



*Be well-advised.*

The Canada Revenue Agency has announced that on April 1, 2018, the prescribed interest rate under the Income Tax Act will increase from 1% to 2%.

Individuals who would consider splitting income with family members as a method of reducing their overall family tax burden should review, before the end of March, the potential suitability of incorporating a “prescribed rate loan” into their planning in order to lock in the current 1% rate.

## Alert: Prescribed interest rate set to increase – April 1, 2018

### ► PRESCRIBED RATE LOANS – THE STRATEGY

Prescribed rate loans typically involve a higher-taxed individual lending funds to a lower-taxed spouse or common-law partner for investment purposes. In order to be effective under the tax rules, the loan must bear interest at a rate of at least the prescribed rate. However, once the arrangement is established the initial rate will continue to apply for the duration of the loan, thus any prescribed rate loans set up before the rate doubles to 2% on April 1, 2018 can be locked in at 1%.

Once the loan is made, the higher-taxed individual would pay tax on the prescribed rate interest income received on the loan while the spouse or common-law partner would pay tax at his or her lower marginal rate on the resulting investment income (after deducting interest paid). To the extent that the income earned on the investments is greater than the interest paid on the loan, a measure of income splitting would be achieved.

*For example, Brian enters into a \$1,000,000 prescribed rate loan arrangement with his spouse Sylvie in March 2018, while the prescribed rate is still 1%.*

In following years:

- Brian would pay tax at his higher marginal tax rate on \$10,000 of interest payments received from Sylvie
- Sylvie would pay tax at her lower marginal rate on \$15,000 of investment income (assuming a 5% return in the form of capital gains (50% taxable), her total investment income would be \$25,000 less the deductible interest of \$10,000 that she paid to Brian).

As a couple, tax savings would result from having \$15,000 of investment income taxed in Sylvie’s hands at her lower tax rate instead of being taxable to Brian at his higher rate.

If instead, the couple struck their arrangement following the prescribed rate increase to 2% on April 1, 2018, Sylvie’s interest payment to Brian would double to \$20,000 (instead of \$10,000), leaving \$5,000 to be shifted to Sylvie (instead of \$15,000 if the arrangement was made in March at 1%).

**Various investment, tax and legal considerations should be carefully reviewed before proceeding with a prescribed rate loan arrangement. Your Assante advisor can help you assess the impact on your personal finances or business affairs. The resources available to you and your advisor include Assante Private Client’s Wealth Planning Group, a multi-disciplinary team of accountants, lawyers and financial planners.**

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