

# money MAKERS

Ideas & Tips to Enhance Your Bottom Line

## HOW YOU CAN SAVE TAX THIS YEAR BY LENDING TO YOUR FAMILY

*Interest rates are at their lowest levels in decades. The current low interest rate environment provides a unique opportunity for clients to save tax by arranging family loans and income splitting with family members. For the period between January 1 and March 31, 2002, the prescribed rate of interest set by the Canada Customs and Revenue Agency is 3% for loans to family members. This rate is likely to be renewed for the next quarter, but the low rate cannot last forever.*

Income splitting, in its simplest form, means shifting income that would be taxable in the hands of a high-income person to a family member whose income is significantly lower. There are two major benefits to be achieved by making a loan at the prescribed rate of 3% to a family member, such as a spouse or child. They are:

1. the income generated by the loan is not attributed to the lender, as long as the interest on the loan is paid within 30 days after the end of each year, and
2. as long as the loan is made at the prescribed rate, the rate is fixed for as long as the loan is outstanding and the interest is paid.

Consequently, it is possible for the interest earned in excess of 3% on the loaned money to

be taxed at the family member's lower tax rate. For example, if you lend \$100,000 to your spouse at the current prescribed rate of 3%, and your spouse earns a 5% return on these funds, the 2% difference in interest earned (\$2,000) will be taxed at your spouse's lower tax rate.

Everyone's financial and tax situation is different. The income-splitting strategy discussed above needs to be properly structured and documented in order to obtain the maximum benefits for the taxpayer. This strategy should only be undertaken with the benefit of professional advice. In order to determine if this strategy is appropriate for you, contact your Wilkinson & Company LLP Client Services Partner today.

The commentary contained in Money Makers is not intended, nor should it be relied upon, to replace specific professional advice. We recommend that readers consult their professional advisors regarding issues raised in this publication.



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