

Pension Income Splitting

Individuals who earn income eligible for the pension income tax credit may reduce their overall household tax bill through the pension income splitting measure introduced by the federal government in October 2006. This initiative allows the higher income earning spouse to allocate up to 50% of their eligible pension income to their lower income earning spouse, where it will be taxed at their lower marginal rate.

The types of pension income eligible for income splitting will vary depending on age:

- ***For people age 65 and older***, eligible pension income includes lifetime annuity payments under a registered pension plan (RPP), a registered retirement savings plan (RRSP) or a deferred profit sharing plan (DPSP), and payments from a registered retirement income fund (RRIF).
- ***For individuals younger than 65***, eligible pension income includes only lifetime annuity payments from an RPP (employer-sponsored pension) and certain other payments received upon the death of a spouse or common-law partner.

Loans to a Spouse to Start a Business

Business income is not attributable so it is possible to loan your spouse money to start their own business. Any income that they earn in the business will be taxable in their hands.

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