

Tax Tip
Week of February 9, 2009

Loans to Family Members

The attribution rules require that if an individual loans or gifts money to a spouse or child under the age of eighteen, any investment income, other than capital gains, is considered to be income of the individual that transferred the money. The attribution rules do not apply if the transferor charged the prescribed rate of interest on the loan. CRA sets the prescribed rate of interest quarterly and the rate for the first quarter of 2009 is 2%. There are numerous investments, including GIC's that are paying a rate in excess of 2%. Thus, we have a unique income splitting opportunity as the higher income spouse can loan money at 2% and the spouse or minor child can re-invest the funds and receive a rate of return in excess of the loan rate. The spouse or minor child would include the investment income in their income tax return.

It is important that the interest on the loan be paid by January 30, 2010.