THE GLOBE AND MAIL

CESTNICK

TAX MATTERS

Getting married? Make sure you understand the tax and financial implications

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Our son Win got married on the weekend to Sarah. I had a conversation with him before they left on their honeymoon, explaining that he needs to get good at answering questions. I told him that, according to comedian Jerry Seinfeld, being a husband is much like being on the television game show Jeopardy.

For example, I told Win not to be surprised if Sarah wakes up one morning and says: "I'll take details of a 10-minute conversation we had at three o'clock in the morning two years ago for $500. And I would like to bet everything I have on that." I then told Win that there won't be any winning that game show. The good news? Winning the tax game is much easier. I then went on to explain how his new marital status is going to affect his taxes and personal finances. Let me share the key points today.

1. Let CRA know your marital status. Under the law you're supposed to let the Canada Revenue Agency (CRA) know when your marital status changes. You have until the end of the month following the change in your status to do this. Win and Sarah were married on June 14, so they have until July 31 to let CRA know. You can do this by logging into My Account online and making the change there, by calling 1-800-387-1193, or by sending CRA a completed Form RC65, Marital Status Change.

2. You now have one principal residence exemption. Each family unit, which consists of spouses and any unmarried children under age 18, is entitled to fully shelter from tax one principal residence if you own more than one that overlap for more than one year. If you each bring a residence into the marriage and hold them for a few years, you won't be able to fully shelter both properties from tax on any capital gains. If you want to shelter both homes fully from tax, you'll need to sell one of the properties either before you get married, or no later than the tax year in which you get married. The rules are complex – so speak to a tax pro.

3. Maximize your tax credits. If you're married and one spouse doesn't need certain tax credits to reduce their taxes to zero, it may be possible to transfer the credits to the other spouse. This includes the age, disability, tuition, pension and Canada caregiver credits.

You might also be entitled to the spousal amount tax credit if your spouse has a low income. When it comes to medical expenses, they're best combined and claimed on the lower-income spouse's tax return, while donations should be combined and claimed on one spouse's tax return (either return will do).

4. Take advantage of a spousal RRSP. Preparing for retirement should start now. While you may be able to split eligible pension income in the future if you have a pension plan at work, taking advantage of a spousal RRSP can still make good sense in your saving years. A spousal RRSP is a plan to which you can contribute (within your usual RRSP contribution limits) but your spouse will face the tax on withdrawals if you plan things properly. See my article from Feb. 21, 2024, for more.

5. Look at your insurance planning. Once you're married, don't forget to update your existing insurance policies to ensure your spouse is covered. I'm thinking of car insurance, home or tenant's insurance should cover your spouse's belongings too, and your workplace group benefits plan should be updated to include your spouse. Also, if your premature death will cause your spouse or other dependants financial hardship, consider buying life insurance to provide cash that can generate income if you're gone.

6. Split income with your spouse. In a perfect world, you and your spouse will have equal incomes throughout your lifetimes because this will result in the least amount of tax owing as a couple. There are several ways to shift income from one spouse to the other, which is known as "income splitting." You could, for example, lend money to your spouse for investment or business purposes. There's much more to say on this topic, so I will dedicate my article next time to sharing some ideas.

7. Create or update your will. If you become legally married, you should create or update your will. Any assets that you leave to your spouse on death will be deemed to be sold at your original cost amount, so no taxes will be owing. This should be your first line of defence against the taxman in your estate planning. Even if you're not legally married, but live in a common-law relationship, speak to an experienced lawyer about any obligations you might have to your common-law spouse.

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