



CESTNICK

TAX MATTERS

Get your finances in order before year-end to save tax in 2026

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I'll admit that I'm not the best at choosing gifts for my wife. Unless I'm buying her diamonds – which is always a hit – I usually fail miserably. But I've got a great idea for this Christmas: the gift of tax savings.

I'm setting things up so that we'll save about \$5,000 next year thanks to some income splitting. Splitting income takes planning, so why not get your affairs in order before year-end to save tax in 2026? Here are the top ideas to consider.

Lend money to your spouse

On Jan. 16, I wrote about lending money to your lower-income spouse and charging the prescribed rate of interest on the loan. Today, that rate is 3 per cent and it looks like this rate is set to continue into the first quarter of 2026. If you charge this rate on a loan and your spouse pays the interest by Jan. 30 for the prior year's interest charge, your spouse can invest the borrowed money and avoid the attribution rules which can otherwise cause the income earned

on the lent funds to be attributed back to you. A proper spousal loan can enable your spouse to pay the tax instead, so consider setting up a loan before year-end to split income in 2026. See [my article from Jan. 16 for an example.](#)

Create second-generation income

Suppose you want to lend or give money to your spouse to invest, but you'd rather not charge interest on the loan. You can still avoid the attribution rules if your spouse earns income on the amount you've lent and then earns income on that income – which we call second-generation income. So, consider making a loan to your spouse before year-end and take any income earned by your spouse each month and move it to a separate investment account. Any income earned in that separate account will be taxed in your spouse's hands and not attributed back to you.

[Tim Cestnick: Splitting income with your spouse can save big tax dollars if done properly](#)

Swap assets with a family member

Splitting income is all about moving income to a family member who will pay tax at a lower rate than you. If you own income-producing assets, consider moving some to a lower-income family member before year-end in exchange for other, non-income-producing assets of equal value (such as jewellery, or your spouse's half of the family home, provided he or she paid for it). Since your family member has "paid" for the income-producing assets by giving you assets of equal value that aren't generating income, your family member will pay the tax on any income earned in his or her hands after the swap.

Be aware that transfers to implement this idea take place at fair market value, so a tax bill could result if the transferred assets have appreciated in value. You might consider delaying the transfer until January if some tax might be owing on the transfer (this pushes the tax bill to 2026). Visit a tax pro to talk over this idea to do it right.

Have the higher-income spouse pay expenses

If you and your spouse have different levels of income and are in different tax brackets, consider planning now for the higher-income spouse to start paying more of the household expenses in 2026. This will free up the income of the lower-income spouse to invest. Any taxable investment income earned can then be taxed in the hands of the lower-income spouse at a lower rate.

Arrange for a splitting of CPP benefits

If you and your spouse are in different tax brackets, and at least one of you is collecting or has applied for CPP benefits, consider splitting these benefits so that up to half can be taxed in your spouse's hands. This CPP-sharing arrangement is reciprocal so that half of your spouse's CPP benefits, if any, will be taxable in your hands. But if you're in different tax brackets, this can save you tax as a couple. Consider applying for this sharing of benefits before year-end by contacting Service Canada which you can do online through your My Service Canada account and completing Form ISP1002, Application for CPP Pension Sharing of Retirement Pension(s).

[Yes, couples can income-split the CPP – in a way](#)

Invest in a minor's name

You can use some of your money to invest in the name of a minor child or grandchild by setting up an in-trust account for the child before year-end. Any capital gains (but not interest or dividends) earned in the account will avoid the attribution rules and will be taxed in the child's hands. Focus on capital growth in this case.

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