The Navigator

RBC WEALTH MANAGEMENT SERVICES

Income from Joint Accounts

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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.

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.