



Income Splitting

by Marc Weisman

INCOME SPLITTING BETWEEN SPOUSES

Any income from property that is gifted or loaned between spouses is taxed in the hands of the donor spouse - who is usually in a higher income tax bracket. Although the income belongs to the donee spouse, the *Income Tax Act* (the "ITA") "attributes" the income to the donor spouse for tax purposes.

Where funds are lent at an interest rate that is at least equal to the rate prescribed by the ITA, this attribution rule will not apply. So, considerable tax savings can be realized if the donor spouse loans money for an investment - at an interest rate that is at least equal to the prescribed rate - to the lower income spouse. In this situation, any income from the investment is taxed in the hands of the lower income spouse.

Consider the case of a married couple, Sonia and Hy. Sonia's marginal tax rate is 46% and Hy's is zero. Sonia has \$2 million to invest. If she invests it herself, she will pay tax on income at her marginal tax rate of 46%. However, if she lends it to Hy at the current prescribed rate of 1%, she would declare that interest on her tax return and he would declare the income from the \$2 million investment, minus the interest he pays to Sonia, and pay tax on the income at his lower graduated tax rates.

The 1% rate that Sonia must charge Hy remains locked in, even if the prescribed rate subsequently increases. So, it is timely to implement this type of income-splitting strategy between spouses.

To ensure that the arrangement is properly effected, they should consult with their financial and tax advisors.

Torkin Manes' Tax and Trusts & Estates Groups work together to provide comprehensive tax and estate planning solutions for businesses and individuals. They have a significant practice working with other professional advisors such as financial planners and accountants to execute their clients' tax and estate plans.

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Please contact any member of our **Tax Law** and **Trusts & Estates Groups** for more information.

Risa Awerbuck
416 777 5425

Sabina Mexis
416 643 8807

Marc Weisman
416 777 5455

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