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-- Vern Krishna ... -- Many people live in family units, sometimes with a father, mother, and young children. However, for most purposes, people are liable for tax on their personal income. Since tax rates increase as income rises, the amount paid by a single-earner family is considerably higher than would be payable by a two-earner family with the same total income. ... -- To be sure, there are various methods of income splitting among family members in order to reduce the overall tax burden. Most of the techniques, however, are sophisticated, involve professional fees, and are subject to strict anti-avoidance rules. As a result, only high-income taxpayers can take advantage of plans that involve share capital structures, for example, to

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To be sure, there are various methods of income splitting among family members in order to reduce the overall tax burden. Most of the techniques, however, are sophisticated, involve professional fees, and are subject to strict anti-avoidance rules. As a result, only high-income taxpayers can take advantage of plans that involve share capital structures, for example, to reduce taxes.

Anti-avoidance rules govern transfers of property to spouses, children under the age of 18, and other family members in non-arm's-length relationships. For example, a broad rule taxes lenders on income from property that they lend to any non-arm's-length borrower if the motive is to reduce or avoid tax.

Since dividends are eligible for the dividend tax credit, adult children can receive substantial dividends without tax. The dividend tax credit wipes out any potential tax liability on the income. Thus, a family with three adult children attending university could, for example, pay no tax on nearly $90,000 of dividend income in the year.

However, the rules for splitting dividend income with minors are more difficult. A special tax of 29 per cent—the highest federal rate—applies to the minors' income as if they were in the top tax bracket. The latest budget expands the tax to apply to capital gains as well. More ominously, the government says it intends to monitor the effectiveness of the tax on split income and "will take appropriate action if new income-splitting techniques develop."

Taxation of individuals as separate taxpayers penalizes spouses who don't work outside the home. Allowing a family to split its taxes between the members of the immediate family would recognize the economic unit and contribution of stay-at-home parents to the family. To be sure, the tax statute allows patchwork income splitting by, for example, allowing for spousal registered retirement savings plans under which higher income spouses can contribute to their partner's RRSP that may be taxable at a lower rate when they take out money from the plan. Still, we could simplify the *Income Tax Act* if we removed other prohibitions against income splitting among family members.

The tax system does an about face when it comes to collecting taxes from families.

If an individual gifts property to a spouse, both of them become jointly and severally liable for any tax owing at the time of the gift. The liability is equal to the shortfall between the value of the property gifted and the amount received for the property.

The rule, which appears innocent on the surface, is quick-sand for divorcing spouses. For example, assume that in 2011, John, a businessman, buys a country home for $200,000 and puts the property in his spouse Mary's name. Following a reassessment of his taxes in 2013, the Canada Revenue Agency claims that John owes additional business taxes of $200,000 for 2011. In 2015, John separates from Mary and emigrates to a warmer climate with his new friend. The CRA will come after Mary for the $100,000 and throw her out of her house to get its money. There's no time limit on the CRA's power to assess Mary.

The election of a majority government is an opportunity for leaders to make difficult decisions. The rules against splitting income are tax policy hangovers from the era of bell-bottom pants. As a result, the government should update them. Taxation based on the family unit would be fairer tax policy. If properly implemented, it will simplify tax law, case administrative compliance, and reduce litigation, all with reasonable revenue loss.

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