

Income Splitting Getting Tougher

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Residents of Ontario who are in the highest tax bracket will typically pay tax at rates of roughly 23 per cent on capital gains, 46 per cent on interest income, 28 per cent on dividends from public companies, and 32 per cent on dividends from private companies.

Generally, if this investment income is split among one's spouse and minor children, it is subject to tax at far lower rates. The people who crafted the Income Tax Act are well aware of this opportunity. So, for many years, the Act has contained provisions known as the "attribution rules," which essentially provide that where money is transferred to one's spouse or minor children, the income will be attributed back to the transferor and tax will be paid at that person's (higher) rate.

An exception to the attribution rules exists, however, for loans at the prescribed rate of interest.