RBC Global Asset Management

What You Need to Know

TAXES AND INVESTMENT PLANNING

Most Canadians take advantage of tax sheltering within a Registered Retirement Savings Plan (RRSP) or through the tax-free benefits of a Tax-Free Savings Account (TFSA). However, outside of registered accounts, tax efficiency plays a key role in building wealth.

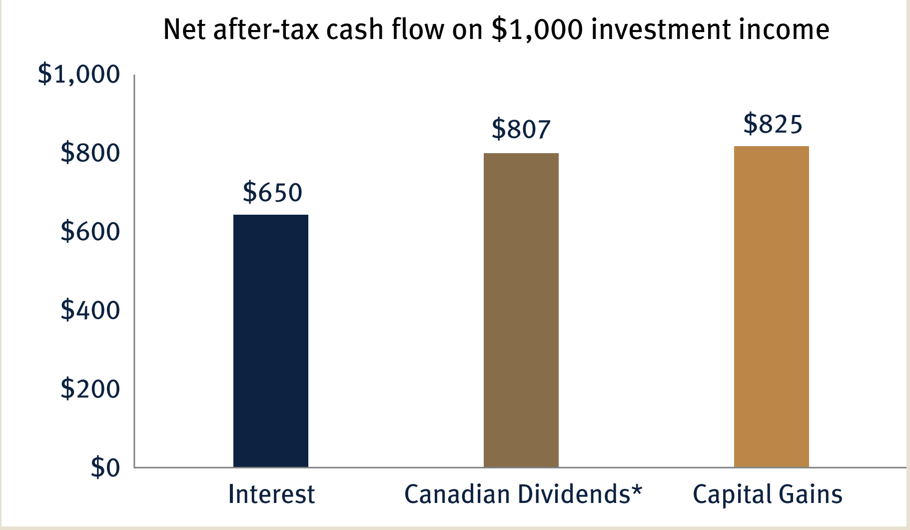
Not All Income Is Taxed the Same

Income from your investments can come in various forms, the most common of which include interest, dividends and capital gains. These income types are taxed differently by the Canada Revenue Agency. For example, like wages, interest income typically earned on such investments as Guaranteed Investment Certificates (GICs) or savings deposit accounts is taxed at an individual's highest marginal tax rate, making it the least efficient form of investment income.

By contrast, dividends paid on stocks issued by eligible Canadian corporations receive more favourable tax treatment since this type of income benefits from the federal dividend tax credit. In other words, dividend income is more tax-efficient than interest income, which ultimately means that investors in dividend-paying investments keep more of what they earn after taxes.

Capital gains materialize when you sell your investment for a higher price than what you paid for it. This difference is recognized as taxable income. As highlighted in the chart below, similar to dividend income, capital gains also receive relatively favourable tax treatment since only half of the capital gain is subject to taxation. Dividends and capital gains are typically earned on equity investments.

It's What You Keep After Tax That Matters



Assumes a 29% marginal tax bracket.
* Represents eligible Canadian dividends with a federal tax credit of 15.02%. Provincial credits also apply.

KEY MESSAGES

- Tax efficiency is a key consideration in maximizing investment returns after taxes.
- Dividends and capital gains receive preferential tax treatment relative to interest income.
- Building an effectively diversified portfolio with tax efficiency in mind is a key way to building wealth and accelerating growth over time.

WHAT'S YOUR AFTER-TAX RETURN?

After-tax returns illustrate your investment returns minus taxes. Simply put, if the one-year rate of return on an investment is 8% and an investor had a marginal tax rate of 35%, then the after-tax rate of return would be 5.2%.

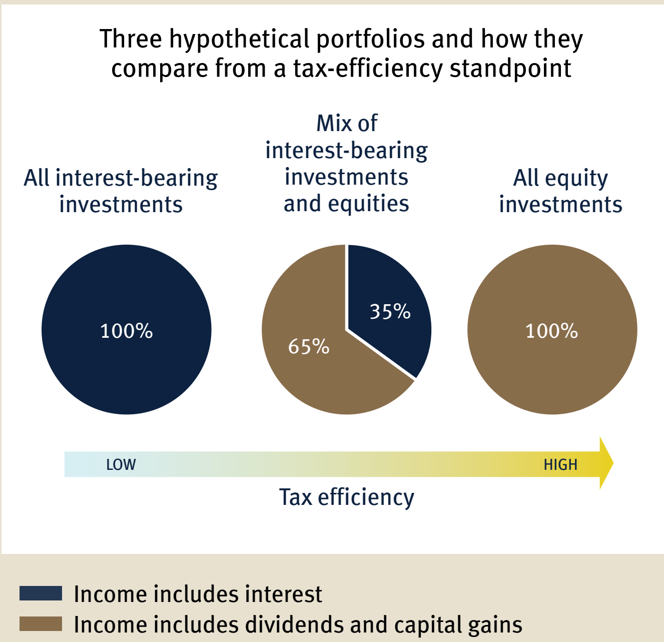
Tax Efficiency in Investment Portfolios

Achieving tax efficiency within an investment portfolio is not just a strategy for people who need cash flow today. If your investment plan includes long-term goals, like a comfortable retirement, minimizing the amount of taxes you pay on your investments can have a tremendous impact on your portfolio over time. That is why building an effectively diversified portfolio – one that includes the appropriate mix of cash, fixed income and equities according to your investment objectives – is key to building wealth and accelerating growth over time.

The types of investments you own and whether you hold them inside of or outside of registered plans (RRSPs and TFSAs) can have a bearing on the tax efficiency of your overall portfolio and, ultimately, on your ability to achieve your financial goals.

The following table provides a brief description of some of the different types of distributions that investors may receive from mutual funds and how each type is taxed.

How Tax-Efficient Is Your Portfolio?



How Mutual Fund Distributions Are Taxed

Type of Distribution/ Description	Tax Treatment	Mutual Fund Example
Interest Earned on investments such as treasury bills and bonds	Fully taxable at the same marginal tax rate as employment income	▪ RBC Canadian Money Market Fund ▪ PH&N Canadian Money Market Fund
Canadian Dividends Occurs when a fund invests in shares of Canadian public corporations that pay dividends	Preferential tax treatment for individuals through the federal dividend tax credit	▪ RBC Canadian Dividend Fund ▪ PH&N Dividend Income Fund
Capital Gains Realized when an investment within a fund is sold for more than its original price	Preferential tax treatment, as only 50% of a capital gain is taxable	▪ RBC Canadian Equity Fund ▪ PH&N Canadian Equity Fund

Speak with your advisor today about whether your investment portfolio is tax-efficient and about solutions that can help you to achieve your long-term goals.

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47090 (02/2014)