

Tax Tip
Week of July 27, 2009

Use TFSA's to Avoid Attribution Rules

The attribution rules are designed to prevent family income splitting strategies. If a spouse loans or gifts funds to the other spouse to invest, the capital gains or other investment income would be included in the income of the spouse who made the transfer.

Example

- a husband loans \$5,000 to spouse who earns \$400 in the first year of the investment. Although the wife owns the \$400, the husband must include the amount in his taxable income

With the introduction of the Tax Free Savings Accounts in 2009, the husband could have contributed \$5,000 to his spouse's TFSA and the attribution rules would not apply. In fact, not only is the \$400 not included in the husband's income, but is never taxable due to its inclusion in the Tax Free Savings Account. Even upon the eventual withdrawal of the funds, the amounts will not be taxable

Tax Free Savings Accounts should be one of a family's primary strategies to offset the application of the attribution rules.