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Helping you help your family while reducing taxes

The RBC Dominion Securities Family Trust

Giving children every opportunity to achieve their full potential is something all of us want as parents or grandparents. Whether it's ensuring they receive a quality education, or encouraging their artistic or athletic interests, we all want the very best for our children.

One way you can ensure the children in your family have the best opportunities to fulfil their potential is to establish an RBC Dominion Securities Family Trust. Through a Family Trust, you can provide funds for your children's benefit, while at the same time alleviating your family's overall tax burden.

Who should consider an RBC Dominion Securities Family Trust?

An RBC Dominion Securities Family Trust may be appropriate if you:

- Are a high income earner
- Possess surplus capital personally that you want to try to protect from your high personal tax rate
- Have children or grandchildren who have little or no income
- Would like to assist your children or grandchildren with non-deductible expenses such as private school tuition, post-secondary education and extracurricular activities

- Wish to provide support for aging parents or relatives
- Wish to try to reduce your family's overall tax burden through income-splitting strategies recognized by the Canada Revenue Agency (CRA)
- Want to have access to the capital you fund to the trust

Reducing your family's taxes

A Family Trust can enable you to minimize your family's overall taxes because, when properly structured, the investment income (interest, dividends and/or capital gains) earned within the trust may be taxable to your children or grandchildren. Every child or



grandchild in Canada who has no other income can earn up to a certain amount of investment income tax free every year. To take advantage of this annual tax-saving opportunity, without giving up access to your capital, you can establish an RBC Dominion Securities Family Trust.

The benefit of using a properly structured family trust is to allow income that would be taxed at your high tax rate to be taxed at your lower-taxed family members' tax rate. This is known as income splitting, and the greater the difference in tax rates between you and your family members, the greater the benefit will be.

How income splitting can help you minimize taxes

In order to understand how income splitting works, it is important to understand a few basics of Canada's tax system:

1. Canada's tax system uses graduated rates that increase as your income increases. The higher your taxable income, the higher a rate of tax you will pay.
2. Every taxpayer in Canada is entitled to a basic personal amount (varies by province) that reduces the taxes they have to pay.
3. Any taxpayer that has no other sources of taxable income can earn the following amounts annually without having to pay tax:

- Interest income up to their basic personal amount; or
- Capital gains, up to two times the basic personal exemption as only 50% of capital gains are taxable; or
- Even higher amounts of eligible Canadian dividend income due to the dividend tax credit.

Instead of paying tax on the income from your excess investments at your high tax rates, a properly structured family trust can allow you to have that income taxed at your family member's lower tax rates. This can result in substantial tax savings every year.

There are a number of tax rules that prevent improper income splitting. Therefore, you should consult with your qualified tax advisor.

Retaining your capital

If you loan money to the trust, you can call the loan at any time and never lose access to your capital.

Funds can be loaned to the trust without interest but it is generally advisable to charge at least the CRA-prescribed rate to avoid the income attribution rules.

Although the trust agreement gives the trustees the ability to make a distribution of capital from the trust, the trustees should take care not to pay out capital to ensure sufficient

Investment income earned in the trust can be used to pay for expenses that directly benefit the child or grandchild, such as private school, post-secondary education, lessons and camps.

funds are available to repay the loan to the lender.

Loan options and attribution rules

When you loan monies to the trust on an interest-free basis, there are attribution issues that should be considered. If your spouse is a beneficiary of the trust, it will not be possible to tax any income earned in the trust in her hands. The income will either be taxed in the trust at the top marginal tax rate or be attributed back to you and taxed in your hands. If your children or grandchildren are the beneficiaries of the trust, regardless of whether they are minors or not, it will only be possible to tax capital gains in their hands. This defeats the main purpose of income splitting and the reason for setting up the trust in the first place.

If you loan monies to the trust and charge at least the CRA-prescribed interest rate, then all the investment income (interest, dividends and capital gains) earned within the trust can be taxable to your beneficiaries. The trust must pay the interest to you annually which you will include in your income.

Generally, the loan interest is much less than the investment income. In order for the investment income to be taxed in the beneficiaries' hands, the trustee must allocate the investment income earned in the trust to the beneficiaries prior to the trust's tax year-end (i.e. December 31).



If you are a high-income earner, and you can transfer some income to low-income family members, who can potentially realize substantial tax savings every year.

The first step is for the trustees to sign a resolution on or before December 31 allocating the income of the trust to the beneficiaries. The investment income must then be paid or made payable to the beneficiaries. This can be done by either distributing the income to the beneficiary (or the parent of the beneficiary, in the case of a minor child) or reimbursing a parent for certain expenses they paid that directly benefit the beneficiary. The CRA allows investment income used to pay for expenses that directly benefit a minor beneficiary to be taxed in their hands.

There is no official list of expenditures that qualify as directly benefiting the child. However, according to the CRA, qualifying expenditures can include amounts paid for the support, maintenance, care, education, enjoyment and advancement of the child, including the child's necessities of life. If you use trust income to pay for expenses that benefit the child, you must properly document the expenses and retain all receipts.

Some types of expenses that may qualify include:

- Private school fees
- Lessons
- Camps
- Sports equipment
- Gifts

If you plan on using the trust's income to pay for a beneficiary's expenses, the expenses must unequivocally benefit the beneficiary. Payments benefiting someone else or used for ordinary household expenses will result in adverse tax consequences.

To avoid dipping into the trust capital, it is generally preferable for parents to pay the child's expenses and then have the trustee reimburse the parent for those expenses that the trust has income for.

The trust's investment income can also remain in the trust but still be taxed in the beneficiaries' hands. The income must be made payable to the beneficiaries by issuing them a promissory note that evidences the amount owing to them.

Note that any investment income earned in a properly structured trust that is not paid or payable to a beneficiary will be subject to tax in the trust at the top marginal tax rate, thus achieving no income-splitting benefits.

Choosing the right option for your family

To meet each family's specific needs, RBC offers a Discretionary Family Trust (immediate family or extended family version) and an Age 40 Trust. The beneficiaries of the Discretionary Family Trust immediate family version only include your spouse, children and grandchildren (and lineal descendants). The beneficiaries

of the extended family version include your parents, siblings, nieces and nephews. The Age 40 Trust only allows you to name one beneficiary. The Age 40 Trust provides the trustees with more control over the distribution of income that has been allocated to the beneficiary prior to the age of 21.

Consult with your tax and legal advisors

As the RBC Family Trust is a formal legal trust, the trustees need to ensure that annual tax returns with respect to the trust are filed and tax slips for the income allocated to the beneficiaries are sent to them. In addition, they need to ensure interest on any loans to the trust is paid or on before January 30 each year. Tax preparation services for the trust are offered by RBC Royal Trust.

Please make sure you consult with your legal or tax advisor before setting up the RBC Dominion Securities Family Trust. We recommend that you review all trust and loan documents with your legal and tax advisors before establishing an RBC Dominion Securities Family Trust to ensure it meets your needs. It is also recommended that the trustee(s) consult with their tax and legal advisors to discuss their responsibilities as a trustee and any record-keeping requirements associated with administering the trust.



Any investment income paid or made payable to the beneficiary is taxed in their hands, subject to the attribution rules, at their lower tax rate.

Find the right trust option for your family

	Family Trust – discretionary	Family Trust – Age 40
Type of beneficiaries	<ul style="list-style-type: none"> Immediate Family Trust: spouse, children and grandchildren Extended Family Trust: spouse, children, grandchildren, parents, siblings, nieces and nephews 	Any one individual
Maximum number of beneficiaries per trust	No maximum	One
Minimum initial contribution	\$50,000	\$50,000
Contributions	Irrevocable gift or demand loan – interest-free or at CRA-prescribed rate	Irrevocable gift or demand loan – interest-free or at CRA-prescribed rate
Contributor's access to capital	If contributor loans money to trust, then full access to loan capital	If contributor loans money to trust, then full access to loan capital
Attribution of income earned in the Trust to contributor if child/grandchild is the beneficiary	<ul style="list-style-type: none"> If funded by CRA-prescribed rate loan: No attribution on interest, dividends or capital gains. If funded by gift or interest-free loan: no attribution on capital gains. Attribution on interest and dividends. 	<ul style="list-style-type: none"> If funded by CRA-prescribed rate loan: No attribution on interest, dividends or capital gains. If funded by gift or interest-free loan: no attribution on capital gains. Attribution of interest and dividends.

If you are looking for a way to help your children while enjoying important tax advantages, the RBC Dominion Securities Family Trust may be the right choice for you. Please contact your Investment Advisor for more information.