

The Strategist

The Spousal Loan Strategy – A Practical Way To Reduce Your Household Taxes

What is a prescribe rate loan strategy?

The spousal loan strategy allows the lender spouse to move the tax burden to the borrower spouse who is in a lower marginal tax bracket and thus reducing the household tax burden. In short, it allows the higher income earner to loan a portion of their non-registered assets to their lower income earning spouse. The interest rate for the spousal loan is based on the CRA's prescribed interest rate, which is currently at 1%. With pressure to the upside on interest rates, there is an additional incentive to do it now.

Where's the benefit?

By loaning non-registered funds to a spouse, all investment income earned (interest, dividends, capital gains) would now be taxed in the spouse's hands at their lower marginal rate. Depending on the amount loaned there is potential for significant tax savings. An example is tabled below.

Spousal Loan Strategy			
Jordan (lender)	Income for Jordan	Sam (borrower)	Income for Sam
Lends \$250,000 to Sam at 1%		Invests \$250,000	
1 % Interest paid to Jordan (from Sam)	\$2,500	Earns 5% from investments	\$12,500
Jordan's Taxable Income	\$2,500	Sam's Taxable Income (net of \$2,500 interest paid to Jordan)	\$10,000
Tax @ 50% (Marginal Rate)	\$1,250	Tax @ 25% (Marginal Rate)	\$2,500
After Tax Income	\$1,250	After Tax Income	\$7,500
Spousal Loan Strategy - Total After Tax Income		\$8,750	
No Spousal Loan - Total After Tax Income (taxable to Jordan)		\$6,250	
Potential Household Tax Savings		\$2,500	
*For illustration purposes only. Magnitude of tax savings will be dependent on rates of returns, source of investment return, marginal tax rates and loan amount.			

So what's the catch?

In order to prevent attribution rules, that is income being attribute back and taxed in the lender spouse's hands, the following needs to be implemented:

- The loan needs to be properly documented through a written loan agreement, specifying the amount, interest rate and payment terms and conditions
- Loan interest will need to be paid and documented each calendar year – payment is due on or before January 30th of the following year. **If the interest payments are not made when required, attribution rules will apply for current and future years.**

Okay, where do I start?

We are happy to answer any questions you may have and explore this strategy in more detail. As always, your legal and tax professional's counsel should be sought before implementing this strategy.

Do you want to better understand and navigate your financial life?

[BOOK](#) a meeting with Clarke to learn how we can help!

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Update on the Team

As we move forward with what we hope will be the final phase of the pandemic, we are grateful to be back to conducting in-person meetings at our Victoria office. Safety measures are in place to keep our staff and guests safe.

Back in September, we had the chance to visit Whistler and meet our colleagues from our working coalition/synergy groups, Linton Wealth and Huggan and White. This was a first with a total of 17 people in attendance from the three teams. Brainstorming was the order of the day as we work on creating the private client wealth services offering of the future. Progress was made and we managed to squeeze in some fun time as well - the off-road ATVing was a hit.

Many of our readers will be aware that we bid adieu to Larissa Ruditsch on November 26, as she moved on to a new opportunity. Larissa worked with us north of 5 years and we certainly appreciated her dedication to serving clients. That leaves our latest hire, Ben Clark, formerly of CIBC Small Business fame, with some big shoes to fill. We are confident he is up to the task and of course Chris and the team are here to ease the transition. Please join us in welcoming Ben to CR&A!

In other news, relaxed travel restrictions paved the way for Shubham (a.k.a Shu) to surprise his sister by attending her wedding in Mumbai, India. Of course, the tears of joy flowed as it had been five long years since Shu had seen his family.

Shu's sister's wedding picture in India!



RJL Quarterly Reminder

RESP Contribution Deadline for 2021

- December 31st

Last Day to Sell Securities to Realize Gain/Loss in 2021

- December 29th, 2021

Upcoming Holiday Closures

- December 27th & 28th, 2021
- Substitute holiday for Christmas Day & Boxing Day
- January 3rd, 2022
- Substitute holiday for New Year's Day