WFM Williams Financial Management

Income Splitting: 10 Ways to Reduce Your Taxes

Canada has a progressive tax system. This means that as your income grows your pay a larger share to governments. Income spitting is one way that you can reduce your total family tax bill. But how do you do it? There are attribution rules that must be avoided. Here are 10 ways that you can reduce your taxable income and save taxes.

1. **Spousal RRSPs.** By contributing to a spousal RRSP you can manage the income that each spouse will receive in retirement. The objective is to equalize the taxable income each spouse will receive. No attribution rules apply to Spousal RRSPs
2. **Transfers at Fair Market value (FMV)**. Sell an asset that will produce income or capital gains to the spouse with the lower income. As long as this is done at FMV no income is attributed back to the seller. This purchase could be paid for by another asset that will not grow that is owned by the lower income spouse.
3. **Loans at Prescribed Rates**. Lend money to the lower income spouse at the prescribed rate (currently 3%). Any gains or income above this has effectively been transferred to the lower income spouse.
4. **Hire a spouse or child**. Income splitting (and tax savings) can be achieved by hiring a family member to do some work for you if you have a business. For example, your child could be hired to do filing. They would likely pay no tax while you get the deduction.
5. **Reinvestment of Attributed Income**. While income and gains are attributed back to a spouse the income on the income is not. Over time this can transfer substantial assets to the lower income spouse.
6. **Attribution of Capital Gains**. Capital gains are attributed back to a spouse but not to a minor child. So consider loaning assets to a child (at 0% interest). Any capital gains will be taxed at the child's lower tax rate.
7. **Splitting CPP Benefits**. If both your and your spouse receives CPP benefits you can split the benefits so each receives the same amount. This can save taxes.
8. **Registered Education Savings Plan**. Contributions to an RESP are not deductible but any income earned will be taxed on the child's tax return when the money is withdrawn. Not only does this lower the overall tax payable it defers the taxes for years.
9. **Higher Income Spouse Pays Household Expenses**. If both spouses earn income have the lower income spouse do the saving and the higher income spouse pay all expenses (including the lower income spouse tax bill!). This will let the lower income spouse increase their investments and help equalize the income.
10. **Work with a Professional**. The tax rules are complex and change every year. Working with a professional can ensure that you minimize all taxes payable.

By careful planning, record keeping and professional assistance you can reduce your taxes and maximize your income.

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