Spousal RSPs: share the wealth and save taxes

Income-splitting among married couples is no easy feat within today's tax rules. A notable exception, however, is the spousal RSP.

This income-splitting method enables a husband or wife to direct all or part of his or her maximum contribution to a plan belonging to his or her legally married spouse and claim a deduction from income.

"A spousal RSP is one of the few tools you can use to achieve income splitting," says Paul Speziali manager, Royal Bank. "It's an excellent way to assure tax savings both immediately and during retirement — especially if either spouse will have substantially less retirement income."

"Another advantage is that the spousal RSP may help your spouse become eligible for the pension income tax credit," Speziali says.

While a spousal RSP can be used to split income prior to retirement, the rules are set up to discourage using it this way. Contributions to a spousal plan must stay in the plan for three years after the last contribution (the balance of the year during which the last contribution was made plus two years), otherwise, withdrawals will be attributed to the contributing spouse for tax purposes.

The ultimate goal of a spousal RSP is to create two equal streams of income once you've both retired — each taxed at a moderate rate, rather than one at a high rate and one at a low rae or not at all.

A spousal plan should be separate from any other plan to which your spouse may contribute. However, if you are contributing to two plans (yours and a spousal plan) it doesn't mean you can contribute twice as much.

For example, if you are entitled to the full $11,500 limit for 1991 and you invest $5,000 in a spousal plan, you could only put up to $6,500 into your own plan.

However, you can continue to contribute your maximum limit to a spousal plan after the end of the year in which you reach age 71, the age at which you can no longer contribute to your own plan, as long as your spouse is under age 71 and you have qualifying earned income.

Individuals with pension income may roll over up to $6,000 of a company pension plan or deferred profit sharing plan periodic payments into a spousal income for each taxation year until 1994. The funds do not need to be transferred directly from the plan to the spousal RSP. The payment can come directly from the pensioner.

The deadline for 1991 pension rollovers is Fenruary 29,1992. Remember, the $6,000 must be used each year or it's lost; it cannot be carried forward.

Spouse's property

One fact you should be aware of is that contributions to a spousal plan are the property of your spouse. In the event of marital breakup, the money remains your spouse's property, unless a court orders otherwise.

"As with other RSP options, the sooner you begin contributing to a spousal plan, the better off you'll be in years to come," says Royal Bank's Paul Speziali. "And if you can make your contributions early in the year rather than waiting until the last minute, you can come out even further ahead."

Moneycare

Teach your children well

Sweating under the collar — both blue and white — seems to be the order of the day for Canadians edgy about the economy. As plants shut down and corporations slim down, more and more families are facing financial problems. There are tough money decisions to be made.

In the course of making those decisions, most families keep their children in the dark. If, instead, parents would take the time to shed a little light on the family's financial situation, their children would not only feel more secure, they would learn valuable lessons about handling money.

Next time you sit down to pay the family bills, try including your older children. Give them an overall idea of the family's monthly expenses and point up some specific expenses, such as groceries or cable television, which affect them directly. Also show them what portion of your monthly or annual paycheque goes into savings, giving them a percentage, rather than a specific dollar figure. The point of the exercise is not to worry or bore them, but to inform them. After all, one of the reasons that many adults are not good at finances is that no one ever took the time to teach them.

Younger children can learn about money in a number of ways. If your 10- year old thinks he can't live without a particular brand of running shoes but you are unwilling to pay the $100 bill for them, try working out a deal: If you kick in half, he could earn the other half through doing extra chores around the house or the neighborhood. When you help your children establish goals, they will learn about planning.

If your child receives a gift of money, take the time to discuss options. If the money is spent now, what will it buy? If it is put in the bank, perhaps along with allowance, earnings from chores or other gifts of money, what will it buy later? Explain how savings earn interest. Another option might be for your child to take a portion of the gift money or earnings to spend now while also putting a portion of it in the bank.

Let your child make his or her own decision. If she decides to save her money, have her deposit it in the bank herself so that she learns to fill out deposit slips, deal with tellers and up-date her passbook. Feeling confident at the bank and knowing how to make smartmoney decisions will pay off throughout her life.

And, don't forget that children are as apt to give as to spend. Almost all children collect for UNICEF or enter bike-a-thons or walk-a-thons. Introduce them to the concept of donating their own cash by letting them know you give to charities, too.

Moneycare is advice by Canada's chartered accountants. Lorraine Bell is a self employed financial consultant.

Canadians will pay heavily if the nation breaks up

Allan R. Taylor, Chairman and Chief Executive Officer, Royal Bank, today warned if a majority of Canadians continues to believe the break-up of the country would involve only minimum costs, Canada is in danger of joining the "march of folly" that has led many other nations to ruin or decline.

Taylor was addressing the 123rd annual general meeting of Royal Bank shareholders. It was the third successive address to an annual meeting in which he has stressed the need for unity.

Taylor also: argued at length why it would not prove to be feasible for Canada and an independent Quebec to share a common currency and concluded that nothing would do more to improve the economy than acceptance of a viable plan for keeping Canada together.

Believing that a break-up of the nation would be relatively easy and without cost, "is not just a dangerous delusion; it is a real-world impossibility," Taylor said. "...the costs of a break-up would be huge and long-term, and paid by everyone in Canada : No-one would escape lightly; no-one would fare well."

Taylor said he was disturbed by recent polls, One of which finding that well over 50% of Canadians outside Quebec believe the economy of a Canada without Quebec would remain unchanged or stronger. Partisan floundering has led too many Canadians to turn off their minds and close their hearts, he said.

"Too many have unthinkingly accepted the agendas of groups whose policies, if implemented, would mean the ultimate destruction of Canada," said Taylor. "It requires no constitutional expertise to see that many assumptions in this debate are simplistic nonsense."

Taylor pointed out that the assumption that two smaller, much less viable new countries could easily renegotiate the existing economic structures is not a credible scenario. Suggestions that it would be easy to replace or renegotiate the automobile agreement, the U.S.-Canada Free Trade Agreement, the defence production-sharing agreement, the proposed North American Free Trade Agreement, the St. Lawrence Seaway Treaty, plus the NORAD and NATO agreements, and participation in the General Agreement on Tariffs and Trades is simplistic nonsense. "But nonsense of a kind that destroys nations," he said.

A second economic consequence already damaging the country is the uncertainty engendered and perpetuated by the unity debate, Taylor added. International investors eventually lose confidence in Canada, Domestically, businesses, governments and individuals put off investment decisions. "This slows economic recovery. It affects the livelihoods of all Canadians."

Turning to the currency issue, Taylor suggested political separation would result in the emergence of two weaker regional currencies "from the rubble of one of the world's strongest currencies."

He disagreed with the notion that Canada and an independent Quebec could share the Canadian dollar. "A currency is underpinned by factors beyond monetary policy and control of the central bank. It is also supported by fiscal policies, and policies on foreign trade and investment, and policies regulating financial institutions, and policies on the payment systems.

"No self-respecting state could, for long, tolerate another state unilaterally controlling these key policies," Taylor said. "Common sense tells us this form of neocolonialism is not what any sovereign country would want or could long tolerate."

Taylor said, the Canadian dollar, in its new form would be supported by a greatly weakened national economy. It would lose the international respect and reliability it now enjoys. "Canada and Quebec would have less ability to finance growth, development, jobs, environmental initiatives and social needs."

In this weakened economic structure, Taylor singled out pension funds, with their dependence on Canadian securities, as being among the hardest hit.

Another step in this march of folly would be the resulting inability of Canada's fiscal structure to

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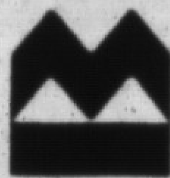

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