

# Income Splitting



## SUMMARY

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6. Who is it for?

**Low interest loans are particularly attractive right now due to the recent reduction in the prescribed interest rate to 1%.**

## What is it?

Income splitting lets a higher-income earning individual shift some of their income to their lower-income spouse or children. Proper planning for any income splitting strategy is required to avoid adverse tax consequences.

## Why does it matter?

“Why can’t I simply gift an income producing property or cash to purchase an income producing property (i.e. investments) to my lower income spouse or child.”

The CRA views this as a way to circumvent the tax system. As such, the government “attributes” all the income earned back to the higher income spouse/parent. This anti-income splitting rule is referred to as attribution.

## Common Strategies

1. Electing to split pension income
2. Utilization of the Tax-Free Savings Account
3. Spousal RRSP
4. Low-interest loans
5. Employed family members

## Advantages

- Reducing the combined taxes paid by an individual and their spouse or children.
- Reducing or eliminating Old-Age Security claw back
- Creating a pension tax credit for the spouse

## Disadvantages

- Some income splitting strategies can be dangerous if you don't understand the rules to do it properly.
- The CRA doesn't particularly like income splitting and has targeted pre-existing income splitting strategies in the past.
- Be careful about the kiddie tax and Tax On Split Income (TOSI) rules when thinking about income splitting.

## Who is it for?

- High-income individuals who have children or spouses in the lower-income tax bracket.

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