



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment
Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

Income from joint accounts held between spouses

It is often assumed that spouses can split income earned in a joint account equally or in whatever way minimizes their overall tax bill. This is not the case. In general, each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have each contributed to the account.

This article looks at income tax rules that apply to the reporting of income, including interest income, dividends, and capital gains from a joint account with the right of survivorship. Knowing the rules can avoid potential problems and penalties.

Proportionate tax reporting

Income earned in a joint account held between spouses must be reported based on how much each spouse contributed to the account, or in accordance with the attribution rules. The attribution rules are designed to prevent certain income splitting between non-arm's length persons, including spouses. Under these rules, income earned from property transferred, as a gift, sale or loan to a spouse, is considered to be income of the spouse making the transfer, not the spouse receiving it, with the following exceptions:

- Where there is a sale of property, if the transferee spouse pays fair market value for the property using their own funds and the

transferor elects to report the sale at fair market value on their tax return, there is no attribution. If the property is sold at less than fair market value or your spouse doesn't pay fair market value consideration, the attribution rules will apply.

- Where there is a loan of property, if the borrowing spouse pays interest at a rate at least equal to the Canada Revenue Agency (CRA) prescribed interest rate in effect at the time the loan is made, and the loan is properly documented, attribution may not apply. This type of loan strategy is commonly known as the spousal loan strategy. Speak with your RBC advisor for more information regarding this strategy.



Tax slip reporting

Although a T5 or T3 tax slip may be issued for your joint account with your Social Insurance Number (SIN), it does not mean that the CRA is expecting you to report all the income for tax purposes. The CRA only requires one SIN to be included on the tax slip so only the primary account holder's SIN number is displayed.

For example, the tax slip may be issued to you even though you only contributed a portion of the funds or never contributed any funds to the joint account. Your spouse, who contributed funds to the account, would also be required to report their proportionate share or all the income even though a tax slip was not issued in their name and SIN. Speak with a qualified tax advisor for assistance with reporting your proportionate share of income on your tax return.

Capital gains and capital losses

Similar to the treatment of income, if an asset is sold within a joint account, the joint account owners must report their portion of the gain or loss based on how much they contributed into the joint account. This is because the spousal attribution rules apply to investment income as well as capital gains or losses.

Withdrawals from the joint account

If one of the joint account holders withdraws funds from the joint account, it's important to factor this withdrawal in determining the proportionate tax reporting going forward. The proportion of future income that should be reported by each spouse should be recalculated if either party makes a withdrawal from the account.

Conclusion

Joint accounts cannot be used by you and your spouse to achieve income splitting. For example, you and your spouse cannot arbitrarily split the income 50% each, solely on the basis that it's a "joint" account. You also cannot choose a ratio to report on your respective tax returns each year to optimize your tax savings. Each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have contributed to the account. Consult with a qualified tax advisor if you have any further questions on the tax reporting requirements for joint accounts held by spouses.

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