

Income splitting and other pre-election tax breaks

October 30, 2014

With the federal election just one year away, rumours of pre-election tax breaks in light of a projected budget surplus for 2015, appear to be coming true.

On October 30, 2014, the federal government announced a number of proposed personal tax measures with income splitting being the most significant one.

Income splitting

The government is proposing to allow income splitting for couples who have children under the age of 18, effective for the 2014 tax year. The higher-income earning spouse or common-law partner will be able to transfer up to \$50,000 of income to the lower-income earning spouse or common-law partner each year. Tax savings will be capped at a maximum of \$2,000 per year per family and will be provided as a non-refundable tax credit. This measure (with the exception of the \$2,000 cap) was first announced in 2011, and its implementation was made contingent on the government first balancing the budget.

The proposed measure, the so-called Family Tax Cut, will only benefit those couples with minor children where there is either one income-earner or where there are two income-earners where one spouse or common-law partner is subject to a lower marginal rate of tax than the other. For example, assume Dave earns income of

\$200,000 per year and is, therefore, subject to the highest marginal federal rate of tax, at 29%. His wife, Marsha, earns income totalling \$45,000 and is subject to a much lower federal marginal tax rate. Dave can transfer \$50,000 of his income to Marsha, so that it will be notionally taxed in Marsha's hands at a lower rate.¹ Although the actual reduction in the overall combined tax liability for the couple in this case would normally be more than \$2,000², the tax savings allowed would be capped at \$2,000, as a non-refundable tax credit³. The credit will be able to be claimed by either person, but not both.

Other measures

The government also announced the following proposed measures:

- The Universal Child Care Benefit will be expanded from \$100 per month per child for each child under the age of 6, to \$160 per month. In addition, a new benefit of \$60 per month per child will apply for each child between the ages of 6 and 17. This measure will go into effect for the 2015 tax year, and will begin to be reflected in

¹ Mostly at 22%

² After non-refundable tax credits are claimed by each.

³ Provided certain conditions are met.

monthly payments to recipients in July 2015. The July 2015 payment will include up to six months of benefits to cover the January to June 2015 period. However, the existing Child Tax Credit⁴ is to be eliminated.

- The maximum Child Care Expense deduction will increase by \$1,000 per child, effective for the 2015 tax year⁵.
- The government already announced, earlier in the month, the doubling of the Children's Fitness Tax Credit. The maximum amount of eligible expenses that may be claimed under the credit will be doubled from its current \$500 limit to \$1,000 (for a maximum federal credit of \$150 per eligible child⁶) for the 2014 tax year and subsequent tax years, and the credit will be made refundable effective for the 2015 and subsequent tax years.

The Family Tax Cut income splitting proposal represents a significant personal tax change. Whether it applies for more than the 2014 tax year remains to be seen. The federal Liberal party had already announced before that if they win the next election and form the next government, they intend to repeal this measure.

Contact your Grant Thornton tax adviser for further details about these proposed tax measures and how they could impact you and your family.

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⁴ The existing child tax credit for 2014 is \$338.25 (\$2,255 x 15%).

⁵ Maximum to increase to \$8,000 from \$7,000 per child under age seven, and to \$5,000 from \$4,000 for each child age seven to 16 (and infirm dependant children over age 16), and to \$11,000 from \$10,000 for children who are eligible for the Disability Tax Credit.

⁶ Child must be under 16 years of age (or under 18 years of age if eligible for the disability amount) at the beginning of the year in which the eligible fitness expenses are paid.