RBC WEALTH MANAGEMENT CANADA

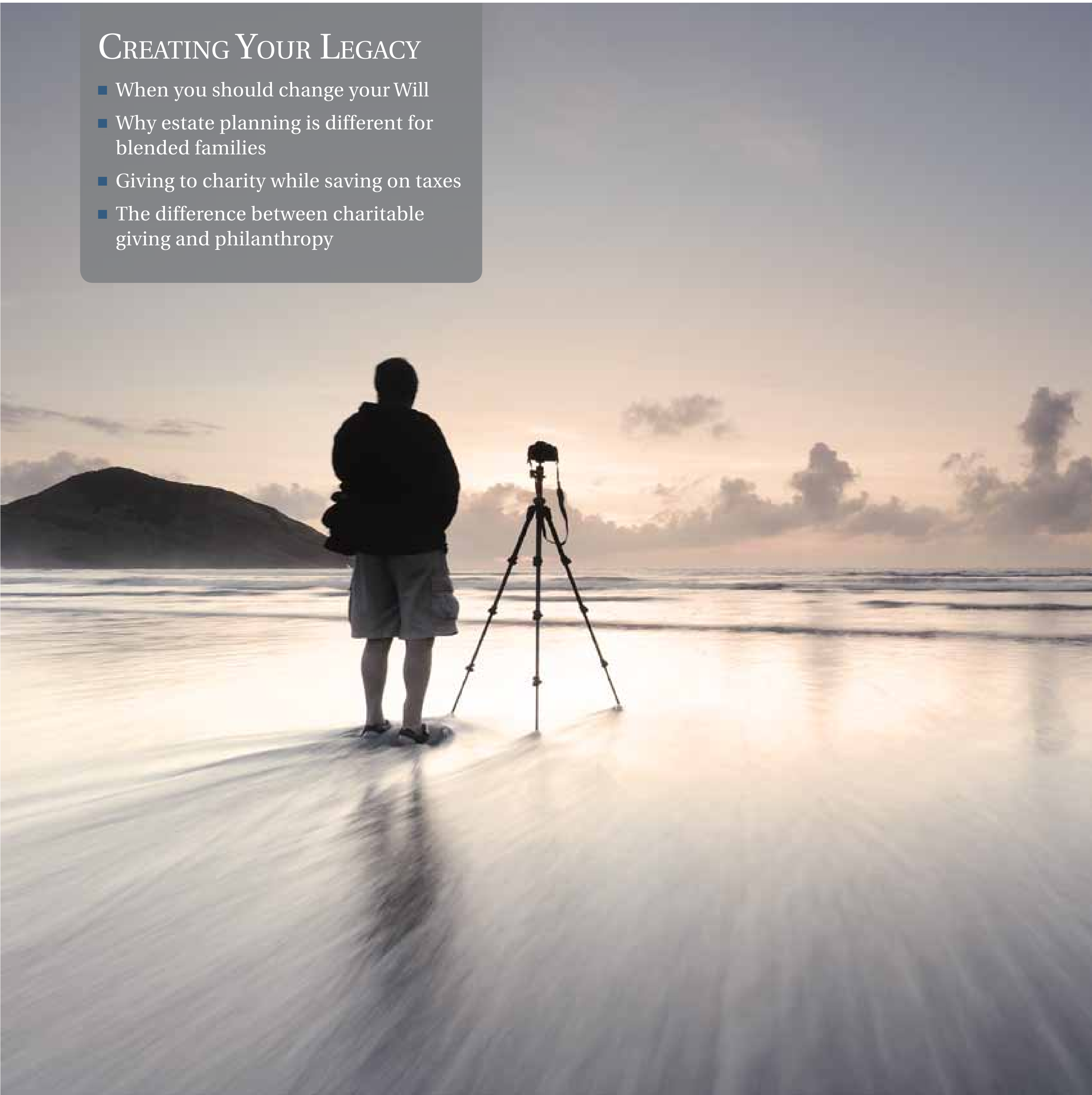
VOLUME 2, ISSUE 1

PERSPECTIVES

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM **RBC WEALTH MANAGEMENT SERVICES**

Creating Your Legacy

- When you should change your Will
- Why estate planning is different for blended families
- Giving to charity while saving on taxes
- The difference between charitable giving and philanthropy



From the Desk of the CEO

With the fall season upon us, many take this time as an opportunity to prepare for the year ahead. Our latest issue of *Perspectives* features articles that highlight wealth management strategies that can help you plan ahead for what is important to you and your family.

When it comes to establishing a long-term plan for giving, it is important to consider the kind of legacy you would like to create and whether your pattern of giving may evolve into a philanthropic plan that allows you to express your values, beliefs and goals. This issue features two articles that focus on planning for charitable giving by examining how building a philanthropic plan can help individuals and families ensure their gifts continue to reflect their vision; and how incorporating life insurance into a charitable gifting strategy can help you achieve your charitable goals in a more tax-efficient manner.

Keeping your estate plan up-to-date and having regular reviews also play an important role in helping you to ensure that your long-term goals will be met. The articles on estate planning inside this issue provide insight into how significant life changes, such as marriage, divorce, changes in financial position, etc. may affect your Will and examine estate planning considerations specific to blended families.

Finally, this issue also draws attention to potentially significant and time-sensitive U.S. gift tax planning opportunities for Americans; common misconceptions about identity theft, business planning for the long term and year-end investment management considerations to help ensure that your portfolio is well positioned for the next cycle of growth.

As always, I encourage you to contact your RBC Wealth Management advisor to discuss how the strategies featured in this issue can help you achieve your wealth management planning objectives.

David Agnew
CEO, RBC Wealth Management Canada

RBC Wealth Management

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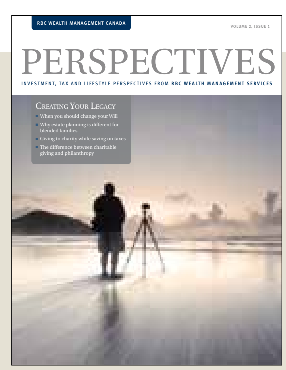
Questions or Comments:
Email perspectives@rbc.com



Content

When Should You Review Your Will or Estate Plan?

We all know the importance of regular health check ups with our doctor or regular car maintenance check ups with our mechanic, but when's the last time you took a look at your Will or estate plan? Is it due for a check up? Have you experienced any life changes recently that require an update to your Will or estate plan? Most legal professionals recommend reviewing your estate plan every 3-5 years or any time you experience a major life event. A life event refers to any significant change in your life such as marriage, divorce, birth of a child, death of a spouse or changes to your financial position, to name a few.

Choosing a Spouse or Life Partner

Unless specifically stated within the Will, in many jurisdictions marriage cancels any Will prepared by either spouse prior to the union. As well, many couples wish to appoint their new spouse or life partner as the beneficiary of their estate. This change needs to be reflected in your Will and estate plan including bank and investment accounts, pension plans, RRSPs/RRIFs/TFSAs, real estate and insurance policies. A common misconception is that savings and other assets automatically pass to the surviving spouse in the event of one's death. If this final wish is not documented in a valid Will or if your Will cannot be located, you are considered to have died "intestate" and your estate will be administered under the provincial or territorial intestate succession legislation for the province or territory where you live.

Partners also often wish to designate each other for both their "power of attorney for property" and "power of attorney for personal care." These need to be updated accordingly if either partner has prior powers of attorney in place. Depending on the province or territory where you live, other health care directives and instructions for your personal care may be available. For instance, if you live in Quebec, you would prepare a Mandate instead of a Power of Attorney.

Raising a Family

It should be a priority for every parent to appoint guardians in their Will for the care of their minor children, should both parents pass away. Although choosing a guardian can be a very emotional decision, parents must consider the best interest of their children when making their choice. This is also what the Court will have in mind when asked to approve your choice and formally appoint the guardian. This applies not only with your first child, but it is also crucial to update your Will to include new additions to your family.

The birth of a child also brings with it the question of "How will my children manage financially if something happens to me?" Life and disability insurance may become cornerstones of your estate plan. As your family grows, your insurance coverage should be reviewed.

Disability of a Beneficiary or Dependant

Parents of children with a disability must make appropriate provisions in their Will for that child. It is important to get legal advice and understand the interaction between government benefits and the laws surrounding the transfer of property after death. For instance, a trust or Registered Disability Savings Plan (RDSP) may be appropriate options for estate planning in this situation. A trust enables assets to be held by one individual (the trustee) for the benefit of another (the beneficiary). An RDSP is a tax-deferred account, similar to an RESP, to which anyone including family and friends can contribute.

Divorce

It's very important to know that unlike marriage which cancels any previous Wills, in many jurisdictions, separation and divorce do not cancel an existing Will so you should both have new Wills prepared unless you want to leave your estate to your former spouse. The same applies to Power of Attorney documents and any beneficiary designations in place, such as RRSP/RRIF or insurance policy designations. This is even more important if you have children together. You both need to indicate in your Will your wishes for your children's care and support, should either of you die.

Starting, Buying or Selling a Business

If you sell a business that you've included in your Will, it's time for an update. Similarly, if you are buying or starting a business, you should review your estate plan from both a personal and business perspective. This includes asking yourself who will step in if something happens to you. Are there partners who will buy your shares and if so, who will get the proceeds? What are the tax implications?

Mid-Life, Peak Earning Years and Changes to Your Financial Position

In general, mid-life is a good time to revisit your Will and estate plan. Consider how your family would carry on financially should you die, become badly injured or too ill to make decisions. As well, as your financial position changes, so must your estate plan. For instance, if your net worth has increased significantly since you initially drafted your Will and estate plan, you may have new opportunities, such as additional tax planning strategies available to you that were not previously.

Retirement

Your goals for, and needs from, your estate plan may change as you prepare for retirement depending on your personal situation as well as that of your family members. This presents another good opportunity to review your estate plan and Will to ensure they both meet your requirements and wishes. Is everything up-to-date? Are there ways to reduce costs such as taxes and probate fees at the time of your death? Are all your named beneficiaries current?

Death of a Life Partner

Usually the death of a spouse or life partner will also necessitate an update to your own Will and estate planning tools. If your late spouse is named as the executor of your Will, beneficiary of your estate or any life insurance, retirement or pension plans, these documents will all need to be revised. If you have minor children, you should also review your choice of guardian.

Death of an Executor or Beneficiary

If your executor dies you should change your Will as soon as possible to ensure that you still have a primary and alternate executor. Also of note, if your executor moves out of the province in which you reside or moves out of Canada, you should name a new executor as in some jurisdictions, an out-of-country executor may be required to provide surety, in a required form, before receiving formal authority to administer an estate in a jurisdiction other than the one in which they are resident. Similarly, if one or more of your beneficiaries dies, you need to update your Will and any other documents with new primary and alternate beneficiaries, as necessary, for your entire estate.

Acquisition of Foreign Property

There are a number of considerations when purchasing foreign property and the resulting consequences to your estate. For instance, you need to determine if your Canadian Will and power of attorney are valid in the jurisdiction where your property is located. You may need a second Will. As well, your estate may be exposed to double taxation upon your death. Consult with a legal or tax advisor to determine how you might be impacted.

Change in Province or Country of Residence

Every jurisdiction has its own laws and requirements pertaining to Wills and estate planning. Make sure you consult your legal and tax advisor to ensure both are still valid when you relocate. In addition to confirming that the provisions in your Will are still executable, you should confirm that your choice of executor and trustee, if applicable, are also valid in your new province or country. The same advice applies to your powers of attorney.

Changes to Legislation

In addition to any personal life changes that may affect your Will and estate plan, it's important to stay abreast of any changes to legislation that affect estate planning. Federal and provincial laws can have a significant effect on estate planning and taxation so it's important to consult your legal and tax advisor to find out the impact of any changes on your personal situation.

Not surprisingly, as people experience the joy or sorrow of any one of the aforementioned life changes, reviewing their Will and estate plan is probably not top of mind. However, the sooner it is addressed the better, and the less chance of larger issues presenting themselves in the future with a Will or estate plan that is out of date.

Significant Gift Tax Planning Opportunity for Americans Set to Expire

Americans living in Canada or anywhere in the world have a limited opportunity to transfer a significant amount of their wealth on a tax-free basis to their family before existing U.S. gift tax laws expire on December 31, 2012.

Salvatore De Cillis, Financial Advisory Consultant, RBC Wealth Management Services, explains: "Many Americans are aware of the US $5.12 million U.S. estate tax exemption expiring at the end of the year that could potentially reduce or eliminate their U.S. estate tax exposure if they die in 2012. However, many do not realize that similar exemptions are also expiring at the end of the year that currently allow them to make tax-free gifts, while they are alive, to reduce their assets and potentially minimize or eliminate their exposure to U.S. estate tax in the future."

Gift tax is levied when taxable gifts are made during your lifetime to anyone other than a U.S. citizen spouse and the cumulative value of these taxable gifts exceeds the allowable lifetime gift tax exemption. For 2012, every American is entitled to a lifetime gift tax exemption of US $5.12 million.

Americans are also permitted to make small non-taxable gifts every year up to the amount of the annual exclusions that are in place for the year the gift is made. For example, for 2012, you are permitted to give to any number of people annual gifts of up to US $13,000 each and annual gifts of US $139,000 to a non-U.S. citizen spouse. Gifts that exceed these annual exclusions are taxable gifts. However, you can elect to use your allowable lifetime gift tax exemption to eliminate gift tax on taxable gifts made during your lifetime that do not exceed your lifetime exemption. Taxable gifts are subject to tax at graduated tax rates. In 2012 the maximum tax rate on taxable gifts in excess of your lifetime gift tax exemption is 35%.

This is not the first time that favourable U.S. transfer tax laws have been enacted with an expiration date. The current laws extended sweeping U.S. tax law changes that were made under the Bush administration and enacted in 2001 and 2003 with an expiry date of December 31, 2010. These tax cuts gradually reduced the maximum U.S. estate and gift tax rate from 55% in 2001 to 45% in 2009 and increased the U.S. estate tax exemption from about US $1 million in 2001 to US $3.5 million in 2009. The U.S. gift tax exemption was increased to US $1 million in 2002 but remained unchanged until 2011.

After 2012 the current transfer tax laws are also set to expire and will once again revert to 2001 levels. If this occurs, the estate and gift tax exemptions will fall to US $1 million and the tax rate on gifts or bequests above the new exemptions will increase from 35% to 55%. This means an American who dies in 2012 or makes a large gift may not incur any U.S. estate tax or gift tax, while the same gift or bequest in 2013 may result in a large U.S. estate tax or gift tax liability. Americans who already had an exposure to U.S. transfer taxes in 2012 may find their exposure is even greater in 2013.

Salvatore continues, "High-net-worth Americans may wish to speak to their cross-border tax specialist before the December 31, 2012 deadline to consider the option of making a large gift in 2012 to take advantage of the elevated lifetime gift tax exemption and lower tax rates, since it is really anyone's guess whether the U.S. government will extend the legislation. Given the current U.S. economy, the likelihood that Americans will enjoy the same unusually high estate and gift tax exemptions may be very small."

Americans can transfer US $5.12 million to a child or grandchild and incur no U.S. gift tax. Married couples who are both Americans have the option to use "gift splitting" where one spouse makes the entire gift of US $10.24 million, however, both spouses report the taxable gift equally and an claim their U.S. lifetime gift tax exemption to eliminate gift tax.

As Salvatore explains, there may be benefits to taking advantage of the 2012 gift tax exemptions. "Making a gift in 2012 may reduce your potential future exposure to U.S. estate tax by reducing the value of your assets by the amount of the

gift, any post-gift appreciation on the gift and the income it generates from reinvestment. This gift may represent what could be a one-time opportunity to transfer a significant amount of your wealth to children or other beneficiaries without paying a gift tax, and to accomplish multi-generational planning."

However, Americans should be aware of potential issues that may arise from making certain taxable gifts. The current tax rules stipulate that certain taxable gifts may need to be included in the gross value of the donor's estate if the taxable gift was made within three years of the donor's death. This rule prevents individuals from gifting assets to their descendants or other parties when death is imminent in an attempt to avoid estate taxes. The rule does not include all assets gifted or transferred in that three-year period and focuses mainly on insurance policies or assets in which the deceased retains an interest.

Americans should consider the possibility of a "claw-back" of tax-free gifts. Based on the wording of the current legislation with respect to the calculation of U.S. estate tax, many cross-border tax specialists suggest that a portion of the gifts transferred tax-free using the current higher lifetime gift tax exemption may have to be paid back as an estate tax if the amount of total lifetime gifts is greater than the lifetime gift tax exemption in place at the year of death.

Salvatore comments that, "Although the risk of claw-back exists, many cross-border tax specialists agree that Americans should still consider implementing specific gift tax planning strategies they deem appropriate since even if a claw-back was to occur, any income earned on the gifted property and any appreciation of the value between the date of the gift and the date of the donor's death may not be subject to estate taxes." Americans should consult their cross-border specialist for advice.

It is also worth noting that there are two possible issues with gifting appreciated property instead of gifting cash. First, for U.S. tax purposes, the recipient takes on the adjusted cost basis of the donor. He or she does not receive an adjusted cost basis increase to fair market value as would be the case if the property was transferred upon your death. This means that when the property is eventually sold, the recipient of the gift will have to pay more U.S. income tax and this could be interpreted as "paying back" part of the estate tax savings. Second, for Americans who are residents of Canada, there will be a deemed disposition for the donor, which triggers an immediate Canadian income tax liability on any accrued capital gains when the appreciated property is transferred to anyone other than a spouse. As a result, when the recipient sells the property there is potential for double taxation since U.S. income tax will be paid on the same capital gain on which the donor previously paid tax in Canada.

Cross-border tax specialists can advise on potential strategies to avoid these two issues. They may include selling the property first, triggering Canadian capital gains tax and then gifting the cash proceeds. The Canadian and U.S. income tax rates on capital gains have traditionally been much lower than the U.S. estate tax rates, so you can still achieve significant tax savings by making gifts of appreciated property.

If you gift assets to minor children or grandchildren or to a spouse, you must also consider the Canadian income attribution rules. The income attribution rules tax the donor on investment income or capital gains income earned on the gifted assets.

So why wouldn't every high-net-worth American make large gifts to their family members? One reason may be their comfort level. Americans may not be comfortable with the idea of making large outright gifts or giving up control of a significant portion of their wealth. They may be concerned about exposing their assets to uncontrolled spending, the claims of potential creditors and the possibility of matrimonial disputes. If their family member is also an American the assets may continue to be exposed to U.S. estate tax in the family member's hands.

As a potential strategy, Salvatore recommends that high-net-worth Americans consider the merits of making tax-free gifts to a discretionary inter-vivos dynasty trust. "A dynasty trust can provide income and support to the family (spouse, children and even grandchildren) for generations. It can also protect these beneficiaries from U.S. estate tax (where the initial contribution and any appreciation on the assets remain in the trust) from U.S. estate tax, probate tax and estate administration delays. As the funds are held in a trust, it may prevent uncontrolled spending by the beneficiaries and may offer potential protection from the claims of creditors and marital claims in the event of a divorce." It is imperative that the dynasty trust be structured properly by a qualified estate lawyer or accountant. Note, prior to implementing any creditor protection strategies, it is essential you consult your legal professional.

Due to the current elevated exemption limits, Americans who have existing estate plans that involve leaving assets to a Credit Shelter Trust (CST) upon their death should consider whether it is more appropriate to fund an inter-vivos dynasty trust instead. A CST provision in a Will allows the deceased to transfer an amount, up to the U.S. estate tax exemption in the year of death, and protect it from U.S. estate tax (for the deceased and the beneficiaries) while the funds are in the trust. Funding a dynasty trust now provides the same protection and currently allows individuals to make a larger tax-free transfer (US $5.12 million in 2012) while protecting it and any post-appreciation from U.S. estate tax. After 2012, you may be able to fund a CST with a tax-free transfer of only US $1 million.

Americans who purchase life insurance through an Irrevocable Life Insurance Trust (ILIT) or transfer an existing life insurance policy to an ILIT may be able to leverage a dynasty trust to further reduce their U.S. estate tax exposure. This is possible because the death benefit of a life insurance policy that is owned by an ILIT, instead of outright by the deceased, is not subject to U.S. estate tax.

If you draft the ILIT as a dynasty trust (or dynasty ILIT) you may be able to provide inheritances not only to your spouse and children, but also to your grandchildren and perhaps even great-grandchildren. This can be achieved because the funds may grow in the trust and never be subject to U.S. estate tax. However, if the donor dies within three years of such a transfer, the proceeds paid into the ILIT may still form part of their estate and will be subject to U.S. estate tax.

Americans may wish to consider taking advantage of the larger exemption amounts in 2012 to make tax-free transfers to fund a dynasty ILIT, but only where it makes sense. Salvatore explains, "When you use an ILIT to reduce or potentially eliminate your exposure to U.S. estate tax, you must also consider the fact that you will not have access to the cash surrender value of your insurance policy or be able to borrow against it. Americans who are interested in this kind of planning should be certain that they will not need their insurance proceeds for investment or retirement purposes and that their beneficiaries will use it strictly after their death."

Americans living in Canada should also note that transfers of an existing life insurance policy to an ILIT may trigger a deemed disposition for Canadian income tax purposes resulting in an immediate Canadian income tax liability. Furthermore, if the ILIT is established outside of Canada, the trust may be subject to Canadian taxation under proposed "Canadian non-resident trust rules".

Americans have a limited amount of time to take advantage of the opportunity to make large tax-free gifts to reduce potential U.S. estate tax exposure for themselves and their families and should therefore seek advice from their professional tax and/or legal advisors before the end of the year to determine whether the planning opportunities referenced in this article are appropriate for their needs.

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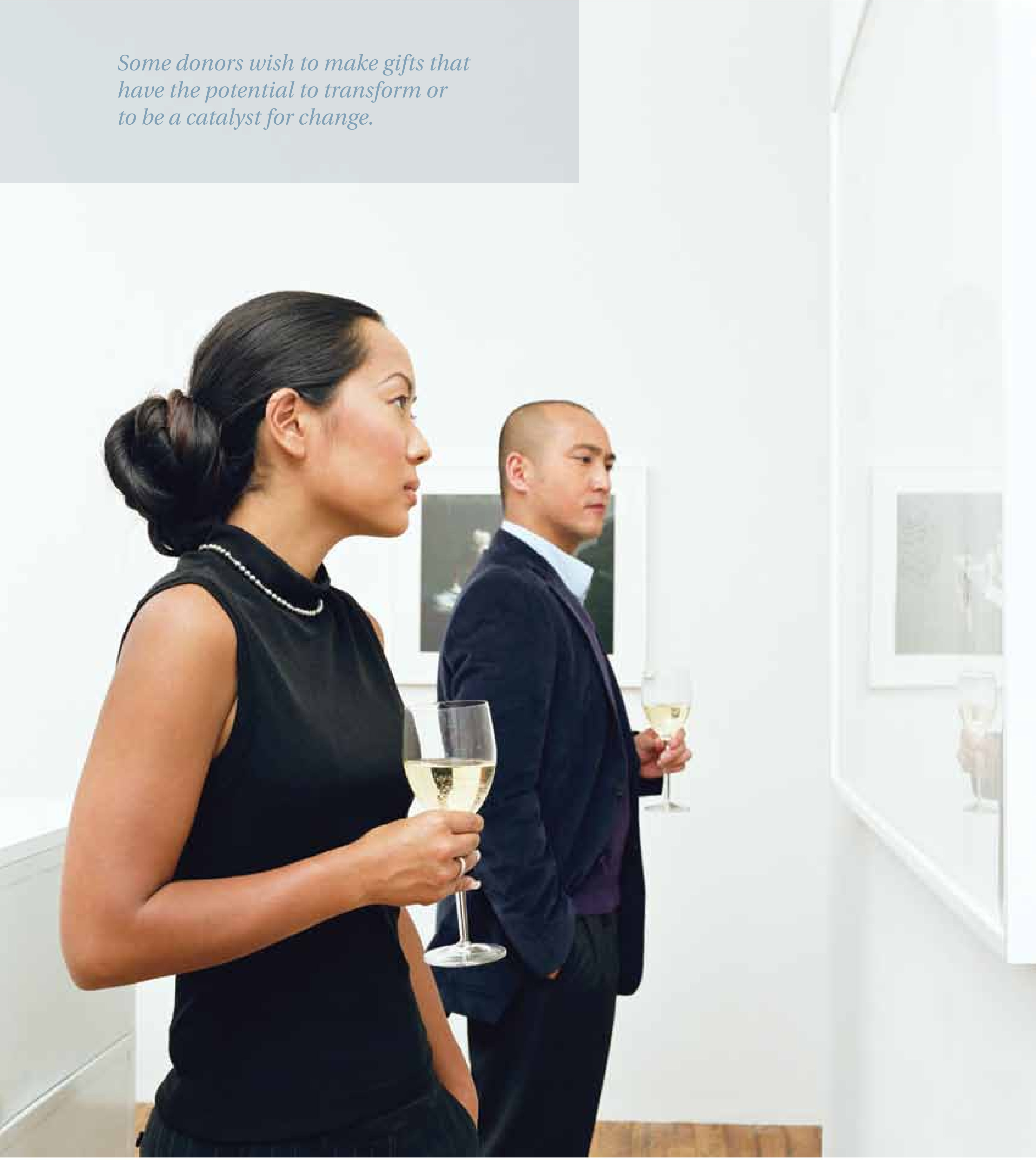


Philanthropy

What Will Your Legacy Be?

Is charitable giving important to you and your family? For many high-net-worth families, donating to charity is a core value but what's the difference between philanthropy and charitable giving?

Many of us make charitable donations. We do it on a regular basis, by making an annual gift to a charity that's close to our heart or more spontaneously by responding to a request for donations to aid the victims of disaster. Sometimes we do it simply by giving to various charities as part of their holiday campaign. Philanthropy, however, is more strategic. It is about establishing a long-term plan for giving, setting out the goals of an individual or a family and working to make that vision a reality. It can be a very personal plan that reflects the donor's convictions, beliefs and values. It involves a process of governance, monitoring and assessment and frequently requires a significant commitment from those involved to carry out the plan.

Charitable gifts take many forms. They can include donations of securities, real estate, artwork, life insurance, annuities and even shares of privately held companies. Your motivation for giving is personal to you and can make a statement about who you are, but no matter why you give, your giving should be tailored to your unique circumstances. Individuals and families that engage in philanthropy have the opportunity to express their values and their charitable objectives in a structured form.

In recent years the tax rules regarding charitable giving have become increasingly flexible and generous and contain incentives to encourage Canadians to give to charity. When given appropriate consideration, charitable giving can benefit both donor and recipient. You get a vehicle through which you can help the causes you care about and society benefits as a whole. When considering making large gifts, contact your professional tax and legal advisors to ensure you understand the various charitable giving options available to you and their implications from a financial, estate and tax planning perspective.

Why Do You Give?

What motivates you to give back to the community? Maybe there were events in your personal history that affected you or members of your family and helped shape your philanthropic intentions. In some cases, individuals are driven to give by a sense of social responsibility. Whatever your reason, it may continue to evolve over time and you may want to build enough flexibility into your plan to ensure that your gifts continue to reflect your motivation.

Many high-net-worth families establish a mission statement. If your family has one, does it include charitable giving? Philanthropy can make a statement about your family's values but have you considered what you would like your gifts to achieve? Do you want to educate and inform? In some cases, for families that occupy a prominent place in their community, public recognition of a pattern of giving can be important. Some donors wish to make gifts that have the potential to transform or to be a catalyst for change. For those who have the resources, a thoughtfully-designed and well-managed philanthropic plan can make a meaningful impact on society.

Building a Philanthropic Plan

Consider the charitable donations you made in the past. If you have an interest in charitable giving, could your interest develop into something more strategic? There are many questions to consider, including: What kind of charitable organizations would you like to benefit? In view of your regular schedule, how much time are you willing to give to this endeavour? Do you wish to make it a long-term commitment? Various organizations now offer their clients specialist advice and guidance around setting up a philanthropic plan and managing it in the long term. A critical element of this process is asking the right questions. Some individuals were raised in a culture of charitable giving and are familiar with many of its concepts. To others it is something new. Do the family resources include time for personal involvement in charitable activities, grant-making or administration? By understanding a person's background, the demands of their lifestyle, their objectives and preferences and their past pattern of donating, you can build a realistic framework for strategic giving in the future.

One concern advisors note from their conversations with clients is the idea of giving away too much. It can be difficult to assess the impact that a large donation or an ongoing series of donations can have on personal resources, future income and family legacy. A comprehensive financial plan, developed with input from professional advisors, can help you see the effect that a gift, or a longer-term pattern of giving, will have on your financial picture. It may assist you in determining the amount and timing of your gifts to ensure the optimal outcome.

Tax Advantages of Charitable Giving

You may be able to claim a tax credit for your charitable donations. This may result in significant tax savings, depending on the province or territory where you live. If you donate through a corporation, this may generate a tax deduction that will reduce the corporation's taxable income. The value of the tax deduction will vary according to the donor corporation's effective tax rate. If you are the owner of an incorporated business, consult your professional tax advisor about the advantages of making a charitable donation through your company.[1]

Consider the potential tax benefits that can be realized by timing your charitable donations appropriately. Making a charitable gift at the time you sell property or your business, or when you exercise stock options may help reduce your tax liability resulting from those transactions. If you choose to donate the proceeds, or a portion of the proceeds from the sale of a business, for example, you may receive a tax credit for the value of your donation which could result in significant tax savings for the tax year in which you made the gift.

Wherever possible, it is a good idea to maximize the tax benefits of your charitable gifts. If you exceed the 75% limit, for example, you can carry the excess forward for up to five years. So you could make a large donation now and claim the full tax credit over a longer period of time. A comprehensive financial plan can provide a model for donations to ensure that tax credits will be fully utilized in the future. Making charitable bequests as part of your estate plan can also be tax-effective. Your executors may be able to claim a credit for gifts you made in the year of your death or in your Will. The income limitation increases to 100% of your income for the year of your death and for the preceding year.

[1] Note however that there are limits and restrictions on the tax credit you can claim for your charitable donations. Generally, individuals cannot claim a credit for donations exceeding 75% of their annual net income. Similar statutory limitations may apply to corporate donors. For donations of ecologically sensitive land and Canadian cultural property, the limitation is 100% of the taxpayer's net income for the year.

Does your Will contain a testamentary trust? By naming a charity as a beneficiary, or giving your trustee discretion to allocate funds to a range of beneficiaries that include a charity, your trustee could donate trust income or capital gains to a charitable beneficiary and the resulting tax credit may offset all or a significant portion of the taxes payable on the trust income. It is important to understand the restrictions and limitations that may apply to the donation strategies you consider so always obtain professional tax advice.

Using Your Property and Resources to Create a Philanthropic Plan

As previously discussed, you can use many types of property for your charitable donations. For example, you can gift cash, securities, stock options, eco-gifts, works of art, private company shares or even life insurance. Your professional tax advisor can guide you through the restrictions, taxes or advantages that may apply to the type of gift you choose. Then you need to consider how to make your gift and the timing of your gift. Again, you have choices. You can give directly during your lifetime or defer your gift until your death by naming a registered charity (including a private foundation or fund) as the beneficiary for your Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF), Tax-Free Savings Account (TFSA), or your life insurance policy. You can make specific charitable bequests in your Will or designate a charitable organization as a beneficiary of a portion of your estate.

What Level of Involvement in Charitable Activities Is Right for You?

Have you or your family considered how much time and effort you wish to devote to philanthropy? For many families, their involvement extends beyond providing financial funding. In the case of families that have established a charitable foundation, they may be actively involved in establishing a policy for making grants and disbursing funds for charitable activities directly or to registered charities that carry on charitable activities. They may be involved in fundraising, in actual charitable activities, in the administration of the foundation or in managing the fund's investments.

What is the most suitable structure for achieving your charitable objectives or those of your family? Do you already have a private charitable foundation, or is a donor-advised fund a better fit? It may be wise to start small, without a foundation, and work towards something more formal as experience and the philanthropic vision grows.

Outright Gift Directly to Charity

An outright gift directly to a charity is the most widespread form of charitable giving. It might be cash given to a volunteer fundraiser who comes to your door, a cheque sent in response to a mail or telephone campaign or a payment automatically deducted from your paycheque. A direct donation to a charity allows you to provide immediate financial support to the cause of your choice and to benefit in return from an appreciable tax saving.

Private Foundations

A private charitable foundation is a non-profit organization frequently funded by a single source, group or family that can provide a personalized approach to giving. The foundation awards grants to support specific charitable work or makes contributions to other registered charities. This kind of organization can be very flexible, as donations are not tied to a specific charity and the foundation's directors or trustees can award grants on a case-by-case basis, usually within set guidelines. A private charitable foundation is a highly specialized legal and estate planning area incorporating a myriad of considerations. Many philanthropists, working within the structure of a foundation, are concerned to measure the impact of their donations against their operating costs. They also keep a close watch on their investment returns, both to safeguard their capital assets and to generate sufficient income to disburse grants. There can be substantial expenditure associated with set up and ongoing administration but if you are willing to make the time commitment and devote significant financial resources to charitable activities, a private foundation may be an option for you.

Your motivation for giving is personal to you and can make a statement about who you are.

Donor-Advised Funds

A donor-advised fund is an alternative to a private foundation and one that is growing in popularity. It can enable you to make an irrevocable gift of cash or other assets to a fund administered by a registered public foundation. This may appeal to you if you want to create an enduring charitable legacy, but do not wish to commit the time and funds required for a private foundation. Donations can be made during your lifetime or according to the terms of your Will. As a donor, you will receive a donation receipt equal to the value of the assets you donate, and you can recommend how contributions are managed and which charities are to receive grants, subject to the foundation's final approval. If you make donations to this kind of fund, you have the option of choosing a name for the fund you establish. For example, you may wish to make a donation in your family name or even make anonymous donations if you prefer.

Other Considerations

When designing a strategic plan for your charitable gifts, factor into your decision where you wish to conduct your charitable activities. Are you focusing on specific areas of interest in Canada, or in other locations? In Canada, the Income Tax Act contains restrictions on Canadian registered charities that carry on charitable activities outside Canada. Will these factors have an impact on your ability to be involved at the level you desire, whether hands-on or more remotely? If other family members are likely to be involved, consider their roles and their potential compensation. Are there individuals in your family who have the personal experience or talent that makes them a natural choice for such activities? This is a complex and highly regulated area. Professional tax and legal advisors can help you identify the strategic options that suit your objectives and guide you through the considerations and restrictions that may influence your decision.

"Passing the Torch"

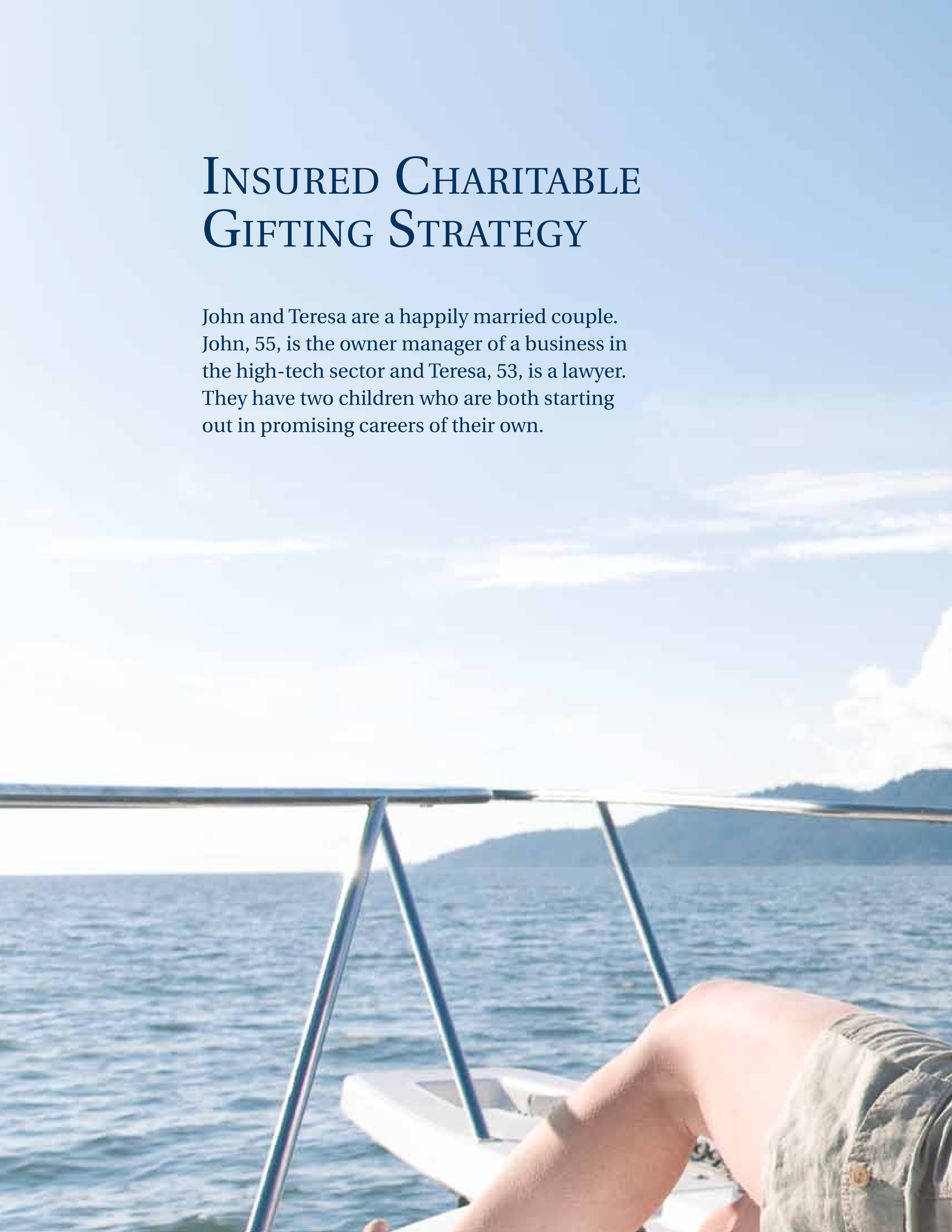
When you are putting a philanthropic plan in place, consider whether you would wish to continue to give if you could no longer manage the process in person, or even after your death. Private foundations often have directors and trustees that can carry on the legacy into the future, sometimes with ongoing involvement from family members. In such cases, you will want to consider the powers and responsibilities you give to your directors and trustees and the nature of any input that will be needed from the family.

If continuing to operate a foundation isn't in the cards, you will need a plan to wind it up and distribute the remaining assets. In the absence of suitable successors, a donor-advised fund may work well but you will need to give the fund direction for making future grants.

Whether you are just setting out to build a structured plan for your giving, to allow your existing plan to evolve and grow or merely exploring the alternatives, the journey is likely to be challenging and highly rewarding. We recommend you harness the insight and the collective expertise of your team of professional advisors as you choose your route and navigate your way through the obstacles.

Insured Charitable Gifting Strategy

John and Teresa are a happily married couple. John, 55, is the owner manager of a business in the high-tech sector and Teresa, 53, is a lawyer. They have two children who are both starting out in promising careers of their own.



Let's consider John and Teresa as an example of a couple who may benefit from an insured charitable gifting strategy. They have had a good deal of financial success. Between John's business, Teresa's legal practice and many years of good investments and sound financial management, they have built up a non-registered investment portfolio worth $1 million. Their other assets include a mortgage-free home, a cottage and a recently purchased Florida condominium. Their real estate assets total $2.5 million and their RRSP investments total $500,000. John values the business at $6 million and believes that when the time comes to retire, he will be able to sell the business for full value.

John and Teresa have always been philanthropically inclined. They believe that they are fortunate to have their health and financial success and want to give back to the community. They've always been strong supporters of their local hospital. In addition, Teresa recently lost a sister to cancer and so they also want to make annual gifts to the Cancer Society. Each year, John and Teresa write cheques to charity totalling $40,000 to $50,000.

It is a good idea to review your estate plan regularly to ensure it continues to meet your objectives. When you sit down with your legal advisors to update your Wills, give some thought to your charitable giving intentions. In the case of John and Teresa, their children are embarking on their own careers and so they have decided that in addition to providing for their children they also want to leave a significant gift to one or more charities. They are thinking of leaving $2.5 million to charity, which represents about 25% of their net worth.

John and Teresa meet their advisor for their annual financial review and mention their desire to leave $2.5 million to charity. John describes the plan they have in mind. On the first death, all assets would be transferred to the surviving spouse and on the second death, $2.5 million would be gifted to charity and the balance of the estate, after taxes and other final expenses have been paid, would be divided equally between their children.

A Tax-Efficient Solution

If you have similar charitable intentions to John and Teresa, there may be a way for you to achieve your charitable goals in a more tax-efficient manner that would allow you to make a larger gift to charity, obtain greater tax relief during your lifetimes and still provide large bequests for your children.

Here's the solution that was proposed to John and Teresa. Instead of gifting $2.5 million of assets from their estate, the couple could gift a $2.5 million life insurance policy to charity. By donating a policy and then donating an amount equal to the annual premium to the charity they would be able to receive tax relief for their gift during their lifetimes rather than at death and ensure that the charity of their choice would receive the $2.5 million gift.

In addition, John and Teresa could fund the annual insurance premium using publicly traded securities from their non-registered portfolio. Under the Income Tax Act (Canada) there is no tax on any accrued capital gains when publicly traded securities are gifted to charity. Accordingly, to maximize the after-tax benefits, John and Teresa may wish to gift to charity those shares that have the largest accrued capital gains.

If this potential solution sounds appealing, you will no doubt have questions. For example, would the insurance policy be based on your life or your spouse's life? In John and Teresa's case, a "joint last to die" policy was recommended whereby the proceeds would be paid on the second death. They were advised that "joint last to die" insurance would cost about half as much as a policy on John's life alone and about three-quarters as much as a policy on Teresa's life alone. A "joint last to die" policy would also reflect their initial estate planning objective of donating the $2.5 million to charity when the survivor of them passed away.

Assuming the above strategy meets your needs, a donor-advised fund can assist you with this type of gift planning. A donor-advised fund is a charitable giving account set up by a sponsoring organization to manage charitable donations on behalf of an individual, family or corporation. A donor-advised fund is often used as an alternative to setting up a private foundation. The insurance policy you purchase could be gifted to and administered by your donor-advised fund. You would then provide direction to the fund as to the ultimate charitable beneficiary of your insurance proceeds. Let's use John and Teresa's example to illustrate how this strategy works.

The strategy would operate as follows:

1. John and Teresa would take out a joint last to die universal life insurance policy with a death benefit of $2.5 million at a premium cost of approximately $23,000 annually.[1]
2. John and Teresa would donate the insurance policy to their donor-advised fund.
3. Each year John and Teresa would make an annual donation of $23,000 of publicly traded securities from their non-registered portfolio to their donor-advised fund to cover the premium cost. This would result in a charitable receipt of $23,000 and an annual tax savings of $10,672 in Ontario (tax savings differ by province of residence). In addition, any accrued capital gain in respect of the gifted securities would not be taxable, resulting in an additional tax savings of up to $5,336 (in Ontario – tax savings differ by province of residence).[2]
4. The donor-advised fund would immediately sell the gifted securities.
5. The donor-advised fund would then deposit the $23,000 proceeds of sale into the life insurance policy.

A Larger Gift at a Lower Cost:

To conclude John and Teresa's scenario, the net after-tax cost to them of the $23,000 gift would be between $6,992 and $12,328 (depending on the adjusted cost base of the gifted securities and the province where they live). When the survivor passes away the donor-advised fund would receive the $2.5 million of insurance proceeds and would disburse those proceeds to the charities that the couple had chosen to benefit. Alternatively, the donor-advised fund could retain the capital and John and Teresa's children could direct the disbursement of the income generated by the funds to various registered charities.

By taking advantage of this strategy, you may be able to make a much larger gift to charity than you had anticipated and at a much lower cost. You may also be able to receive the maximum benefit from the tax incentives designed to encourage charitable gifting by Canadians.

This describes the basic strategy. There are a number of variations which you may wish to explore with your professional tax and legal advisors to further customize your planning to your needs. For example, you could elect to have the policy pay out when the survivor of a couple passes away, but have the premium obligation cease on the first death. This would result in higher premiums. Alternatively, you could elect to contribute additional funds to the insurance policy and allow for an even larger future death benefit.

[1] Annual joint last to die, universal life premium rounded up to the nearest $100 provided by Empire Life, current as of October 1, 2012.

[2] John and Teresa's advisor explained to them that to realize the maximum benefit from this strategy they should gift those shares with the lowest adjusted cost base. A well-developed financial plan will assist in choosing the right solutions to manage risk effectively and efficiently and ensure that your goals are achievable.

The Evolution of Diversification

Broader Horizons for Bonds

Investors diversify in an effort to mitigate the impact of market fluctuations on their portfolio returns. Over time, this produces a smoother overall investment experience – one that helps strike a balance between growth and level of risk. The theory of diversification suggests that this is achieved by holding a mix of investments across various industries, regions and asset classes.

The way investors achieve diversification has changed over the past 20 years, largely due to globalization and product innovation. In a modern-day context, being *effectively* diversified has taken on new meaning and a new level of importance given globally integrated economies and close linkages across capital markets.

The major inputs to global economic growth continue to evolve, and increasingly, these changes are reflected in the makeup of global capital markets. It is critical that portfolio construction also evolve to reflect this. Diversification today can mean having exposure to opportunities in fast-growing emerging markets, investing in both large and small companies, incorporating different investment styles, and holding a broader range of fixed income investments.

In this article, we will examine how broader horizons for bonds has influenced the concept of diversification.

Broader Horizons for Bonds

Over the past 20 years, different types of bonds have outperformed as inflation and interest rates fluctuated with changing economic conditions. As with equities, gauging which segment of the bond market will outperform in any given year cannot be reliably predicted. By combining different types of bonds in a portfolio, investors have been able to achieve a meaningful boost in returns with only a marginal increase in volatility.

The Many Segments of the Bond Market

Historically, government bonds were the primary holding within most fixed income portfolios. That is no longer the case. As interest rates declined over the past 20 years, fixed income investors have continued to seek new solutions that offer a potential for higher yields. During this period, high-quality corporate bonds have become an increasingly important part of many investor portfolios.

Today, investors have access to an even wider range of choices that provide both higher yields and more importantly, greater diversification potential.

A Mix of Different Bonds Can Provide a Better Investment Experience

Returns on Different Fixed Income Investments: 2006 – 2011

2006	2007	2008	2009	2010	2011
1.7%	2.4%	1.2%	1.3%	2.4%	2.3%
9.6% U.S. High Yield Bonds	5.1% Emerging Markets Bonds	11.5% Canadian Federal Bonds	44.5% U.S. High Yield Bonds	14.4% U.S. High Yield Bonds	10.8% Global Corporate Bonds
8.7% Emerging Markets Bonds	4.9% Global Bonds	9.6% Global Bonds	28.5% Emerging Markets Bonds	12.3% Emerging Markets Bonds	9.7% Canadian Bonds
4.1% Canadian Bonds	4.6% Canadian Federal Bonds	8.6% Canadian Short-Term Bonds	18.0% Global Corporate Bonds	9.4% Global Corporate Bonds	8.4% Canadian Federal Bonds
4.0% Canadian Short-Term Bonds	4.3% Cash	6.4% Canadian Bonds	5.4% Canadian Bonds	6.7% Canadian Bonds	7.7% Emerging Markets Bonds
3.9% Cash	4.1% Canadian Short-Term Bonds	2.6% Cash	4.5% Canadian Short-Term Bonds	5.4% Canadian Federal Bonds	6.5% Global Bonds
3.6% Canadian Federal Bonds	3.7% Canadian Bonds	-5.8% Global Corporate Bonds	1.1% Global Bonds	3.8% Global Bonds	5.0% U.S. High Yield Bonds
3.2% Global Corporate Bonds	3.7% Global Corporate Bonds	-13.9% Emerging Markets Bonds	0.4% Cash	3.6% Canadian Short-Term Bonds	4.7% Canadian Short-Term Bonds
2.1% Global Bonds	1.5% U.S. High Yield Bonds	-25.7% U.S. High Yield Bonds	-0.2% Canadian Federal Bonds	0.4% Cash	0.9% Cash

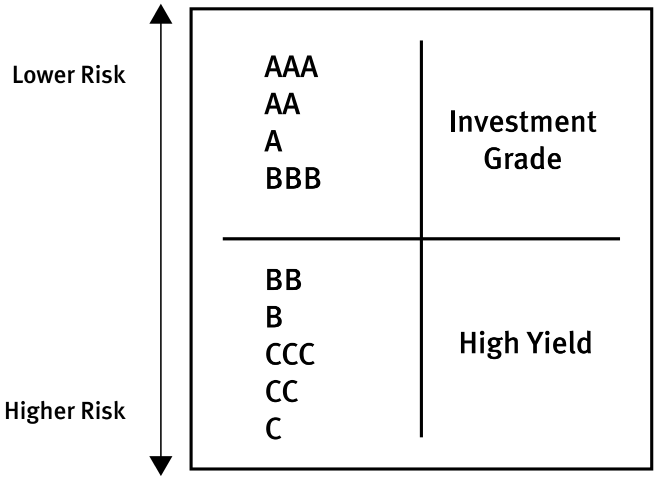
Source: RBC Global Asset Management Inc. Data: Jan. 1, 2006 - Dec. 31, 2011.

Annual Inflation	Bank of Canada	Emerging Markets Bonds	JP EMBI Global Diversified (CAD Hedged) TR	U.S. High Yield Bonds	Bank of America Merrill Lynch US High Yield BB-B (CAD Hedged) TR
Cash	DEX 30-Day Treasury Bill Index (CAD) TR*	Canadian Short-Term Bonds	DEX Short-Term Bond Index (CAD) TR	Global Bonds	Citigroup World Global Bond Index (CAD Hedged) TR
Canadian Bonds	DEX Universe Bond Index (CAD) TR	Canadian Federal Bonds	DEX Universe Federal Bond Index TR	Global Corporate Bonds	BARCAP US Corporate Investment Grade (CAD Hedged) TR

*TR represents total return

High-Yield Bonds

Similar to other corporate bonds, a high-yield bond offers a way for investors to lend money to a company in return for regular interest payments and principal at maturity. The "high-yield" label indicates a relatively lower credit quality, which is a measure of financial strength reflected in the ratings issued by agencies such as Moody's, Standard & Poor's and Fitch. These agencies assign credit grades on a sliding scale based on their judgment of the issuer's ability to pay interest and principal as scheduled. As a group, high-yield bonds are typically rated below BBB. High-yield bonds provide investors with the opportunity for high absolute returns and low correlation with other asset classes over the long term. The high-yield bond market has become an increasingly popular source of financing for many reputable companies and represents a significant portion of the total fixed income market. By the end of 2010, the U.S. high-yield bond market alone was worth close to $1 trillion.



Convertible Debentures

Convertible debentures are hybrid investments that have characteristics of both fixed income and equity securities. A convertible debenture pays regular coupons and gives an investor the option to convert the bond into shares of a company. Thus, investors receive a regular income flow through the coupon payments plus the ability to participate in capital appreciation through the potential conversion to equity. Convertible debentures are normally subordinate to the company's senior debt. Compared to equities, convertibles have some distinct differences. As they are initially bond investments, investors have a greater claim on the firm's assets in the event of bankruptcy than equity shareholders, while the income flow is more stable than dividends because coupon payments are a contractual obligation. Finally, convertible bonds offer both protection in bear markets through regular bond features and participation in bull markets through the conversion option.

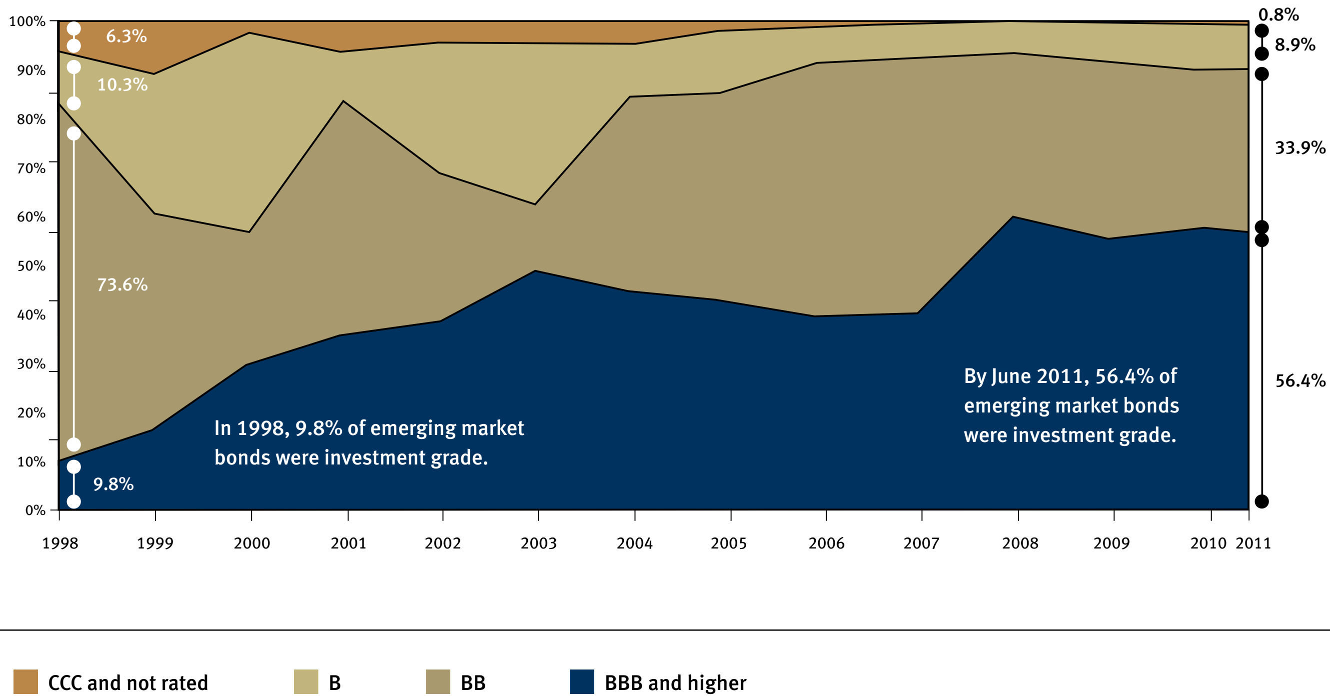
Emerging Market Bonds

Emerging market bonds typically pay higher yields than investment-grade bonds issued by developed countries such as Canada. This extra yield is essentially a "risk premium," which means that investors are compensated for the added risk of investing in countries that have shorter records of sound economic policies and less-established institutional and government frameworks.

Today, many emerging market governments are in better shape financially than their developed market counterparts on several measures of economic health, including growth rates, financial capacity and overall debt levels. Also, more than 50% of emerging market government bonds are rated investment-grade by independent rating agencies, meaning that they are of reasonably high quality.

Over 50% of Emerging Market Bonds Are of Investment-Grade Quality

Credit Ratings of Emerging Market Debt



Source: J.P. Morgan, EMBI Global Index Credit Composition.
Data as of Dec. 31, 1998 – June 30, 2011.

Why a Mix of Different Bonds Works

Over time, the performance of different bonds reflects the risk assumed by investors – that's why government bond returns typically lag corporate, high-yield and emerging market debt. But in terms of diversification, the benefit of holding various fixed income securities becomes clear when investors assess performance across the interest rate cycle. During periods when interest rates are rising, high-yield and emerging market debt tends to perform well compared to government bonds. There are several reasons for this:

- Interest rates typically rise in a strong or strengthening economy. During these periods, investors are more likely to be confident, investing in higher-yielding bonds as the economy and corporate profits improve.
- As the financial health of the issuer improves, demand for its bonds generally increases. This typically results in the value of these bonds rising.
- Regular interest payments are also higher, helping offset the negative impact of rising rates on bond values (remember that when interest rates rise, bond values decline).

Insulating Portfolios Through Different Interest Rate Environments

Areas of the bond market perform differently under changing rate environments

	Total returns over entire period (%)	RISING rate environment (%)	FALLING rate environment (%)
Government bonds	5.9	-0.3	9.9
Investment grade corporates	6.6	0.4	10.6
High-yield bonds	7.6	6.3	8.4
Emerging market bonds	10.1	11.0	9.6

Source: Government bonds: Merrill Lynch's US Treasury Master Index (GOQO); Investment grade corporates: Merrill Lynch's US Corporate Master Index (COAO); High-yield bonds: Citigroup's US High-Yield Market Index; Emerging market bonds: JP Morgan Emerging Market Bond Index (EMBI) Global. Bond return history Jan. 1994 – Jan. 2011.

Diversification is not just about building a portfolio; it's also about maintaining it over time.

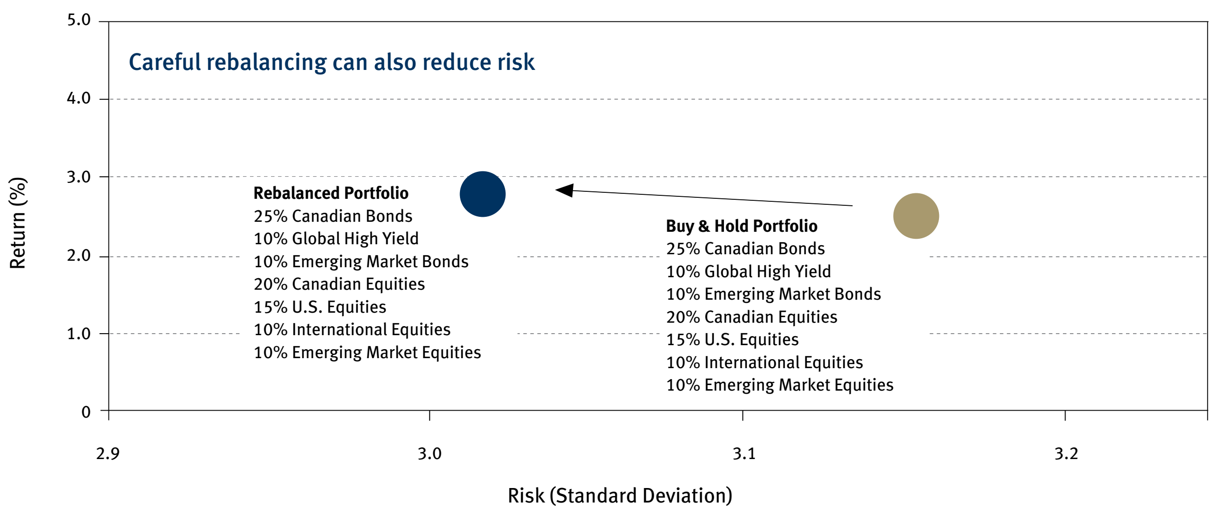
Putting It All Together

Diversification is not just about building a portfolio; it's also about maintaining it over time. Due to market movements, portfolio holdings will grow at different rates, and as a result the weightings of each asset class will drift. This drift will ultimately change the composition of the portfolio and possibly lead to a performance experience that is very different from what the investor was expecting.

Regular rebalancing is part of a disciplined approach to investing that keeps portfolios on track. Left untouched, asset mix drift could result in exposure to unexpected risk or missed opportunities. Rebalancing may also help investors buy low and sell high, which over time can reduce volatility and may help enhance returns, aiding investors in achieving their long-term objectives.

Evolving financial markets, new sources of global economic growth, and technological enhancements have all highlighted why investors need to continually review how they diversify their portfolios. The approach to diversification has evolved dramatically over the past 20 years, with new types of securities and investment styles coming to light. Furthermore, investors now have the option of diversifying between regions, sectors, asset classes, capitalizations, equity styles and fixed income issuers. While taking all of these products and approaches into account adds some complexity to the portfolio management process, there is a significant payoff to doing so as it serves to reduce risk and mitigate volatility levels, ultimately leading to an enhanced investor experience.

A Strong Portfolio Includes Proper Building Blocks and Ongoing Monitoring



Source: Morningstar Direct, Risk/Return – Five Years Ended December 2011. Rebalanced annually at calendar year-end.

In times of rapid change, ongoing planning is more important than ever.

Business Planning for the Long Term

Regular Updates Help Companies Focus and Grow

A Living Document

If a company is to stand the test of time, then its business plan must do the same.

In 1932, Konosuke Matsushita, the founder of the company now known as Panasonic, famously created a 250-year corporate plan. That may seem ambitious, but well-run companies always take the long view.

Often, organizations put great effort into crafting their original plan — detailing their team, marketing, operations, finances, risks, etc. — only to file it away once it has achieved its initial purpose. However, the best business plans should be living documents.

In times of rapid change, ongoing planning is more important than ever. Revising a plan yearly and checking it every six months or so is reasonable. But there's no set schedule; you should always be thinking about how to improve your plan. Standing pat — going about "business as usual" while times change and competitors encroach and emerge — is itself a business risk.

Finishing a plan is like killing it. "While this might seem like chaos, it's actually the opposite," writes business planning expert Tim Berry in Entrepreneur.com. "The constantly updated business plan makes order out of chaos. It becomes a long-term planning process that sets up your strategy, objectives and the steps you need to take."

Companies, and the environment in which they operate, aren't static. Circumstances will dictate when it's necessary to update your plan; for example a change in the business environment, emerging opportunities, the availability of talent, the entry or failure of a competitor.

The key is to be flexible. "They always say 'write a business plan in pencil' because things change," says Becky Reuber, Professor, Strategic Management, Joseph L. Rotman School of Management, University of Toronto.

By continually reassessing and revising their plan, businesses can remain on the right path, and be prepared to confront new challenges and seize new opportunities.

The key is to be flexible … because things change

Who Is a Plan Really for?

As a company updates its business plan, there are at least three key audiences:

1. Investors/Lenders

Anyone who might provide capital to your business — banks, other investors, suppliers, government grant providers, etc. — wants to ensure that you demonstrate a sound plan, one aligned with quantifiable business goals.

2. Partners/Customers

The plan can reveal your synergies, stability and service, and identify potential business risks such as an over-reliance on any one customer or supplier.

3. In-House

Even if no one outside of your company ever reads it, "simply by planning, you're thinking strategically and considering new threats and opportunities," says Reuber. "It's the process that's important, not just the plan."

Why Plan?

Business planning may be associated with the startup phase of a business. But such plans can be just as valuable for businesses at any stage. Here are five reasons:

1. Get with the Times

As businesses grow, add new products or services, enter new markets and shift their focus, formal plans have to reflect such evolutions and adapt.

2. Get Back to Basics

Regardless of a company's experience, it's smart to return to business fundamentals, especially during uncertain economic times. That means having a deep understanding of their business capabilities, competition, limitations, market opportunities or issues, strategic imperatives, and the financial strategy to support the business strategy. All of which translates into a sound business plan.

3. Get Credit

A business that can demonstrate a solid, well-articulated business plan markedly improves its chances of obtaining financing support.

4. Get a Fresh Look

Regular updates allow a company to take a fresh look at its business. Writing on Entrepreuner.com, Berry says you need to "distance yourself from the trees and look at the forest." For instance, talk to current and potential customers. What are they buying? Review your value proposition. Or think of new market segments; if you normally do it by type of product, look at it by channel or buyer.

5. Get Prepared

During times of economic prosperity, many companies can grow with or without a definable competitive advantage, perhaps even without fundamental business disciplines. Today, it's imperative for all companies to rethink their business approach. Planning for the unexpected is now as important as planning for success. By continually updating their plan, companies have a blueprint to guide them through any cycle.

What Are Your Fundamentals?

What goes into your ongoing business plan? If your company has to reset or embark on a new direction, the approach could very well be along the same lines as a business plan for a startup. But usually there are differences.

For one, an inaugural business plan includes a set of assumptions that you hope will be realized. Your demand is largely speculation. Once you've been in business for some time, you understand how your customers interact with your products or services. You have a track record and experience. So you're starting with a larger base of "knowns".

Ultimately, every business plan should come back to assessing these six fundamentals:

1. Your Company

- Beyond the basics, what differentiates your company now from the competition?
- What are your strengths and, just as important, your weaknesses?
- What is your market niche? Be specific. Stating that your business is the "leading player" or has a "technological advantage" is not enough. Describe how your organic pet food is unique, and how you'll target and reach customers and stand out.

2. Your Industry

- Include your up-to-date knowledge of the industry. What is the current environment? Have there been systemic changes? Are there new opportunities, risks and threats?
- What are your plans to address any risks, such as diversification, de-scaling operations and lowering your leverage?

3. Your Management Team

- What's the management breadth and record? Think of past accomplishments, as well as current capabilities and limitations. You could have a skilled management team but lack depth for succession should a key member of your team exit.
- How are you overcoming management limitations?
- How are you proactively managing the business (e.g. reviewing fixed and variable expenses, identifying ways to reduce costs, managing cash flow and managing receivables more aggressively)?

4. Your Competition

- What is the competitive landscape — what is the competition doing today and what are they likely to do in the future?
- Beyond looking at who you're competing against now, where is the potential emerging competition? This could include companies who might move into your sector/niche.

5. Your Business Strategy

- Apart from your revenue or profit goals, what are your overall business goals? Describe your objectives, the background of your objectives and your plan to achieve them (see "From Strategy to Action" on the following page).
- What are the critical risk factors that could impede the execution of the strategy? For example, are you relying on a limited number of clients or suppliers for success?
- Is your business strategy backed by a solid financial strategy?

6. Your Financial Strategy

- What are your financial forecasts, and are they aligned with the business strategy to represent a realistic picture?
- How could unexpected events impact the viability of the plan? A lender will often apply this test to assess if the company is flexible enough to withstand changes in its business environment. For example, a company may discover that it is overly exposed to interest rate changes or foreign currency, and could explore appropriate financial strategies (e.g. fixed vs. floating interest rates, foreign exchange forwards).

From Strategy to Action

It's said that action without strategy is a nightmare — but strategy without action is just a daydream. Making a business plan come alive requires solid action and implementation plans that include:

- Creating demanding yet realistic objectives, with firm tactics to support your strategy.
- Defining and assigning responsibility for each action.
- Creating clear and achievable timelines with set milestones.
- Setting measures for success using solid metrics.
- Monitoring activities and progress, and adjusting as needed to stay on course.

Depending on your business strategy, you may need several implementation plans, one for product planning, one for sales and marketing, one for human resources, etc.

Role of Your Advisors

As you revisit your business plan, having the right partners at the table can be invaluable. Outside advisors not only provide specific assistance, they bring the experience and insight gained from supporting other businesses through planning at different stages. Consider just some of what these professionals can offer:

- Accountants: Advice on business restructuring, taxation, cash flow, acquisitions, investments, etc.
- Bankers: Advice on financing options, growth considerations, cash flow, risk management, succession, etc., and connections with a network of experts within the financial institution.
- Lawyers: Advice on corporate structure, negotiation of agreements, drafting of contracts, etc.
- Board of advisors/directors: In some cases, the individuals noted above form a board of advisors. Other types of advisors could also be part of that body. Or you could have a formal board of directors. What these advisors offer that a business owner might lack — besides their particular expertise — is an objective perspective of the business. Your board can help create, revise or endorse your company's business plan, helping you to emerge in strong shape from any economic cycle.

Do Businesses Rely on Their Advisors Enough?

A February 2009 survey by PricewaterhouseCoopers ("Business Insights Pulse Survey") found that 44% of companies do not routinely share forecasts with their banker, and 37% communicate with their banker no more than quarterly. (Half of the companies hadn't even revisited, refined and/or increased the frequency of their forecasting in light of the current economic environment.)

As PricewaterhouseCoopers concludes: "Sharing and discussing your plans on a regular basis could give your banker greater understanding so they can provide more helpful business guidance."

Planning to Plan

Dealing with day-to-day business demands, it can sometimes be difficult to take the time to reassess where you stand — and where you want to go. That's why businesses need to plan to plan. Four keys to remember:

1. Plan at all Stages

Especially in times of rapid change, whether in your business, your industry or the economy.

2. Plan at Least Annually

Revisit your plan once a year, on average, but check it even more often to ensure that it still applies and you're still on track.

3. Plan Around the Fundamentals

Keep returning to six critical areas: evaluating your company, industry, management, competition, business strategy and financial strategy.

4. Plan with Support from Your Financial Advisors

Keep in touch regularly with professional advisors such as accountants and bankers, who can equip you with the knowledge, information and tools required to plan ahead. The insight provided by professional advisors — overall and industry-specific — can help companies to not only sustain their business, but improve their chances of obtaining financial support.

Outside advisors not only provide specific assistance, they bring the experience and insight gained from supporting other businesses through planning at different stages.

Business Plan Checklist

If you're seeking significant financing at any point in your company's history, lenders will likely want to see a detailed business plan. For guidance and sample plans, see www.rbcroyalbank.com/sme/create-plan.html.

Here are the basics to cover off:

- Introductory letter: Reason why you're submitting your plan, highlighting key points.
- Table of contents: Outline of each section at a glance.
- Executive summary: The most important part of your business plan — your business concept — as well as what will make it successful, and how much you'll need from the lender.
- Management team: Background, responsibilities and qualifications of key personnel and advisors.
- Business summary and history: An overall picture of your business, from inception to its success to date, to future objectives.
- Industry overview: Snapshot/analysis of current market conditions for the industry, consumer demand and the competition.
- Positioning of services/products: Your business's niche — what's unique about it, and how you'll establish a strong position within the existing industry.
- Marketing plan: An outline of your target market, how sales are generated, costs and pricing, and distribution and promotions plans.
- Operations: The mechanics of your business (e.g. work flow, inventory controls, personnel requirements, production schedules).
- Financial plan: Profit and loss, balance sheet, projected income and expenses, sales and, most important, cash flow statements.
- Risks: An outline of the risks involved, your steps to avoid them and your contingency plans if they occur.
- Conclusion: A restatement of the goals and objectives for your business, the financing you're seeking and why you're a qualified applicant.

Estate Planning for Blended Families …

Where to Begin with New Beginnings?

Yours, mine and ours is more and more becoming the norm in our society. And, as anyone who is part of a blended family will tell you, it comes with its own set of rewards and challenges. One area that can be particularly tricky is estate planning, Wills and the division of assets.

The three most important things to keep in mind to make planning for blended families as uncomplicated and equitable as possible is to communicate expectations, protect your own children, and provide for your spouse. Be open with everyone who has a stake in the planning and discuss everyone's needs and desires. It's better to have the difficult conversations upfront and avoid unfounded assumptions from either party, than to deal with conflict down the road as a result of a lack of planning.

Children from a previous relationship need to be considered separately from your spouse. Leaving the decision up to your spouse as to how to divide your assets after your death leaves the door wide open for conflict and hard feelings, regardless of how good the relationship between that person and your children may be. You also need to make sure you plan to provide for your spouse or life partner. Again, leaving that decision up to your children may not go the way you would have wanted after your death.

So, with those three considerations in mind, what else do you need to know before you tie the knot for a second, or perhaps third, time?

The content in this article is for information only. It is essential that you consult your legal advisor to discuss your own circumstances.

New Wills

It is very important to know that in several Canadian jurisdictions, a new marriage renders all previous Wills null and void.[1] The only exception is if the existing Will was made in contemplation of the marriage. If you do not make a new Will after you marry, or a Will in contemplation of marriage before you marry, and then pass away, your estate will be treated as if you died without a Will (intestate) and your estate will be distributed in accordance with the intestacy laws of your province (i.e. the *Succession Law Reform Act* if you reside in Ontario). Therefore, if you have re-married or plan to re-marry, make preparing a new Will a priority, regardless of how you want to divide up your estate.

Restrictions on Testamentary Freedom

In several provinces, a legally married spouse may apply for the division of matrimonial property upon the death of a spouse. In Ontario, a spouse is entitled to an equalization of net family property pursuant to the terms of the *Family Law Act* (Ontario). If one partner does not adequately provide for the surviving spouse in their estate plan or Will, the surviving spouse can make a claim against the deceased's estate. Similarly, a dependant of the deceased – such as an adult child with special needs – is also entitled to make a claim against the estate if adequate provision for his or her needs has not been made.

Although this discussion deals only with the rights of legally married spouses, persons entering common-law relationships should be aware of their respective rights and entitlements as well. The law surrounding the rights of common-law partners is in a state of flux and common-law partners are being accorded more rights than ever before. Consequently, couples entering common-law relationships should seek legal advice in revising and preparing their estate plans.

Income Tax Implications

While a Will addresses the distribution of assets within an estate, many people also have assets that will pass outside of their estates, either through joint-ownership with another person or by beneficiary designation of a registered plan or life insurance policy.

If you designate a beneficiary of your registered plan or life insurance policy, you should ensure that the beneficiary designations are consistent with the terms of your Will in order to avoid any confusion as to the beneficial ownership of such plans.

In the case of assets for which a beneficiary can be designated, make sure you consider the tax benefits available by naming your spouse as the beneficiary. For example, with a Registered Retirement Savings Plan (RRSP), you can have the full value of the plan roll over to your spouse's RRSP upon your death and defer the taxes that would otherwise be payable on the value of the RRSP until the surviving spouse either withdraws from the RRSP or passes away. If you name your children as the beneficiaries of your RRSP, there may be tax-deferral opportunities if you have financially dependent minor children or grandchildren or dependent children or

[1] In Quebec, marriage does not render all previous wills null and void. Under the Wills and Succession Act (Alberta) that came into force on February 1, 2012, a marriage no longer revokes a Will in Alberta. Similarly, in British Columbia, under the proposed Wills Estates and Succession Act , a marriage will no longer automatically revoke a Will once the new legislation comes into force.

grandchildren who are mentally or physically disabled. It is also possible to "rollover" the proceeds of your RRSP/RRIF into the Registered Disability Savings Plan (RDSP) of your financially dependent disabled child or grandchild. If you name adult children who do not fall into the above category as your beneficiaries, your children receive the full amount of your RRSP, but the fair market value of your RRSP will be included as income in your year of death and the entire tax liability will fall to your estate.

Proceeds from an insurance policy can also pass outside of your estate and be received free of income tax and estate administration tax provided you designate a beneficiary on your life insurance policy (other than your estate).

Choice of Executor

It's important to give adequate consideration to your choice of executor.[1] Should you choose your spouse as executor, or your spouse and children, or a combination of your children from both prior and current relationships? Consider if, and how well, the individuals will be able or willing to work together on the administration of your estate. You may want to think about using a neutral third party to act as executor such as a trust company, lawyer or accountant. While a neutral third party may incur increased costs for the estate, keep in mind that the estate will also incur significant costs if litigation ensues.

[1] Estate Trustee with a Will in Ontario; Liquidator in Quebec.

Estate Planning Strategies

Having taken into account all of the considerations above, rest assured, there are strategies available to pass wealth on to your children from a previous relationship while still providing for the needs of a surviving spouse as well. These include division during life by gifts, alter ego trusts or joint partner trusts; division after death by life insurance or testamentary trusts. In addition, equalization claims and dependant support claims between spouses, as discussed above, can be released or waived by written agreement.

Division during Life

One option is to make a division of estate assets prior to death in a manner that will satisfy both your desire to leave wealth to your children from a previous relationship as well as your support obligations owed to a surviving life partner. During your lifetime this can be done by making outright gifts or by establishing alter ego or joint partner trusts, for example.

Alter Ego Trusts

As mentioned earlier, the courts can interfere with your estate plan should there be any question as to the adequate and equitable distribution of your estate to your spouse and children. One way to avoid this is to hold assets outside of your estate, through the creation of either an alter ego trust or a joint partner trust. In order to qualify as an alter ego trust under the terms of the *Income Tax Act* (Canada), you must be 65 years of age or older at the time you set up the trust and the terms of the trust must specify that only you are entitled to the income of the trust and that no one else can receive income or capital from the trust before your death. As the assets are held in a trust during your lifetime, at your death, the assets are distributed based on the terms of the trust document, and not your Will. Accordingly, the assets held in an alter ego trust cannot be the subject of any maintenance or support claims made against your estate.

Joint Partner Trusts

A joint partner trust is similar to an alter ego trust. The main difference between the two trusts is that in order to qualify as a joint partner trust, the settlor of the trust and his or her

Be open with everyone who has a stake in the planning and discuss everyone's needs and desires.

spouse must be entitled to receive all the income of the trust and remain the only persons entitled to receive the income or capital of the trust until the death of the surviving spouse. A joint partner trust ensures that your spouse continues to receive the benefit of the assets during his or her lifetime. Upon the death of the surviving spouse, the assets are distributed to the beneficiaries named in the trust document, which could be the children of your previous marriage.

While there are several advantages to using these kinds of trusts, they are not without their drawbacks. It is important to discuss with your legal advisor how they could apply to your particular situation.

Testamentary Trusts

Testamentary trusts are trusts that come into effect upon death, the terms of which are set out in your Will. Testamentary trusts enjoy special treatment under the *Income Tax Act*. Similar to an individual taxpayer testamentary trusts are taxed at graduated rates rather than at the highest marginal rate which is the case for inter vivos or living trusts. Properly structured, testamentary trusts can provide significant tax savings for your surviving beneficiaries, in addition to helping you achieve your estate planning objectives.

Testamentary Spousal Trusts

Another option to provide support to a spouse after death is the creation of a testamentary spousal trust under your Will. Testamentary spousal trusts enjoy several tax benefits. When you die, you are deemed to dispose of all the assets you own and your estate is liable for the income tax owing on the capital gains accrued on those assets. However, if the assets are transferred to a testamentary spousal trust at the time of your death, the deemed disposition on death (and the associated tax liability) can be deferred until the property is either sold or the surviving spouse dies. The trust must provide that only your spouse will receive income (and capital if you desire) from the trust assets during his or her lifetime. Your will can also direct that on your spouse's death, the remaining spousal trust assets will be distributed to your children. Keep in mind that your choice of trustee is critical. To avoid tension, you may want to consider an independent trustee. It is essential to discuss this with your legal advisor.

Life Insurance

Life insurance is often an important estate planning tool for blended families. Because the proceeds of a life insurance policy will be available on your death, life insurance can effectively serve to create an inheritance to leave to your beneficiaries. Designating your children as the beneficiaries of a life insurance policy may satisfy your obligations to them, thereby freeing up your estate to be left to your spouse.

Marriage Contract

Marriage contracts serve multiple uses, particularly in second marriages. They let you protect your assets and enable you and your new spouse to outline what assets each of you will allocate for your respective children. Equally important, a marriage contract takes precedence over any subsequent Will made by either you or your spouse, effectively governing your affairs in the event of your death. They can also be used to settle legal rights in the event the marriage doesn't work out or in the event of your death. Although you can prepare a marriage contract at any time, know that the rules change once you are married.

Year-End Investment Management

Change Is in the Air

The forest that produces the fall's colourful landscape is made up of strong healthy trees, deadwood and trees that never realized their potential. You may find that your investments have very similar characteristics. Through careful planning and management you can help ensure that your portfolio is well positioned for the next cycle of growth. Your portfolio management tools should include appropriate tax strategies but, just as you would hire a professional to properly trim a 60-foot tree, it is wise to consult a tax professional if you are considering implementing any tax strategies.

Sometimes, an investment may become totally worthless and delisted. This could happen due to changing business conditions, regulatory changes, political and societal changes and even fraud. There are almost as many potential reasons as there are fall leaves.

Just as a forest benefits from the removal of the deadwood, you can position your portfolio for future growth by removing investments that shrivelled up. One advantage of pruning out the deadwood is that it may enable you to realize capital losses that you can use to reduce the tax you incurred by harvesting gains in other areas of your portfolio. Capital losses do not expire, so you can carry them forward indefinitely to apply against your future capital gains. You can also carry capital losses back three years to offset capital gains in those years.

The next question is how to get rid of securities that have been delisted. The loss you have incurred is just as real as a loss realized before a stock is delisted but, to let the taxman know you realized this loss, you will need a few extra tax tools to finish the job. There are two options. Will you choose a deemed disposition or an actual sale to another individual? A third option exists with some institutions where they will allow you to dispose of the security directly to them. You will not receive any consideration for this security from the financial institution. To ensure you can claim the loss on your tax return, the disposition of the security must be permanent and you will not be able to reacquire the security should it ever have value in the future. For more details on this option, refer to your advisor.

Worthless company shares can be claimed as a loss on your tax return if the company meets several conditions, without having to dispose of them on the open market or sell them to someone else. You can elect to have the worthless share deemed to be disposed of under the *Income Tax Act* if the company is bankrupt under the *Bankruptcy and Insolvency Act*, became insolvent and a wind-up order has been issued under the *Winding up and Restructuring Act*, or if it meets all of the following four conditions:

1. The company is insolvent;
2. The company is no longer carrying on business;
3. The fair market value of the shares is zero; and
4. The business is likely to be wound up or dissolved.

Do not confuse a company that has filed for bankruptcy protection with a bankrupt company. A company that has filed for bankruptcy protection is still functioning and is in a potentially lengthy period of transition.

If you want to dispose of your holdings in a company and you do not want to wait for a company in this position to sort itself out, your next option is to find your own buyer. At this point it is important to be careful. The taxman will not allow you to sell to just anyone. There can be negative tax consequences if you sell securities in a loss position to anyone with whom you are "affiliated." You could trigger the superficial loss rules. If this occurs, your loss will be denied and added to the cost base of the affiliated person. The loss may eventually be realized by that affiliated person when he or she sells the securities but it will not enable you to realize the loss in your name. Note that an affiliated person could be your spouse, a company controlled by you or your spouse, or a trust in which you or your spouse are a majority interest beneficiary. However, you could sell the shares to your parents, brothers, sisters, children, cousins, nephews or friends to enable you to realize a loss.

The superficial loss rules consist of two parts. You must meet both conditions to trigger them. First, the affiliated person must purchase the identical security 30 days before or 30 days after your loss sale settles. Secondly, your affiliated person must be holding the identical security on the thirtieth day after settlement of your loss security. If you meet both these conditions, the superficial loss rules will be triggered and your loss will be denied. It is possible to sell your loss security to your affiliated person but they would need to sell it before the thirtieth day after your sale to them to enable you to claim the loss on your tax return.

If you are still dealing with a few securities that are not performing well for some reason, these could be late bloomers. The company, their fundamental business model, and the product they sell are all sound and hold great potential but it simply hasn't been reflected in its share price yet. You may still wish to hold these securities. They are like the smaller trees in the forest struggling to reach the sunlight.

You may have other underperforming securities that you will want to remove. These may have underperformed because some aspect of the company or its products has changed. The fastest and most common way to remove these securities is to sell them into the market. This would give you a capital loss that you can use in the current year or carry back three years or carry forward indefinitely. If you sell your securities into the market, ensure that someone affiliated with you does not buy them 30 days before your sale or 30 days after your sale and continues to hold the security on the thirtieth day after your sale. This will trigger the superficial loss rules and prevent you from using the loss.

There is also another way to get a current year tax break if you cannot use the losses yourself. You may wish to transfer your losses to your spouse so they can offset any gains they may have on their investments. There are four steps to follow to make this work:

1. First, sell your loss securities to your spouse for their fair market value. Your spouse must pay you full value for them to avoid the attribution rules. The payment for the shares should come from your spouse's own funds or you can loan your spouse the necessary funds at the prevailing prescribed interest rates.

2. Next, your spouse must hold the securities for 30 days to trigger the superficial loss rules. By triggering the superficial loss rules your loss will be denied and added to your spouse's adjusted cost base. After 30 days, your spouse sells the security and realizes the loss on their tax return. If a loan was used to finance the purchase transaction, then the proceeds on the sale of the security can be used to repay the loan if necessary.

3. Your last step is to file a letter with your tax return stating that you wish to have the provisions of subsection 73(1) of the *Income Tax Act* NOT to apply on the disposition of your shares to your spouse. This is necessary so that you sell the shares to your spouse at fair market value. Share transfers between spouses happen at cost unless you file this election with your return.

Proper planning and management will help you acquire a portfolio that is as awe-inspiring as the fall colours of a well-managed forest.

Even strong and healthy investments need attention, just as the largest trees in a forest have to be pruned to make room for the next generation. Selling investments at a gain is never a bad thing; whether the reason is to prevent the portfolio becoming overweight in certain securities, to free up capital for the next opportunity or simply to harvest the gains. Capital gains are already one of the lowest taxed forms of investment income. What's more, taxable capital gains can be reduced by the capital losses you realized as a result of the portfolio-cleaning described previously.

Even if you have exhausted all your losses, there is one more way to transfer up to 25% of your unrealized capital gains to your spouse if they have capital losses that they cannot use to offset their own gains. A simple share transfer does not work as this will trigger the attribution rules and any gains realized by your spouse will be deemed to have been realized by you and taxed in your hands. The following steps will help you manoeuvre through the tax rules effectively:

1. First, gift half the securities to your spouse. Transfers between spouses happen at cost so you will have no tax to pay on your disposition.
2. Second, sell the remaining half of the securities to your spouse at fair market value. You will realize a capital gain when you dispose of this part. Don't forget to elect out of subsection 73(1) in your tax return. This will ensure that the transfer happens at fair market value and that your spouse is taxed on the resulting sale.
3. Your spouse sells all the securities on the open market.

You gifted half the securities and sold the other half. The capital gain that your spouse realized on the securities you gifted to him or her will attribute back to you, however the gain will be less because of the weighted-average cost rules. Your spouse's adjusted cost base was bumped up because of the shares they purchased at fair market value. In addition, you realized a capital gain on the securities that you sold to your spouse at fair market value. The capital gain that attributes back to you plus the capital gain you realized on the sale to your spouse equals 75% of the total capital gain. That means that 25% of the capital gain will be taxed in your spouse's hands and he or she can use their capital losses to offset this. Due to the combination of the weighted-average cost rules and attribution rules, 25% of the capital gain could be taxed in your spouse's hands rather than yours.

By using these complicated tax rules carefully, after review with your tax advisor you may create a better portfolio and save some tax dollars along the way. Proper planning and management will help you acquire a portfolio that is as awe-inspiring as the fall colours of a well-managed forest.

Help Protect Yourself Against Identity Theft

Most of us have read or heard about incidents of identity theft in the news – some of us may even have family or friends who have been victimized. While banks, law enforcement officers, and governments are doing their part to clamp down on this type of crime, Canadians have an important role to play, too.

Criminals have found clever ways to steal identities – that is, to illegally obtain and use someone's personal information – in order to conduct activities in that person's name. However, there are many things consumers can do to protect themselves.

The best line of defence? Get informed, and stay informed. In other words, know what to look for, and be diligent with your personal information.

Here are five common misconceptions related to identity theft. Understanding the truth behind these misconceptions may help you to become a more fraud savvy consumer.

Misconception 1:

Law enforcement officers and employees of your financial institution are allowed to request your PIN.

No. Law-abiding individuals or institutions will never ask you for your PIN – this includes merchants, law enforcement officers, and employees of your financial institution. In fact, you should never disclose your PIN to anyone, even family and friends. It is for your eyes only. Safeguarding your PIN is one of the most effective ways to protect yourself against identity theft and the scams of unscrupulous people.

Other things you can do to keep your PIN safe: Memorize it and avoid writing it down, especially on something in your wallet; try to avoid picking obvious words and numbers for your PIN, such as your name, telephone number, birthdate, or address; and shield the keypad when you enter your PIN at an ATM or point-of-sale device at retail locations.

Misconception 2:

Disposing of receipts, bills, bank or credit card statements and other documents containing personal information in the garbage is good enough.

No. Thieves have been known to rummage through garbage and recycling bins for personal information. To protect yourself, shred or otherwise thoroughly destroy all documents that contain personal or confidential information, including bank statements, transaction records, insurance forms and credit card offers. Another tip: familiarize yourself with your billing and statement cycles and be sure to follow-up if your bills or statements don't arrive on time. Also, ensure that you promptly clear your mailbox after delivery.

Misconception 3:

Online scams trying to steal personal and confidential information are easy to spot.

Not always. Fraudsters have been able to create very official-looking and convincing e-mail messages and web pages that appear to come from legitimate businesses. Some even incorporate slogans, images, logos, and other key pieces of identifying information from well-trusted sites. Using these, fraudsters will often try to lure unsuspecting victims into submitting passwords and sensitive financial information (a process often referred to as "phishing.")

Many scams employed by fraudsters, such as "phishing" e-mails, can be distributed to very large groups of people. Use common sense and be wary of any e-mail that asks for personal information, even if it claims to represent your financial institution. If you receive a suspicious-looking e-mail, report it to the organization that appears to be contacting you.

Misconception 4:

Fraudsters usually only target seniors and wealthy individuals for identity theft.

The truth is anyone can be a target. Fraudsters will look for ways to steal from anyone whose personal information is vulnerable, irrespective of age or financial assets. Prevention efforts can make a big difference as to whether or not they succeed.

Misconception 5:

Identity thieves can't do much harm … can they?

Identity thieves can do a lot of harm. Thieves have been known to use personal information to access an individual's financial accounts, to open new credit cards and to charge purchases to existing ones, to open new bank accounts, and to obtain false loans and mortgages. In some cases, thieves have obtained government benefits or documents in the victim's name. At least once a year, request a copy of your credit report from both TransUnion and Equifax. Review it carefully and report any inaccuracies.

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