Efficient Taxation:

The more money you make from work or investments, the more taxes you pay. It is as simple as that but taxation is not. You need specific advice on how to take advantage of all the tax strategies available to achieve efficient taxation. Here are some tips on how to do this...

Make a loan to your spouse: Couples can reduce the impact of tax on passive income from investments by spreading the wealth around using a loan from the higher income spouse to the lower income spouse for investment purposes. The borrowing spouse invests the money and pays interest back to the spouse who lent the money. Although both have to declare the interest, the lower-income spouse can deduct the interest cost against income because it's being used to invest, provided that the money is a non-registered, taxable account producing income, such as dividends.

At the same time, the income generated from the invested money is taxed at a lower rate than it would be in the hands of the higher-earning spouse. The Canada Revenue Agency's prescribed rate for these types of loans is 1 per cent so the impact should be less than the taxes that would be owing if high-income-earning spouses were to invest the money themselves.

Diverse income sources are better: Diversification is as good for managing income tax efficiently as it is for investing. And just like investing, the earlier you start the better.

Not all earnings are taxed at the same rate. So you can, over the long term, build significant, taxable-investments generating dividends and capital-gains income on top of fully taxable income from pensions and RRSPs. This reduces taxes and helps reduce the impact of clawbacks to Old Age Security income.

Purchasing a whole life insurance policy is another way to diversify income. You can purchase a whole life insurance policy to create a tax-free wealth source for your estate. The premiums can be high, but the benefits can be used to cover taxes on other assets.

Get answers to these questions:

1. Has your financial advisor reviewed the tax efficiency of your compensation structure with you?
2. Are you using income-splitting effectively to reduce taxes?
3. Are you spending too much time and money on the preparation of investment tax returns?