



CESTNICK

TAX MATTERS

Spousal credits: an idea you can get married to

A friend of our family was married recently. Graham had never been a groom before, so he came to me for advice before the wedding. He wasn't looking for financial advice, but fashion advice. What does a financial professional know about fashion, you ask? Oh ye of little faith. I told him that a rented tuxedo is always haute couture for the groom, but if that expense means forgoing a honeymoon, I suggest some alternatives. For example, a leisure suit with a cummerbund and a clean work shirt can create a natty appearance. And though it may be out of character, I suggested socks and shoes for this special occasion.

He appreciated my input. But I didn't stop there. "Graham, ask me if there are tax benefits to being married. Go ahead, ask," I said. "Tim, are there tax benefits to being married?" he queried. "Of course," I said. I explained that, although there are some drawbacks to marriage from a tax perspective (which I spoke about last week), there are some tax benefits as well. These benefits apply to those who are legally married, and to common-law couples (same gender or not) where they're considered "spouses" under the Income Tax Act.

Here are the most notable tax benefits of having a spouse:

Tax-free transfers on death are available

Make no mistake, the taxman and undertaker are best friends, and it's possible that you could face more tax in the year of your death than you did throughout your entire lifetime. The reason? You're deemed to have sold everything that you own immediately prior to your death, so that if anything has gone up in value, those gains could be taxable in your final year.

Similarly, your registered retirement savings plan (RRSP) and registered retirement income fund (RRIF) assets will be fully taxed in the year of your death without proper planning. Proper planning includes leaving your assets to a spouse. Any assets transferred to

a spouse on your death will be transferred at your adjusted cost base – and no tax will be payable (unless your executor chooses to elect out of this provision). Tax can be deferred, then, until the death of the second spouse.

Spousal credit may be available

Where you have a spouse who has a very low income, it may be possible to claim a credit to reduce your own tax bill. Specifically, you'll be entitled to some tax relief in the form of a non-refundable tax credit calculated on a base amount of up to \$10,320 federally for 2009, although this base amount is reduced by the amount of your spouse's income. Your actual tax credit will be worth a maximum of about 25 per cent (varies by province) of the appropriate base amount.

Transferring dividends may be possible

Consider reporting all your spouse's Canadian dividends on your tax return. This tactic is permitted by the taxman where making this switch increases the spousal credit you're entitled to claim. The strategy makes sense when the additional spousal credit is greater than the additional tax on your return that results from reporting more dividends. Some tax software could help out here to determine whether you can or should go ahead with the strategy.

Split income with registered plans

As long as you have a spouse who is age 71 or younger throughout the year, you'll be able to make contributions to a spousal RRSP where you'll receive the tax deduction for making the contribution, but your spouse will generally be taxed on the withdrawals later. This effectively splits income by moving the taxable withdrawals to the hands of your spouse. Also, it's possible to report up to half of any eligible pension income on your spouse's tax return. Eligible pension income is that income that qualifies for the pension credit, which can include certain withdrawals from RRSPs and RRIFs.

Minimize tax on RRIF withdrawals

If you take steps to move your RRSP assets to a RRIF, you'll be able to base your mandatory withdrawals from your RRIF on the age of the younger spouse. If your spouse is younger than you, you'll manage to defer tax

by reducing the amount of the minimum withdrawals required. You see, the annual minimum withdrawal is a percentage of the assets in the RRIF on Jan. 1 each year. That percentage is lower the younger you are – or the younger your spouse is.

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