



The Spousal Loan Strategy in 10 Easy Steps

Top 10 Things You Should Know About the Spousal Loan Strategy

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A Spousal Loan can reward you with substantial tax savings when the strategy is properly executed and managed. When you consider the Spousal Loan Strategy, it is important for you to understand the responsibilities associated with establishing a spousal loan and carefully consider all the relevant details set out below to ensure that the strategy remains successful in the long-term. This article highlights 10 suggested steps for you to follow when considering a Spousal Loan Strategy.

10 Easy Steps for Making the Spousal Loan Strategy a Success

- 1. UNDERSTAND THE STRATEGY** – Before entering into any legal arrangement, it is important for you to fully understand the strategy. Read through all the materials available and contact your Investment Advisor to discuss any questions you might have.
- 2. GET TAX ADVICE!** Your Investment Advisor can demonstrate how much you can benefit from the Spousal Loan Strategy using our Spousal Loan Calculator. Provide a copy of the calculator's output to your tax advisor to determine if the strategy makes sense given your personal financial situation.
- 3. REVIEW THE LEGAL DOCUMENTS** – Your Investment Advisor can provide you with a Demand Loan Agreement and Promissory Note Package when establishing a Spousal Loan Strategy. Please read the documents carefully.
- 4. GET LEGAL ADVICE!** Your own legal advisor should be engaged to review the documents provided by RBC DS or to prepare your own customized set of legal documents.
- 5. EXECUTE THE SPOUSAL LOAN** – Once you are comfortable that the Spousal Loan Strategy is a strategy you wish to use, execute your spousal loan documents. The loan is a private arrangement between spouses and legal documentation should be retained by your lawyer or safely filed at home (you

do not need to provide a copy to your Investment Advisor). It is recommended that both spouses retain copies of the documents.

- 6. CONSIDER OPENING AN INVESTMENT ACCOUNT** – Contact your RBC DS Investment Advisor to open the Borrower's investment account and start to save tax. It is recommended that you open a new, separate, non-registered account in the Borrower's name so that the principal loan and income earned on the investments can be easily tracked and reported for tax purposes. Principal and any subsequent loans should be made in cash, not with a direct transfer of securities to ensure the loan is considered a bona-fide loan with the CRA. You may wish to consider consolidating your non-registered assets from other institutions with your Investment Advisor at RBC DS to fund the demand loan.
- 7. RENEW THE PROMISSORY NOTE ANNUALLY** – Ensure that the spousal loan is maintained by renewing your promissory note as required in your province. As a best practice, you may wish to consider renewing the note on an annual basis to ensure it remains a legally binding document.
- 8. PAY INTEREST ANNUALLY** – The Borrower is required to pay interest to the Lender on an annual basis within 30 days of year-end. If insufficient interest (or other consideration) is received for the loaned assets, the CRA will simply attribute any investment income earned by the assets back to the Lender and it will be taxed at the higher marginal tax rate. This attribution will be required for both the calendar year just passed, and also all years going forward if the annual payment of interest requirement is not met. As a best practice, you may wish to consider the Borrower sign a letter of direction on an annual basis and transfer the interest owed from the Borrower to the Lender.
- 9. REPORT INTEREST PAID AND INTEREST EARNED** – The CRA requires interest paid and interest earned to be reported annually on each spouses' individual tax return. Work with your tax advisor to ensure interest is properly reported and begin calculating your annual tax savings achieved through the Spousal Loan Strategy.
- 10. INVEST TO REACH YOUR GOALS** – The end goal of the Spousal Loan Strategy is to shift income earned on non-registered assets to the spouse with the lower marginal tax bracket and maximize your family's tax savings opportunities. Investment income, dividends and capital gains are all taxed in the Borrower's hands and the required payment of the prescribed interest rate must be accounted for when determining the Borrower's investment return. Depending on your risk tolerance, a conservative investment strategy may be appropriate in achieving investment growth in the current market environment

that exceeds the prescribed interest rate set at the time the loan was established.

New investment solutions offering various levels of risk exposure are now available through the RBC DS Access and Parameters Programs. These new mandates, in addition to several other investment strategies offered through RBC DS, may be suitable for your objectives. Please contact your Investment Advisor to discuss the investment solution most appropriate for you.

For further information on the Spousal Loan Strategy, please contact your RBC DS Investment Advisor.

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