Wealth Management

RBC Wealth Management Alpha Series

Spousal Loan Strategy

Exploring and quantifying the concept of "wealth management alpha" — the incremental benefit that's added to your financial situation when recommended strategies are implemented.

Jennifer – The Accomplished Professional

Jennifer has built a $2 million non-registered investment portfolio to her name. She's concerned that she's paying high taxes on her portfolio's growth, and wonders if there's a way to shift this investment income to her lower-income spouse, Tom.

Assumptions: 6% rate of return. Time frame of 25 years (age 40 to 65). CRA prescribed interest rate: 2%. Jennifer has a taxable income of $300,000+ and her spouse has a taxable income of $100,000.

Option A — Status Quo

Jennifer continues to hold the non-registered investment portfolio in her name, and pays taxes on the growth of the portfolio for the next 25 years. In the final year, the portfolio is sold off and converted to cash, resulting in a final after-tax balance of $5,033,709 for the couple. Jennifer will also need to continue claiming the full investment income for tax purposes.

Here's an overview of Option A over time:

Year	Opening Balance	Income and Growth	Tax Payable	Ending Balance
1	$2,000,000	$120,000	$39,775	$2,080,225
2	$2,080,225	$124,814	$41,370	$2,163,668
3	$2,163,668	$129,820	$43,030	$2,250,458
...				
23	$4,751,130	$285,068	$94,488	$4,941,710
24	$4,941,710	$296,503	$98,278	$5,139,934
25	$5,139,934	$308,396	$414,621	**$5,033,709**

Option B — Spousal Loan Strategy

Here, Jennifer lends $2 million to Tom at the CRA prescribed interest rate of 2%, after which he invests those funds in his name. After 25 years, the portfolios are converted to cash, the taxes on the dispositions are paid and the Spousal Loan is repaid, resulting in an after-tax balance of $5,406,360.

Here's how this option unfolds:

Tom's Portfolio / Jennifer's Loan Balance

Year	Tom's Portfolio: Opening Balance	Income and Growth	Interest Expense	Tax Payable	Ending Balance	Jennifer's Loan Balance: Opening Balance	Income and Growth	Interest Received	Tax Payable	Ending Balance	Net Family Balance
1	$2,000,000	$120,000	$40,000	$14,258	$2,065,742	—	—	$40,000	$21,400	$18,600	$2,084,342
2	$2,065,742	$123,945	$40,000	$15,297	$2,134,389	$18,600	$1,116	$40,000	$21,770	$37,946	$2,172,335
...											
24	$4,534,375	$272,062	$40,000	$54,324	$4,712,113	$682,029	$40,922	$40,000	$34,964	$727,987	$5,440,101
25	$4,712,113	$282,727	$40,000	$295,253	**$2,659,587**	$727,987	$43,679	$40,000	$64,894	**$2,746,773**	**$5,406,360**

Results

Option A results in a $5,033,709 portfolio under Jennifer's name. Option B results in a $2,746,773 portfolio for Jennifer, and a $2,659,587 portfolio for Tom — a total of $5,406,360 for the family. Not only will the family have $372,651 of additional funds, they also now have individual portfolios and will have the advantage of splitting the investment income going forward.

This is a *wealth alpha* of more than $370,000 and the benefit of paying lower taxes as a family.

To learn more about why RBC Wealth Management is right for you, please visit rbcwealthmanagement.com.

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