RBC Dominion Securities Inc.

Wade Wealth Report

FOR THE CLIENTS AND FRIENDS OF PORTFOLIO MANAGER FRANK WADE | SPRING 2014

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REDUCING YOUR FAMILY'S TAX BURDEN

Every child or grandchild in Canada that has no other income may be able to earn up to a certain amount of investment income tax-free every year (varies by province). A family trust can be established to take advantage of this annual opportunity and it can be structured so that the parent or grandparent still has access over the monies used to fund the trust. Furthermore, the trust income can be used to pay for various expenses of the child such as private school fees, lessons and camp costs.

This strategy takes advantage of the fact that every person in Canada, regardless of age, has a tax-free basic personal exemption amount (varies by province). This means a family member (regardless of age) that has no other income can earn up to a certain amount tax-free every year, subject to the attribution rules.

You should consider this strategy if:

- You have accumulated significant non-registered assets
- You have children or grandchildren with little or no taxable income
- You are incurring expenses for your children or grandchildren (this is not critical to the strategy)

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Key benefits include reducing family income taxes, retaining access to capital and paying for expenses that benefit your children.

Strategy in Action

There are several ways you can legitimately reduce your family's tax bill, including different income-splitting strategies.

The Strategy: Income-Splitting with a Family Trust

You can decrease the total taxes paid annually by following the steps below:

1. Establish a Family Trust with the advice of a legal and tax professional.† Your spouse alone, or you, your spouse and a trusted third individual are named as trustees and your children are beneficiaries.
2. Make an interest-free loan or prescribed rate loan to the Family Trust. Bear in mind that interest and dividend income earned by the trust will be attributed back to you as taxable income if an interest-free loan is made – but capital gains will not. If making a prescribed rate loan, all investment income, interest, dividend income and capital gains will be taxed in the hands of the beneficiary.
3. Invest the loaned funds. Subject to the attribution rules previously mentioned, the investment income generated should be taxable to your children, either tax-free or at their much lower tax rate. These earnings can then be used to meet your children's particular needs or expenses.
4. A child with no other income can earn approximately $10,000 of interest income, $20,000 of capital gains or $30,000-$45,000 of Canadian public company dividend (amounts vary by province) tax-free every year. This saves you tax every year per child compared to if you earned the investment income (depending on your top marginal tax rate).

Reduce Your Tax Bill with a Family Trust

The following example illustrates how a Family Trust can help you reduce your family's tax bill. For this example, assume that:

- You have a non-registered portfolio valued at $500,000
- You are in the highest marginal tax rate
- You have substantial annual expenses for your child

1. You create a formal Family Trust for your children's benefit.
2. You lend the trust $500,000 at the CRA prescribed rate of 1% (may be higher depending on when loan was made).
3. The trust invests the $500,000 in a balanced portfolio earning interest, dividends and capital gains.
4. If the trust is set up properly, the investment income is not subject to the attribution rules and can be taxed in your children's hands, if the income is used for their benefit.
5. You declare the interest on the loan that is paid to you every year from the trust.

There are many advantages of a Family Trust, including:

- Trustees maintain control of funds
- Redeem loan whenever you want to get back loan capital
- Up to a certain amount of investment income can be earned tax free per child per year

However, be sure to carefully consider the following points before you decide to set up a Family Trust:

- Set-up and annual fees as well as additional recordkeeping and documentation
- Liquidating the funds to make the loan could trigger taxes
- Capital losses can only be used by the Trust

Please contact us for more information on the RBC Dominion Securities Family Trust solution. As with any tax strategy, make sure you also consult with a qualified tax professional before taking action.

† Trust must be structured properly such that subsection 75(2) of the Income Tax Act does not apply.

Tax-Free Savings Account (TFSA) Quick Tips

2014 TFSA Contributions

Starting January 1, 2014, you can contribute an additional $5,500 to your TFSA to benefit from additional tax-free investment growth. With the contribution room from 2009 through 2014, you may be able to contribute up to $31,000 to your TFSA if you haven't opened yours yet.

Tax-Free Benefits

With a TFSA, you can contribute up to your contribution limit each year ($5,000 for years 2009-2012, and $5,500 for 2013 and 2014), earn tax-free investment income including interest, dividends and capital gains, and even make withdrawals – at any time, for any reason – without paying tax. Although this may not sound like much at first, with tax-free compound growth, it can add up over time.

Opening a TFSA

Any Canadian resident who has reached the age of majority in their province can open a TFSA. The age of majority is 19 in Newfoundland and Labrador, New Brunswick, Nova Scotia, British Columbia, Northwest Territories, Yukon and Nunavut. In all other provinces, it is 18. Bear in mind that you need to have a valid social insurance number to open a TFSA. To open your TFSA, please ask us for assistance.

Making Contributions

From 2009-2012, you could contribute up to $5,000 annually to your TFSA. In 2013, the TFSA contribution limit increased to $5,500. Contribution room accumulates every year starting at age 18, and can be carried forward indefinitely. You can continue contributing to your TFSA even when you're retired – it's a lifelong plan.

Choosing Your TFSA Investments

Regular savings TFSA: You can choose from interest-bearing savings products such as GICs.

Full-service TFSA: You can choose from equities such as dividend-paying stocks, most mutual funds and fixed-income investments like bonds, T-bills and GICs.

RBC Dominion Securities offers a full-service TFSA. Generally, a full-service TFSA makes most sense if you want to implement a TFSA strategy designed to maximize tax-free compound growth. To learn more about the difference between a regular and full-service TFSA, please ask for our report "Choosing the right TFSA."

Making Withdrawals

You can make tax-free withdrawals for any reason, unlike an RRSP. Plus, the amount you withdraw is added back to your available contribution room the following year. Remember that you have to wait to re-contribute any amounts you have withdrawn in any given year until January 1 of the following year. Otherwise, the Canada Revenue Agency may assess excess contribution penalties. In addition, any income or capital gains earned on overcontributions would be subject to 100% tax. There is no requirement to make withdrawals at a certain age. As a result, you can let your investment earnings continue growing tax-free (see chart on the next page).

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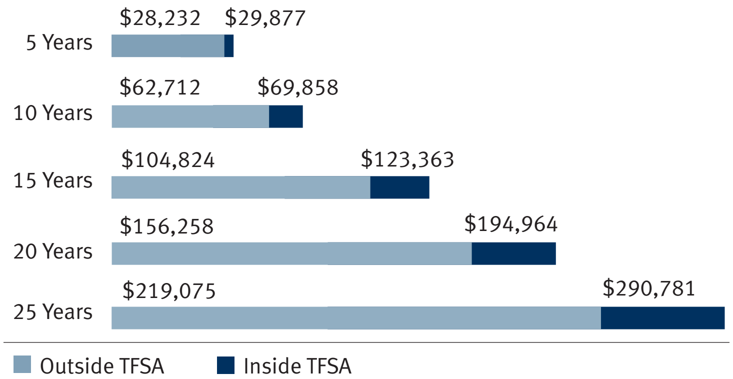
Tax-free compound growth



This chart shows how $5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to a taxable investment account.

Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

Flexibility

You can use your TFSA to meet a wide range of savings goals – for a major purchase, as an emergency fund or as a complement to your RRSP or Registered Retirement Income Fund (RRIF) for an additional tax-wise savings strategy.

Transferring Your TFSA

To avoid delays and adverse tax consequences, transfer any TFSA assets held at another financial institution into your RBC Dominion Securities TFSA through a "qualifying transfer" instead of withdrawing and re-contributing. We can help you make a qualifying transfer quickly and easily.

Whether you need to open your TFSA, make your 2014 contribution or switch to a new TFSA strategy, please contact us for assistance.

Ways You Can Use Your TFSA

- Help a child or grandchild fund their education above and beyond their Registered Education Savings Plan (RESP) and/or family trust.
- Shelter some of your taxable capital gains, dividends and interest currently being earned in a regular taxable account.
- Expand your retirement savings beyond your RRSP.
- Earn tax-free income on surplus RRIF payments you don't need immediately.
- Take advantage of family income splitting to reduce your overall tax bill by gifting amounts from your bank account (the income from which is exposed to your higher tax rate) to your lower-income spouse or adult children to contribute to their own TFSAs.
- In provinces and territories where it is permitted, consider naming a beneficiary on your TFSA to receive the balance in the account at death tax free.