Thank you very much.

Thank you for having me. Happy to be here.

I don't have very much time.

I think I've crammed a little bit
too much into this, presentation

as as I possibly could, but,
if we go to the next slide,

we'll just take a quick
look at the agenda.

I want to do three things.

Overall, I want to give an overview

of what income splitting
actually means in Canada.

I want to talk about what the CRA does
and the tools

that they have to limit our ability
to do income splitting.

And I want to talk about
what opportunities still exist

for Canadians to do that.

So if we go over to the next slide,

actually you can jump ahead, another
slide, we'll talk about the fundamentals

of income splitting.

So in Canada all Canadians

effectively file
their income tax return separately.

Technically we do file

jointly between spouses.

But this really only has one purpose.

And it's to share
certain types of tax credits.

We don't amalgamate
a sort of family income if you will.

Each family member earns their own income.

I'm really sorry about that.

I think I got booted out, but,
hopefully it doesn't happen again.

Sorry about that.

So as I was saying, each family
member, records their own income

and pays their own separate income tax.
Effectively.

Income splitting is designed
to transfer the tax burden

of certain types of income,
typically passive income from a higher

marginal tax rate family member to a lower
marginal tax rate family member.

Generally,
this is something that's going to be done

by shifting the ownership of assets
around.

This doesn't happen in all cases,
but predominantly this is the strategy.

Now the CRA obviously wants us
paying as much tax as possible.

And so they've developed attribution rules
to try and prevent us

from,
limiting our tax as much as possible.

Alternatively, the

industry and we have developed
specific strategies

that we know work within those rules
as a way to help shift that tax burden.

So the most important thing
is you take nothing else

but this away from the presentation
is that these income splitting strategies,

they do require long time
horizons to be properly implemented.

I think we have to make sure
that we're taking advantage of those large

income disparities within families
for as long as possible.

To see the best possible benefits.

So if we go to the next slide,

attribution rules
apply differently depending on

who is involved in the,
transfer of property.

So I've broken it down into three
sections.

On the next slide,

we'll talk about attribution rules
that apply between personal transfers.

These are between people.

So attribution rules apply
when one person gifts

or loans property to a related individual
to earn passive income.

And when we're talking about loans
I have there on the slide

you can see no or low interest loans.

What a low interest loan is.

It's a loan
that is, that has an interest rate

that is below
the cra's prescribed interest rate.

And we'll talk a little bit more
about prescribed interest rates

a little bit later. But keep that in mind.

So, it just for our own purposes,
I'm going to call it a bad loan.

To explain sort of the attribution
rules here.

So when you're transferring
or when you're gifting or making

these sort of bad loans
to a spouse, investment income,

which would include interest,
dividends, rents, for example,

and capital gains are all attributed back

to the person
who made that original transfer business.

Income, on the other hand,
would not be subject to attribution.

So you can give your money,
your spouse money,

and they can go and invest in their own
little business or big business,

and they can earn business income
without that being attributed back to you.

With minors, on the other hand,
only investment income

is attributed back
and capital gains are not attributed back.

That's a huge difference.

And it's a very important distinction

that again,
we'll we'll touch on a little bit later.

So keep that in the back of your mind
with adult children.

Attribution rules don't typically apply
unless there's again that bad loan.

And in that

case it
would only apply to investment income.

So if we go to the next slide,
we'll see that the CRA

can be pretty crafty at times.

And they don't want us using trusts
as a way to avoid those attribution rules.

So all of those rules that I just

mentioned
that apply between personal transfers,

they also apply if you try and interpose
a trust into the mix.

But there's also an extra level of
attribution rules that apply with trusts.

And we call those the super attribution
rules.

These rules are specifically designed
to stop high income

earning individuals
from putting money inside of that trust.

Having another group say other family
members earn income on that money,

and then allowing them to effectively
take that capital back later on.

If these rules apply.

So if the super attribution

rules apply to a particular trust,
the entire trust is tainted

and all of that income and capital gains
are attributed back to that contributor.

Until that contributor effectively dies

or becomes a nonresident of Canada
or the trust is wound up.

So it's pretty punitive.

We want to make sure that
we're avoiding these rules,

as much as we can.

And then

if we go to the last or the next slide,
we'll see the last type of attribution.

In Canada,
we also have corporate attribution rules.

Again, we can't try and sidestep
our normal attribution

rules
by using a corporation in the middle.

These rules are quite broad as well,

and they effectively apply
if someone is transferring property

either by gift or loan, to a corporation
where the other shareholders

would be a spouse or minor child.

These rules, though,
that apply to corporate attribution,

they apply to passive
income earned inside the corporation.

There's different rules

set for active business,
which we'll talk about in a few slides.

You might have heard of these are called
Tosi or tax on split income.

So I want to be clear.

The corporate attributions
are separate from Tosi.

And they typically only apply
to passive income.

So we would see these being applied
in cases of investment holding companies.

But if we move on

we'll start talking about the different
strategies that are available.

For us.

And so the first thing I want to talk
about is the prescribed rate loan

and so on.

The next slide, you'll see that

prescribed rate
loans are somewhat complicated.

So I don't think I'm gonna have
enough time to go too deep into this.

These types of strategies.

But they were very popular,
especially pre 2022

when the prescribed interest rate
was much lower.

Their current prescribed
interest rates 3%.

And the prescribed interest rate
changes on a quarterly basis,

or it comes up for renewal,
I should say, on a quarterly basis

because they're based on the 90 day
t-bill rates.

And so the lowest rate
that we can have is 1%,

and we saw 1% rates
for quite a while, pre-pandemic.

Because the general rates were quite low.

As I mentioned, now it's at 3%,

so it's relatively higher.

It could obviously go much higher.

But these prescribed interest rates matter

because as I was talking about before,
when we have a low interest,

loan, what that refers to is

any interest rate below
what the cra's prescribed rate is.

So if I were to have a loan
between my spouse and I, for example, for

2%, that would still be considered
a low interest loan today.

My, if if I wanted to have a prescribed
rate loan strategy between my spouse

and I, then I would have to have
at least a 3% interest rate.

And so we see two different versions
of this strategy.

The first is a direct loan to a spouse.

We call that the spousal loan strategy.

The second

option would be a loan to a family trust.

Now, you can also have your spouse
as a beneficiary of the family trust.

But typically with family trust,
what we see the beneficiaries would be

minor children.

Again,

this strategy allows the high income
earning person.

I, typically a parent to shift
that investment

income
that they would otherwise earn themselves

through the family trust
or through the spouse alone.

And we can multiply the marginal rates,
the low marginal rates,

to soak up that investment income.

However,
because the current rate is quite high,

there is an alternative strategy
that a parent might want to,

entertain.

If their risk tolerance is there.

And we'll talk about that in a second.

But what we can do is intentionally
make a no interest loan to a family trust.

This would trigger the attribution rules.

And you might be thinking,
why would we want to do that?

But remember,

as I said, capital gains

earned by minors on a no interest
loan aren't attributed back.

So if we have a risk tolerance
for a full growth portfolio,

all capital gains all the time,
then this could be an option

to split with minors
in today's high interest environment.

The other thing

I want to mention about prescribed rate
loans is that compliance is key.

We have to make sure that one, we're
setting up the correct documentation

for the loan. And for settling the trust.

But we also want to make sure
that we're abiding by

the very strict rules
about interest payments.

Interest payments
must be made by January 30th

if they're even made on January 31st,

one day later.

The whole plan,
the whole strategy becomes moot.

And attribution rules
start to apply going forward.

There's no way to rectify it.

You have to wind up the loan effectively.

So it's very important
to stay on side with these rules.

Now if we go to the next slide

we'll talk about income
splitting through active business.

So I can go one more slide. Yeah.

And so when we're talking
about active business

there's a very good straightforward
way to split income.

And that's to pay salary.

If we're employing family members
we can pay them salary.

The problem is that those family members
one actually have to work

for the business.
They can't not be working.

And two, salary has to be reasonable.

This is the reason why I can't pay
my four year old 50,070 $5,000

to sweep the floor, when in fact,
all they would do

is come in on the weekend
and play with their toys on the floor.

So, you know it has to be reasonable.

But what we do have family members who
are, employed and working in the business.

There are some pros
and some cons to the strategy.

There is added compliance.

If we're paying people salary,

we have to worry about the added cost
of CPP and high premiums.

But one thing that's overlooked often
is that the recipient does

get to build RSP room.

And if we're talking about young adults,

possibly our

children, contributing to an RSP does
two things.

One, it defers the tax on that salary.

Until they ultimately withdraw it
in the future.

And two, it also builds up

where income or money that they can use

for the homebuyers plan as part of a,

a down payment for a home
or even the lifelong learning plan

to help facilitate
paying tuition for, university or college.

So, salary is a good option
if the person's able to work.

There's
also the option of paying dividends

if the family members
own shares of the corporation.

However,

the issue with dividends is tosee.

And so if we go to the next slide,

we'll talk about tosee
a little bit more in depth

tosee your tax on split income
is the new version of kiddy tax.

Kiddy tax was around a long time ago
for quite a while.

To avoid effectively business owners
paying their children dividends

and then effectively
taking that money back and having it taxed

at a lower rate
so that the family would have more money.

The same,

concept applies here.

We don't want
or the CRA doesn't want business owners

paying their family members dividends
without being involved in the business.

When Tosi applies, that means someone
has received what we call split income,

which usually refers to dividends,
but it could also refer to interest,

certain types of capital gains
and even shareholder benefits,

and the impact of receiving those payments
from a related company or a company

that's operated by a related person
is that the,

they'll be taxed at the highest
marginal rate on those dividends.

And so you might thought
that you were paying dividends to a lower

marginal rate individual, but
we don't have that, benefit any longer.

So if we go to the next slide, we'll talk
about two very important things.

The first is
that we have a concept of excluded income.

And that includes capital gains
on the sale of shares.

There is still a very good reason
to give our minor

children shares in our company,
if we expect to sell it in the future.

And that's because we're allowed
to multiply the lifetime capital gains

exemption. That is a huge tax savings.

If your corporation's worth enough

and you have enough children
to sort of eat into that, capital gain.

The other exception to tosee is,

as I was sort of alluding to,
if your family members

are involved in the business either
actively by working or financially

by through share ownership,
then we can also avoid tosee that way.

And the beauty of that is that there's

no limit on the amount of dividends

someone can receive
if we're avoiding tosee.

So that's a really good way
of splitting active income.

If we go ahead, we'll talk about
some income splitting strategies

that apply more in retirement scenarios.

The first one I want to talk about
is pension income splitting.

I like to say that it sort of comes in
two flavors, either eligible or qualified.

We don't need to get into
the definitions of this.

The takeaway here is that
depending on the age that an individual

is either pre 65 or post 65,

that sort of
puts them into one of two buckets.

And it that sort of determines what type
of pension income is eligible to be split.

But assuming someone's qualified
and the income that

they're receiving qualifies to be split.

The main takeaway is that when one spouse
is receiving pension income,

they can split up to 50% of that
with their other spouse,

regardless of the other spouse's age.

They don't need to be retirement age.

So common examples of

qualifying income would be a defined,
defined benefit pension plan payment

or superannuation payment,
or also risk income payments.

What doesn't qualify

when a lot of people don't realize
is that RSP withdrawals do not qualify?

So if you want to get the pension

income splitting,
you have to convert to the risk first.

If we go to the next slide,

pension income splitting is quite simple.

It's done
as an election on your tax return.

And in fact, you actually don't even need
to give your spouse the money.

You can just burden them with the
the added tax,

taxable income, but not actually have
to share the funds with them.

I don't know if that's a nice thing to do,
but, that's one way to go about it.

So we oftentimes see this strategy,

being used
when one spouse maybe was the breadwinner.

The other spouse, might have been a stay
at home, parent or homemaker,

where there's a huge disparity
in the retirement

funds that have been allocated
or amassed over the years.

It can
make a lot of sense to split this income,

especially in your mid to late 60s
with, with rips, for example.

But it also may even make sense to defer
the other spouse getting OAS or CPP

to keep their income as low as possible
and utilize those marginal rates.

You also get the added benefit of,
deferring your OAS

or CPP
and getting larger benefits that way.

If we go to the next slide,

I want to talk about a different strategy
that's similar in nature.

And we call this the spousal P
or the spousal risk.

This isn't an alternative to the
traditional pension income splitting.

I always say that this strategy requires
a lot of planning ahead.

You need to make sure
that you're filling up an RSP

and you're making you need to have enough
runway to avoid the attribution.

I'll explain what I mean by that.

So the way it works is that let's say
we have high income earning spouse, A,

that spouse would use their own RRSP
contribution room.

They would contribute to an RSP
in favor of the low income earning spouse.

And after that attribution window,
which is three years following the last

RSP contribution, the lower income spouse
would be able to withdraw those funds.

I personally like this strategy

because it allows for spouse
B to withdraw the money a lot sooner,

and the household doesn't
need to wait for spouse eight

to turn 65
to have that qualified pension income.

It also doesn't require a spouse
who may be a high

and high income earning individual
well into their 60s or 70s

to receive pension income
and push up their own personal income.

So it's a lot more flexibility with this.

And so if we go to the next slide,
I'll give a quick example where,

you know, spouse age

can contribute to a spousal RSP from,
let's say ages 40 to 50, for example.

So we have a decade of putting money

into a spousal RSP.

If spouse B is a homemaker
and my previous example

and not earning any taxable income.

Spouse B can start to access that money
in their early to mid 50s,

and that allows the family
to have access to that money much sooner.

Again,

we have to be

cognizant of the fact that this was meant
to be retirement income.

So the rest of the, you know,

spouse needs to make sure that
there is still enough income out there,

or wealth amassed to pay for retirement.

But this could be a good way
of getting more money into circulation

in the family
at a lower marginal tax rate.

I have two more really quick strategies,

very simple strategies
if we go to the next slide.

So we have to say taxes are great
because attribution doesn't apply to them.

Because there's no income
that's applied to them.

The simple strategy here is that
for the high income earner in the family,

you fill up your your family member's
TFSA with gifts.

The downside is that if the recipient,

they have full control over the gift.

So if they don't want to leave the money
in the TFSA,

they can go and withdraw it the next day.

You kind of need to have some, sense of,

family planning, and everyone
needs to be on board with that.

If we go to the next slide, this isn't,

significant for most people,
but I like to mention it.

It has to do with CPP,

equalization.

So CPP doesn't get split
the same way as other pension income.

If you want to split your, your CPP,

you have to call Service Canada
and do what's called an equalization.

Now, there's a lot of criteria
to qualify both partners

in the relationship need to be,

applying for CPP.

But if there is a large disparity,
you know, for example,

one spouse maybe took a number of
years off to raise the kids.

And that

might mean that
their CPP benefits are a little bit lower.

What we can do is we can from again
from the source from Service Canada,

we can reduce the payment to the higher
income, recipient, and we can lower

or we can raise the income
from the lower, income recipient.

And that way it sort of flattens out.

Again, it's not a huge amount of money,
but it's something to keep in mind.

So the last topic I want to talk about,
if we skip ahead to slides,

is up the missing tax

because of asset allocation.

Oh can we skip ahead a few slides.

I'm not sure if it's frozen but

so I'll speak to it anyway.

We want to be investing with our tax

preferred accounts
like ours and our own TFSA.

Obviously.

Thank you.

One more slide.

And then

obviously, at some point in time, high

income

individuals
are going to max out those accounts,

and we're going to have to start
investing in non-registered accounts.

We should be rebalancing the portfolio

to optimize the tax
when we make the withdrawals.

And what I mean by that is,
I think best illustrated with an example.

So for example, fully
taxable income from like a GIC or a bond.

So we're talking about interest in this
case it's better earned inside of an RSP

because it would be fully taxable
if it was earned your non reg account.

And when you withdraw from your RSP
it's going to be fully taxable.

But something like a dividend for example.

That wouldn't be fully taxable.

Dividends are tax preferred
because we have the dividend tax credit.

And so earning a dividend inside of an RSP

a Canadian dividend dividend
that is inside of an RSP.

When it comes out it's going to be taxed
as if it was just interest income.

So we're losing the benefit
of that, dividend tax credit.

So we need to we should be mindful of,

how best to

optimize the tax on the way out
when we actually need that money.

Now, obviously,
this is sort of a guideline.

I'm not suggesting that for people
who have large

Rs piece, that whole thing
should be invested in a GRC.

You have to

it's not a one size
fits all, fits all solution,

I think is the best way to describe it.

But thinking about these guidelines
and trying to optimize

as best as possible,
keeping your capital gains

in a non-registered account, or maybe even
a TFSA would make a lot more sense.

So keep that in mind.

And with that, we'll skip ahead to slides.

And I just want to say last conclusion.

So income

splitting is still possible
in today's high interest tax environment.

It's a little bit less, easy to do
I think, than, again, pre-pandemic.

But as long as we're mindful
of the attribution rules and we understand

the strategies to avoid them,
they are still opportunities.

The last thing I will say
is to also consider adding,

life insurance.

Canadian
life insurance is a very unique product

because once you filled up
all your registered accounts

and you're investing
in a non-registered account,

the only other opportunity
to have tax exempt

growth during your lifetime
is with Canadian life insurance.

And you also get the benefit of a tax
free death benefit for your beneficiaries.

So there is a lot, to, to like
if it works for you.

So please speak to a licensed insurance
advisor and see if it makes sense.