Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES

Income from joint accounts held between spouses

Please contact us for more information about the topics discussed in this article.

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, 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.

Income earned in a joint account held between spouses must be reported based on how much each spouse contributed to the account.

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 12100) 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:

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

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.

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

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.

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 WMFS) and Royal Mutual Funds Inc. (RMFI). *Member-Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, 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 WMFS 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 Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. 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 investmet advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, 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 licence. © 2020 Royal Bank of Canada. All rights reserved. NAV0036 (12/17)