How to minimize taxes with your spouse

Four strategies for saving effectively together

As Registered Retirement Savings Plan (RRSP) season nears the contribution deadline (first sixty days of each calendar year), Canadians across the country are trying to determine how best to invest and ways to save more on taxes. (Remember: the RRSP can potentially reduce the amount of money you'll owe to, or increase the refund you get from, the Canada Revenue Agency (CRA)).

That said, while traditional RRSPs make sense for most Canadians, for married and/or common-law couples that pool their income and have one high earning and one lower earning spouse, there may be additional ways to mitigate your family's tax hit.

We've compiled the following four CRA-approved strategies to help you save effectively, together.

Open a spousal RRSP

This registered account would be opened in the lower-income spouse's name, but the higher-income spouse is the one who contributes. The contribution amount is based on the high earner's contribution room and for that reason, the investment reduces that person's tax hit. But while the higher earner will receive the contribution receipts, withdrawals get taxed in the lower earner's hands.

This method only works if the money in the account has been invested for more than three years. If funds are withdrawn earlier, then the higher earner would have to pay any taxes.

While the spousal RRSP help couples maximize their tax deferral right now, it also helps equalize retirement savings between them—especially if the higher earner also has an RRSP of their own. Both spouses can then withdraw money in retirement and pay less tax per person than if the main income earner had to make all the withdrawals from their individual RRSP.

in a low bracket, you could get some of the withholding taxes back when you file your return.

Use Tax-Free Savings Accounts

Tax-free savings accounts (TFSAs) don't offer the same upfront tax savings as RRSPs since TFSA contributions are done with after-tax dollars, but over time, they too can lower your household's CRA bill. If the higher-earning spouse has maxed out their contribution for the year, and if the lower income spouse doesn't have any funds of their own to contribute, the former can put more money into the latter spouse's TFSA. Both pools of capital can then grow tax free and be withdrawn at any time—now or in the future—without tax liability.

Consider a spousal loan

When it comes to non-registered investments, minimizing your household taxes is more complicated, but it's not impossible. Say the higher-income spouse invests $500,000 in assets that produce an income of $25,000 a year. That spouse would have to pay taxes at their top marginal rate on those earnings, plus capital gains whenever they sell any stocks or funds.

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To mitigate the tax hit, the higher-income spouse can loan money to the lower-income spouse and have them purchase those assets. They would have to charge interest on the loan—the rate is set by the CRA on a quarterly basis—but now any income, dividends, or capital gains generated by the investment are taxed at that person's marginal rate. The higher-earning spouse only pays tax on the loan interest they receive from their significant other. (Simply giving the money to the other person in this situation doesn't work—the higher earner will still have to pay taxes on the earnings the assets generate.)

A spousal loan only works if the investment's income **exceeds** the interest paid, but that may hold true in most situations. You will need legal and financial advice to set one up, but for wealthier families it can produce significant tax savings, especially over many years.

Claim charitable receipts

Another way to reduce the family's tax burden is to have the higher-earning spouse claim the family's charitable tax receipts. That doesn't mean the lower-earning partner can't be philanthropic—they can still give in their own name. When it comes time to submit the receipts though, one person can claim all the donations. You want to put it on the higher earner's taxes as they'll receive a bigger deduction per dollar donated.

As with anything related to taxes and investments, it's a good idea to talk to an accountant and financial advisor before making any moves. That way, once you've honed your strategic approach, you can better help boost your portfolio and reduce your family's taxes as a team.