

➤ tax planning

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Split income, to reduce your family's total tax bill

Many families can significantly reduce their total tax bill by shifting income to members who are taxed at a lower rate. But this requires planning. Consider these well-used income splitting strategies:

Spousal strategies

- Spousal Registered Retirement Savings Plans (RRSPs) are a way to reduce future tax by enabling the two partners to balance their retirement incomes.
- The Canada and Quebec Pension Plans allow couples to evenly split the retirement benefits earned during their time together. This is called "assignment" and requires a specific request.
- The higher-income spouse can lend the other spouse money for investment. Interest must be charged, but can be fixed at the Canada Revenue Agency's low "prescribed rate."
- Say the lower-income spouse inherits a valuable asset, such as artwork or a cottage. The higher-income spouse can buy it, so the other gets investable cash without losing use of the property.
- You can sell your spouse securities, such as mutual funds and stocks, at fair market value. Any further growth is taxable for the spouse. Or, sell your spouse an option to buy that holding at today's price on or before a future date.

Splitting income with your kids

- Registered Education Savings Plans are long-term income-splitting vehicles because the students will face tax when earnings are withdrawn to pay for post-secondary education, not the parents or others who provided the money.
- Give your minor children money for investment. You'll face tax on dividends and interest generated by the original gift, but not on income from reinvested earnings. A child with no other income can generate more than \$17,000 (in 2005) in capital gains before having to pay tax. The investments should be held in a separate "intrust" account, or in a formal trust if the amount is substantial.

For business owners

- Pay family members reasonable wages for bona fide services. When selling the business, structure the deal so that family members on the payroll get retiring allowances for pre-1996 service. These can be rolled into their RRSPs.

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- If the business is incorporated, your spouse can be a director and collect fees. You can also transfer partial ownership to a spousal trust (but not to a trust for minor children) that receives dividends with little or no tax. You will want professional tax advice to make sure the trust is properly established.
- If your spouse or child is starting an unincorporated business, it may make sense for you to be the initial owner. That way, you can deduct any start-up losses from your income from all sources.
- Pay your spouse a fee if he or she guarantees a business loan, perhaps by pledging personal assets.

Professional advice can help you evaluate how your family might benefit from tax-saving strategies. Let's get together and review your situation. Your family could be enjoying substantial tax savings this year.

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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