

The Navigator



Wealth
Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



Aaron Fennell, MBA, CFA
Investment Advisor
aaron.fennell@rbc.com
416-313-6397

RBC Wealth Management
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com
866-605-3295

Income from joint accounts held between spouses

It is often assumed that spouses can split income earned in a joint account equally or in whatever way minimizes their overall tax bill. This is not the case. In general, each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have each contributed to the account.

This article looks at income tax rules that apply to the reporting of income, including interest income, dividends and capital gains from a joint account with the right of survivorship. Knowing the rules can avoid potential problems and penalties.

Proportionate tax reporting

Income earned in a joint account held between spouses must be reported based on how much each spouse contributed to the account, or 'attribution rules'. The attribution rules are designed to prevent certain income splitting between non-arm's length persons, including spouses. Under these rules, income earned from property transferred (including gifts or sales) or loaned to a spouse, is considered to be income of the spouse making the transfer, not the spouse receiving it, with the following exceptions:

- Where there is a sale of property, if the transferee spouse pays fair market value for the property using their own funds and the transferor elects to report the sale at fair market value on their tax return, there is no attribution.
- Where there is a loan of property, if the borrowing spouse pays

interest at a rate at least equal to the Canada Revenue Agency (CRA) prescribed interest rate each year, there is no attribution. This is commonly known as the spousal loan strategy. Speak with your RBC advisor for more information regarding this strategy.

Tax slip reporting

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

For example, the tax slip may be issued to you even though you only contributed a portion of the funds or never contributed any funds to the joint account. Your spouse, who contributed funds to the account,

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would also 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 is the case, you may want to speak with your qualified tax advisor to determine if reporting the appropriate amount of income on your tax return in the following manner makes sense in your specific situation:

- Attach the original tax slips issued in your name to your individual income tax return but do not report the full amount of income appearing on the slips.
- Provide the CRA with a brief explanation of the reason why you are only reporting your proportionate share of this income. If you did not contribute to the account, your proportionate share would be zero.

- Provide your spouse with a copy of your tax slips in order for them to report their proportionate income on their tax return. Your spouse will need to 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 filing electronically, the above considerations still apply. Retain your copy of the tax slips and your explanation in your own files in case the CRA asks for the information at a later date.

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:

$$\frac{\$1,000 \text{ (his share)}}{\$5,000 \text{ (total)}} \times \$400 \text{ (total interest)} = \$80$$

Sally reports \$320 interest, calculated as follows:

$$\frac{\$4,000 \text{ (her share)}}{\$5,000 \text{ (total)}} \times \$400 \text{ (total interest)} = \$320$$



Joint accounts cannot be used by you and your spouse to achieve income splitting.

Capital gains and capital losses

If an asset is sold within a joint account, the joint account owners must report their portion of the gain or loss. The reason behind the sale does not affect reporting requirements. For example, let's say your spouse wishes to withdraw cash (or "pull out their share") from a joint account to which you contributed 80% of the capital. In order to fund their withdrawal, or to pull out their 20% from the joint account, an asset has to be sold in the joint account. The sale of this asset triggers a capital gain which cannot be solely claimed by your spouse simply because they withdrew their proportionate share of the account. Instead, the capital gain must be split between you and your spouse according to the proportion of funds each has contributed to the joint account. In this example, 80% of the capital gain would be taxable in your hands while 20% would be taxable in your spouse's hands.

Withdrawals from the joint account

If one of the joint account holders withdraws funds from the joint account, it is important to factor this withdrawal in determining the proportionate tax reporting going forward. The proportion of future income that should be reported by each spouse should be recalculated if either party makes a withdrawal from the account.

Conclusion

Joint accounts cannot be used by you and your spouse to achieve income splitting. For example, you and your spouse cannot arbitrarily split the income 50% each, solely on the basis that it is a "joint" account. You also cannot choose a ratio to report on your respective tax returns each year to optimize your tax savings. Each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have contributed to the account. Consult with a qualified tax advisor if you have any further questions on the tax reporting requirements for joint accounts held by spouses.

This article may contain several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and/or legal advisor before acting on any of the information in this article.

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