The Navigator

RBC WEALTH MANAGEMENT SERVICES

Planning strategies for couples

Together with our RBC Partners, we can assist with any of the following recommendations, in conjunction with your tax or legal advisors. You should obtain professional advice from a qualified tax advisor before acting on any of the information in this article. This will ensure that your own circumstances have been considered properly and that action is taken on the latest information available.

Couples in a long-term relationship or considering one now need to be more aware than ever of the financial and legal ramifications of a love that lasts and, equally, where it may not.

Whether due to the increasing tendency to marry at an older age, live longer or the increased prevalence of divorce, Canadian marriages are now facing increasing financial responsibilities, likely not considered in generations past. On top of this, there may be even more mouths to feed at the Canadian couple's financial table – whether with the increase in "blended families" (children from previous marriages) or those in the "sandwich generation" (couples caring for aging parents in addition to children). Exploring the following issues can contribute to the likelihood of a loving and stable relationship well suited to meet life's challenges over time.

Whether you have been married for 50 years or considering marriage, the following are the key areas of tax, estate, and financial planning consideration for couples (including common-law partners).

1. **Create a financial plan.**

   Deciding together how to best allocate and prioritize expenses will not only save headaches, but build valuable habits and save money. A financial plan may also identify a number of tax planning strategies for couples (for example, "income splitting"). One example of income splitting for couples is to have the higher-earning spouse pay living expenses for the family as well as the family's tax liabilities, so the lower income spouse can invest their own income which will be taxed at the lower-income spouse's tax rate. Another effective income splitting strategy is a spousal RRSP, which is an RRSP to which one spouse makes contributions (the contributor), but is opened in the name of the other spouse, who is the annuitant (or owner) of the RRSP. Spousal RRSPs provide a simple way to split retirement income between spouses in an effort to equalize the retirement income and minimize the couple's income taxes.

2. **Use your principal residence exemption wisely when owning two homes.**

   An exemption on the capital gain only applies to your principal residence, and now that you are a couple, only one exemption is available per family unit per year (for each year prior to 1982, each member of the family unit may designate a separate home as their principal residence). This means if you and your partner both own a house (or a house and a cottage), only one exemption is available for the years that you are considered common-law or married. Be sure to consult your tax professional to determine the best use of the exemption where there is more than one home.

For those who have been married before, consider obligations you may have with a former spouse, children or elder parents.

3. **Determine the best ownership of assets for you and your partner**

   and the achievement of your goals. Do you wish to own them jointly or in your own names? Ensure that you understand the advantages, but most importantly, the legal and tax results and how they will be distributed if you die (or break up). You should obtain independent legal advice from a qualified family law lawyer as every province has its own unique rules.

4. **For those who have been married before,**

   consider obligations you may have with a former spouse, children or elder parents. You will need to consider how your assets are going to be shared both during your lifetime and later, through your estate plan.

5. **Make a practice of reviewing and updating beneficiary designations**

   on your registered plans and life insurance to ensure that they align with your current wishes. This is particularly important if you now have a RRIF (beneficiary designations are not automatically carried over from your RRSP) or have remarried.

6. **Consider your Will sooner rather than later.**

   Be sure it is up to date, and if recently married or re-married, whether it has been automatically revoked on marriage. This will depend on the provincial laws where you reside. You will also need to decide how your partner/spouse will benefit under your Will.

7. **Update your powers of attorney**

   so that if you are unable to make health care or financial decisions, the right people have the authority to make them for you.

Something to think about for those contemplating marriage or living together

Consider a marriage or cohabitation agreement that sets out your financial expectations concerning the relationship to help avoid conflicts later (including legal hassles) should the relationship end. In most jurisdictions in Canada, legislation is encouraging use of these agreements by giving certainty that they will be upheld except where they are found to be unreasonable. You can also agree on certain matters relating to the children, including their educational or religious upbringing and custody and access issues (however, in many jurisdictions these provisions may be disregarded by a Court if it is felt to be in the best interests of the children). However, do not leave the marriage contract to the last minute. It is probably wise to consult your respective lawyers well in advance of the proposed nuptial date or even the "Save the Date" cards being sent to allow for adequate consideration and negotiation. The implementation of a marriage or cohabitation agreement will generally require that you make full financial disclosure to your partner. Full financial disclosure may include providing details of your assets, income, debts and liabilities to your future common law partner/spouse. As part of this process, you may need to obtain professional valuations for various assets, including business and real estate interests.

Now may be a good time to review your planning. For more information on planning strategies for couples, please consult with your RBC advisor and your tax or legal advisor, as applicable.

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› Please contact us for more information.