

The Navigator

RBC WEALTH MANAGEMENT SERVICES

2013



900 - 45 O'Connor Street
Ottawa, ON K1P 1A4
www.toddkennedy.ca

Todd Kennedy, CIM, FCSI

Portfolio Manager
613-566-4582
todd.kennedy@rbc.com

Corrie Cassalman, CIM, CFP

Associate Advisor & Financial Planner
613-566-2032
corrie.cassalman@rbc.com

Income from Joint Accounts

If you are the joint owner of a non-registered investment, you should be aware of the income tax rules that the Canada Revenue Agency (CRA) imposes on reporting the income from jointly held investments. This article is for information only and is not legal or tax advice. Be sure to speak with a qualified professional before taking any action.

Proportionate Tax Reporting

Each owner of a joint account is required to report their individual portion of the total income (e.g., interest, dividends, capital gains, return of capital) according to the same ratio as their proportionate contribution of funds to the joint account.

Joint Account Tax Slip Reporting

Although a single T5 or T3 tax slip may be issued for your joint account in your name with your Social Insurance Number (SIN), it does not automatically imply that 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. Therefore, only the primary account holder's SIN number is displayed on your tax slip.

For example, the tax slip may be issued to you even though you only contributed a portion of the funds or never contributed any capital to the joint account. The other joint account holder(s) who contributed the capital would be required to report their proportionate share or all of the income even though a tax slip was not issued in their name and SIN. If this happens,

1. Attach the original tax slips issued in your name to your individual income tax return, but do not report the income.
2. Provide the CRA with a brief explanation for the reason why you are only reporting your proportionate share of this income. If you didn't contribute to the account, your proportionate share would be zero.



RBC Wealth Management

3. Provide the other joint account holder(s) with a copy of your tax slips in order for them to report their proportionate income on their tax return. They would simply attach the copies of the tax slips originally issued in your name to their income tax return, explaining why they are reporting this income even though the tax slips were issued to you. If you contributed all the funds to the account, 100% of the income would be yours.
4. Finally, if you are receiving tax slips in your name but didn't contribute to the account, you can simplify your tax reporting in the future by asking your financial institution to switch your name from primary to secondary joint account holder which will ensure that you do not receive tax slips in the future.
5. If filing electronically, the above still applies. Simply retain your copy of the tax slip and your explanation in your own file in case you are asked for it.

CRA Illustration of Joint Account Tax Reporting

The CRA illustrates the proportionate tax reporting requirement in its General Income Tax and Benefit Guide (instructions for line 121) as follows:

Sally and Roger received a T5 slip from their joint bank account showing the \$400 interest they earned in the last year. Sally had deposited \$4,000 and Roger had deposited \$1,000 into the account.

Roger reports \$80 interest, calculated as follows:

\$1,000 (his share) x \$400 (total interest) = \$80

\$5,000 (total)

Sally reports \$320 interest, calculated as follows:

\$4,000 (her share) x \$400 (total interest) = \$320

\$5,000 (total)

Capital Gains/Losses

If an asset is sold within a joint account, the joint account owners must report their portion of the gain/loss. The reason behind the sale does not affect reporting requirements.

For example:

Your spouse wishes to withdraw cash (or “pull out their share”) from a joint account held by you and your spouse to which you contributed 80% of the capital. In order to fund their withdrawal, or to pull out their 20% of the joint account, an asset is sold and the sale triggers a capital gain. The resulting capital gain cannot be solely claimed by your spouse simply because they withdrew their proportionate share of the account. Instead, it must be split between you and your spouse according to the ratio of assets contributed to the joint account. In this example, 80% of the capital gain would be taxable in your hands while the remaining 20% of the gain would be taxable in your spouse’s hands.

Conclusion

Joint accounts cannot be used to achieve an income splitting tax advantage. In other words, you and the other joint owner(s) cannot arbitrarily split the income 50% each, solely on the basis that it is a “joint” account, or to choose some other ratio to report on your respective tax returns each year to optimize your tax savings. If you are the primary joint account holder receiving the tax slips, but are not responsible for reporting the income, consider asking your financial institution to switch your name to the secondary joint account holder. This will avoid having to make copies of your tax slips for the other joint account holder(s) who are responsible for reporting the income and providing CRA with explanations for not reporting the entire income amount, thereby simplify your tax reporting at the end of the year.

If you have further questions on tax reporting requirements for joint accounts, you should consult a qualified tax advisor.

› Please contact us for more information.

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)*, RBC Wealth Management Financial Services Inc. (RBC WM FS) and Royal Mutual Funds Inc. (RMFI). Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. *Members-Canadian Investor Protection Fund. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and licensed representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC and the private client division of RBC GAM, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WM FS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC WM FS, a subsidiary of RBC DS. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC WM FS. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC WM FS. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WM FS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. © Registered trademarks of Royal Bank of Canada. Used under license. © 2012 Royal Bank of Canada. All rights reserved. NAV0036 (03/2012)