

# Pay less taxes – contribute to a spousal RRSP

When one spouse earns more than the other, or both spouses earn the same amount but one has a pension plan at work and the other doesn't, an imbalance in the amount of income each spouse is saving for their retirement may result.

If one spouse has accumulated significantly more money than the other, that spouse will be drawing a higher income at retirement and paying income tax at a higher rate.

Reducing the family tax bill is simple: the higher income earner should have directed all or a portion of their RRSP contributions to an RRSP in their spouse's name.

This is called income splitting using a spousal RRSP.

The goal of income splitting is to ensure both spouses have an equal amount of money to draw from at retirement.

By shifting money from the higher income earner, you are reducing that spouse's tax rate and thus, paying less overall tax.

The tax deduction for contributions made to a spousal RRSP is taken by the original spouse, but the RRSP is owned by the other spouse (the owner).

Total RRSP contributions to a personal or spousal plan can not exceed the contributor's

annual limit.

### Hints and Tips:

- Common-law spouses (two people of the opposite sex who have lived together longer than a year) can also take advantage of spousal plans.

- You can still make a contribution to a spousal RRSP if you are over age 69 under two conditions: your spouse's age is less than 69 and you still have RRSP contribution room.

- Your spouse does not have to earn any personal income in order to set up a spousal plan.

- A spouse can have two RRSPs – personal and spousal.

### Caution: Tax Trouble Ahead

If you are saving money in a spousal RRSP just so you can then withdraw it at your spouse's lower rate, be warned: You may be heading for tax trouble. If you contribute to a spousal plan in the year of the withdrawal or two years preceding it, the contributions you have deducted during those years are added back to your income and tax in your name.

Special rules apply on death, separating or

if the funds are used to purchase an annuity or transferred to a Registered Retirement Income Fund.

*This article was submitted by Brian J. Evans Financial Services.*

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### Managing Risk

Familiarizing yourself with risk can help you develop a sound asset allocation strategy. Two types of risk are investment and inflation.

Investment risk is the chance that your portfolio will lose value due to a market decline. Asset allo-


cation can reduce this risk, as a decline in the value of one asset class in your portfolio may be offset by the rising return of another, resulting in lower variability. Investment risk also tends to diminish with longer holding periods.

Inflation risk – the risk that rising prices will reduce the purchasing power of your savings – can mean you won't have enough money to retire.

Due to inflation (measured by the consumer price index), the value of \$1 in 1976 is now worth about 45 cents. To fight inflation risk, consider including growth investments, such as stocks, in your portfolio.

*This article was submitted by Dwayne Noble at Money Concepts in Uxbridge.*


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