RBC Wealth Management

Family Wealth Management

Ten strategies to build and protect your family's wealth

There's Wealth in Our Approach.™

RBC Wealth Management

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RBC Wealth Management® provides comprehensive services designed to address your multi-faceted financial concerns, simplify your life, give you the freedom to pursue your other priorities and provide you with the confidence that your goals will be achieved.

Whether you need assistance managing your family's wealth, maximizing your business investments or providing stewardship for non-profit assets, RBC Wealth Management brings together the solutions you need in key areas such as financial planning, private banking, investment management and estate and trust services.

Tailored to your individual needs by your RBC® advisor, RBC Wealth Management provides the specific services you need, today and in the future. Your RBC advisor, supported by a team of specialists drawn from RBC Wealth Management member companies, helps you address your various wealth management needs through each stage of your life:

- Accumulating wealth and growing your assets
- Protecting your wealth by managing risk
- Managing the affairs of a loved one
- Converting your wealth to an income stream
- Transferring wealth to your heirs
- Creating an enduring legacy

RBC Wealth Management Publications

To help you understand your choices and make informed decisions, RBC publishes a wide variety of financial, tax and estate publications, written by leading authorities on wealth management for high-net-worth Canadians. Please ask your RBC advisor for information about other RBC Wealth Management publications.

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Introduction

Family Wealth Management

Most Canadians don't consider themselves "wealthy" – even when they have a relatively high net worth and own million-dollar investment portfolios. Surveys of Canadian millionaires reveal a modest attitude towards wealth, with most respondents viewing themselves as financially secure, rather than wealthy.

Regardless of how you view your financial status, there are some unique financial planning issues and strategies that you should consider when you have $1 million or more in investment assets.

In this guidebook, we highlight 10 strategies that can help you protect your assets, reduce taxes, plan for retirement and maximize your estate. This guidebook is for information only and is not intended to be or to replace legal or tax advice. Please be sure to consult a qualified legal and tax advisor before implementing any strategies. Together with your tax, legal and RBC advisor, you can determine which strategy or strategies, explained on the following pages, make sense for you and your family.

This guidebook assumes you and your family are Canadian residents and not U.S. citizens or U.S. green card holders.

Strategy 1 – Comprehensive Financial Planning

Gain Confidence in Your Family's Financial Future

If you have $1 million or more in investment assets, your financial situation is more complex than the average Canadian. You may pay higher taxes and have a higher standard of living. Maybe you are an executive with a complicated compensation package or a business owner with an interest in a private corporation. In addition, you possibly own or plan to own more than one real estate property and likely have a larger estate to be transferred and charitable giving desires. Furthermore, you are very busy with your day-to-day work and family life and may not have spent the time to determine if you are on track to achieve your retirement goals and other important financial goals such as minimizing taxes or planning for the eventual transfer of your estate.

Creating Your Financial Plan

One of the best ways to start mapping out your financial planning strategy is to step back and look at your overall financial situation by having a comprehensive written financial plan prepared for you and your family. This type of financial plan addresses all aspects of your financial affairs, including cash and debt management, tax and investment planning, risk management and retirement and estate planning. It ensures that you leave no stone unturned related to your financial situation and potential strategies to enhance your wealth.

A comprehensive financial plan can address the following questions:

- Can I retire when I want to and maintain my desired retirement lifestyle?
- How can I ensure that I don't outlive my money?
- How can I minimize the taxes I pay each year?
- Is my investment mix appropriate?
- If I were to die unexpectedly, would my family be taken care of?
- How can I protect the value of my estate?

A Higher Level of Customization

In many cases, the key to a comprehensive financial plan is the level of customization it offers.

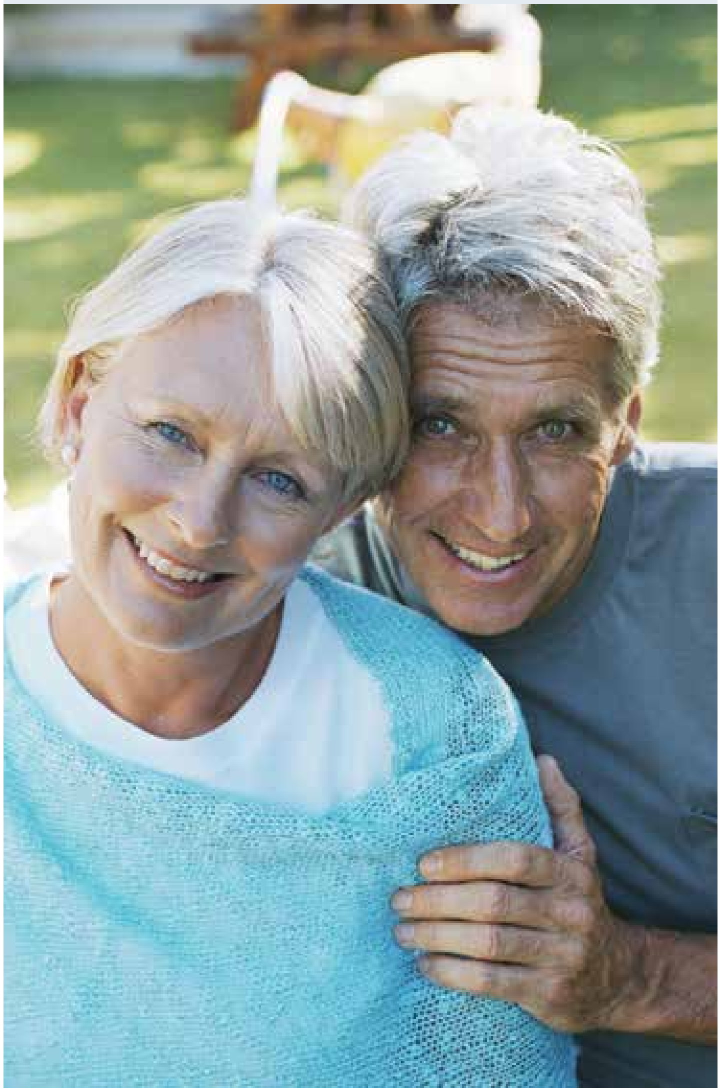
A customized, comprehensive financial plan should involve the following:

- In-depth discovery discussion to ensure that your goals, aspirations and objectives are clearly identified
- Projection of your financial situation (investment, retirement and estate) based on your current strategies and savings rate
- Recommendations of key investment, tax, estate and retirement planning strategies that are aligned with your goals
- Projection of your financial situation if the recommended strategies are implemented
- An action plan that summarizes the key recommendations and a clear guideline for you and your RBC advisor to help monitor their implementation

Speak to your RBC advisor if you require more information about having a comprehensive financial plan prepared for you. Depending on your situation, you may only require a simple retirement plan or projection to determine if you are on track for meeting your retirement goals.

Family Wealth Management Tip

A comprehensive financial plan is essential if you are a business owner as you have more complex financial issues due to owning an active business. This includes business succession issues, withdrawing money from the corporation tax-effectively, the taxation of the corporation at death and more. Like many business owners, you may not have a retirement savings strategy since you are relying on the equity in your business to fund your retirement. A financial plan can help integrate your business and personal needs into a plan to ensure you are able to meet your goals.



Strategy 2 – Consolidation of Assets

Simplify Your Financial Life

Diversification is one of the golden rules of investing to reduce risk and may boost your return potential over time. Investor surveys indicate that wealthy investors open multiple accounts of the same type, with different financial institutions and different advisors, either because it simply happened this way over time or because they believe it to be an effective way to diversify. But diversification is really about how you invest your money – not where you keep it. Investing through multiple accounts and multiple advisors instead of consolidating your assets with one trusted advisor may impede proper diversification and potentially expose you to greater risk.

Family Wealth Management Tip

Sometimes, investors decide against consolidating their assets with one advisor, thinking that they can "diversify by advisor." This is particularly true of investors with portfolios of $1 million or more. The idea is that if one advisor doesn't do well, the other might.

Unfortunately, this is a myth. By dividing your investments among multiple advisors, you actually make it more difficult to properly manage your investments. Since each of the advisors doesn't know what the others are doing, it often results in over-diversification, conflicting advice and needless duplication of your investments. Furthermore, it's difficult to know how your investments are performing overall by having your assets spread among more than one advisor.

A better option is to consider consolidating your assets with one knowledgeable advisor who can provide you with a properly coordinated financial strategy.

The benefits of consolidating your assets with one advisor may include:

Reduced Costs

By consolidating your investable assets with one trusted advisor, you will typically pay lower fees, assuming the fees are based on a sliding scale as they are with many investment accounts and programs. By spreading your investments among multiple advisors and multiple financial institutions, you lose this advantage.

Simplified Administration and Consolidated Reporting

With consolidation, you bring together all your investment accounts with one advisor, which makes it much easier to keep track of your investments and their overall performance. The paper statements you receive in the mail are minimized and the tax reporting related to your investment income and dispositions becomes easier to manage. Your tax preparation fees may also be reduced since your accountant will be spending less time sorting through all the statements and determining the average cost base of identical investments.

Easier Estate Settlement Process

Having investment and bank accounts spread among many different financial institutions will make your estate settlement process administratively more difficult for your executor/liquidator and potentially more costly. By consolidating assets, you can have peace of mind knowing that, after you pass away, your surviving spouse or other beneficiaries will have one point of contact that you trust who will manage their overall assets to ensure they have adequate income.

Access to Comprehensive Wealth Management Services

Consolidation may help you reach a certain level of assets with an advisor so that you may be eligible for certain specialized services, such as advanced tax and estate planning, comprehensive financial planning, managed investment programs and private banking.

More Efficient Retirement Income Planning

Consolidation also enables you to manage your investments more effectively, helping you structure your investments to generate the retirement income you need. In retirement, you could have many different income sources, such as government pensions, employer pensions, Locked-in Retirement Savings Plans, Registered Retirement Income Funds, non-registered income and part-time employment income. If you have one trusted advisor managing your investments, it's easier for that advisor to determine how and in what order you should be withdrawing from all the different income sources to maximize your after-tax retirement income.

For convenience alone, consolidation is a strategy worth considering. With consolidation, you work with one advisor who sees the big picture – who understands your overall financial situation and provides the customized advice you need.

Strategy 3 – Financial Education for Children

Raise Financially Responsible Children

When it comes to your children, affluenza is a concern shared by many parents. Affluenza is the term used to describe a parent's concern that raising children in a privileged environment could give them a distorted sense of value and makes them less motivated to work hard to build their own financial resources. Most people who have built a relatively high level of wealth have done so through hard work, either as a business owner, executive or professional. Many of these people are concerned that their children won't grow up to recognize the value of money or hard work, and they have therefore taken steps to restrict trust funds and inheritances.

As a parent you want nothing but the best for your children. Equipping them with the skills they need to be successful adults is a constant focus, and a solid financial education is a key part of every child's successful future. The best way to protect your children from affluenza is to prevent it in the first place or to "cure" it as early as possible.

Here are some strategies you can adapt for your children, whether they're still youngsters, are in their teens or are young adults:

Provide a Reasonable Allowance

An allowance to your children can provide much more than a pool of spending money. You can use an allowance to teach money management skills to your children. For example, your 12-year-old might get $12 per week ($1 per week for each year of age can be a starting point), divided as follows:

- **Save $4 each week for a full year.** Introducing the concept of "paying yourself first" at a young age will help kids manage expectations and recognize the value of saving for the future. Along this line, consider having your children read well-known and easy-to-read financial planning books.
- **Spend (or accumulate) $4 allowance each week.** Figuring out how to stretch this amount over the week will develop valuable budgeting skills.
- **Share $4 with charitable causes.** Children will develop a social conscience as they decide which organizations and causes to support.

This system is flexible enough to work for kids of all ages and can be easily modified to suit your family's specific objectives.

Set Limits

Parents with above-average financial resources aren't able to say "No" with that old parental standby: "We can't afford it." But they still need to teach the lesson that we don't always get what we want. One solution is to sit down as a family and draw up a monthly or semi-annual budget that accommodates reasonable activities and purchases for everyone in the family. When the kids invariably ask for something that's not part of the plan, you'll have an ironclad answer: "No, that's not in the budget. But maybe we can include it next time."

Teach Them About Financial Statements

When children start earning income, they should understand how to read and prepare their own financial statements. In general, they can prepare their own net-worth statement and cash-flow statements, which should help them with budgeting. You also can consider having them take part in preparing or reviewing the preparation of their own income tax return.

Family Wealth Management Tip

Establishing a family charitable foundation is a great way to instil philanthropic values and money management skills at the same time. The children can take an active part in determining the best methods for using the funds in the foundation to support charitable causes. They can also work with an RBC advisor to determine strategies to invest the foundation's capital to meet the annual disbursement quota. See "Strategy 7" for more information on charitable foundations.

Educate Them About Money Management

Instead of giving your children a large sum outright during your lifetime or after death, consider having your children sit down with an RBC advisor to discuss strategies to invest their gift or bequest based on their own financial goals. Then, give your children the opportunity to spend all or a percentage of the annual income or reinvest it. Your children can access the capital at certain ages or after certain milestones are achieved.

Ask your RBC advisor for advice on money management education strategies for your children.

Strategy 4 – Effective Use of Surplus Assets

Protect Your Assets from Taxes and Creditors

By preparing a financial plan ("Strategy 1"), you can determine if you have adequate income and assets to meet your retirement income needs for your and your spouse's estimated life expectancy. If you determine that you have surplus assets you are unlikely to need during your lifetime, even under very conservative assumptions, you may want to consider ways you can protect these assets from high taxes and other potential liabilities (discussed in "Strategy 5") that could adversely impact your net worth.

Three options include:

1. Lifetime gifts and trust planning
2. Purchasing a tax-exempt life insurance policy
3. Charitable giving

Lifetime Gifts and Trust Planning

Do you have surplus assets that you will definitely not need during retirement? Are you also planning on providing funds to your children or grandchildren in the future to help with things such as paying for education, purchasing their first home, starting a business or paying for their wedding? If so, then it probably does not make sense to continue exposing the income from these surplus assets to your high marginal tax rate. Instead, consider giving some of these surplus funds to family members now, either directly or through a trust if you do not want the children to have control of these assets. There will be no attribution on any investment income earned on the gifted funds if the child is 18 or older and, if the trust is structured properly, no attribution on capital gains if the child is under 18. If you are concerned about direct gifts to your children, then lending funds and providing your children with only the income earned on these funds is another effective strategy as you can call the loan principal back any time. See "Strategy 9" for more information about income splitting with family members.

Tax-Exempt Life Insurance

Do you have surplus assets that you know will be passed on to your heirs when your estate is settled? You may be able to shield these assets from your high marginal tax rate through the use of insurance. If there's an insurance need, consider speaking to your insurance advisor about putting these highly taxed (typically interest-bearing) assets into a tax-exempt life insurance policy where the investment income can grow on a tax-free basis. This way, the amount of tax that would normally be paid to the Canada Revenue Agency (CRA) on the income earned on these surplus assets could instead be paid to your beneficiaries in the form of a tax-free death benefit. If need be, you could access the investment account within the life insurance either directly or through tax-free loans, which could be repaid after death with part of the death benefit. Speak with your RBC advisor if you would like a referral for insurance.

Charitable Giving

If you want to give some of your surplus assets to charitable organizations, you have many options that can help you create a charitable legacy, while providing some tax relief. These include giving directly to qualified charitable organizations, creating a private foundation or donating through a public foundation. There are rules in the Income Tax Act that make it more attractive to donate publicly listed securities such as shares that have appreciated in value. Now, when you donate publicly listed securities directly to a qualified charity, you are completely exempt from capital gains tax. See "Strategy 7" for more information about tax-effective charitable giving strategies with surplus assets.

Note that due to the potential of escalating health care and long-term care costs, it is essential that you are prepared for these contingencies before redirecting your surplus assets. Critical illness insurance, long-term care insurance and easy access to credit are a few options to consider with your advisors.

Family Wealth Management Tip

If you have assets accumulating in a corporation, bear in mind there is a higher tax rate on investment income earned in a corporation than on investment income earned personally depending on the province/territory. Furthermore, there is a potential for double taxation related to the assets inside a corporation at death. As a result, corporately owned tax-exempt insurance is an attractive solution for surplus funds accumulating in a corporation if there is also a need for insurance. This way, the surplus assets in the corporation can grow tax-free during your lifetime and may also be paid to your beneficiaries as a tax-free death benefit.

Strategy 5 – Risk Management

Ensure Your Family's Continued Financial Security

You have worked hard to accumulate your assets, so it's important that you take precautions to protect them from the various risks that are a part of life. When it comes to protecting your wealth, there are three primary risks that you should plan for:

Risk	Common wealth protection strategy
Unforeseen liabilities	Asset protection
Market downturn	Diversification
Income loss	Insurance

Unforeseen Liabilities

Depending on your employment, business and personal activities, there is always the chance that you will be faced with unforeseen liabilities. Unexpected liabilities can arise in different ways, including lawsuits, negligence claims, obligations connected with acting as a director of a public company and giving warranties upon the sale of your business. It is critical to note that asset preservation planning is not about defrauding legitimate creditors – it's about restructuring the ownership or deployment of your assets using common and legal strategies at a time when you have no existing or foreseeable claims. In addition to any professional, business, car or house liability insurance you can purchase, the following are some typical strategies which may protect your assets:

- **Gifts.** Although giving assets to a family member reduces the amount of assets you have that are available to satisfy your personal liabilities, it also increases the assets subject to the family member's creditors. Furthermore, other than gifts to a spouse, making gifts to family members may potentially trigger a taxable capital gain, which is a tax implication that needs to be considered.
- **Trusts.** Transferring assets to a trust results in a change of legal ownership over the assets transferred, thus reducing your personal assets subject to creditors. There may also be a loss of some or all of your control over these assets.

If you are an incorporated, self-employed business owner or professional looking to boost your retirement savings, or an employer looking to enhance retirement benefits for a key employee, the ideal solution may be an IPP. RBC can help make setting up an IPP easy for you. Ask your RBC advisor for more information about IPPs and how this form of retirement benefit may be right for you and your business.

It is important for you to be confident that the trustee is someone who will protect and manage your assets in the best interests of your beneficiaries. Consider a corporate trustee for this purpose due to their reputation and expertise in managing trust assets. In addition to domestic trusts, offshore trusts may provide protection from creditors, as those trusts are governed by the laws of another country and it may be difficult for a creditor to pursue a court action in a foreign jurisdiction.

- **Life insurance.** Based on provincial laws and court precedents, if an insurance policy is structured properly, the investment component of an insurance policy is not subject to creditors.
- **Corporation.** If you are a business owner and you have accumulated surplus assets in your business that are not needed for operating expenses, then consider transferring these assets to a holding company. This can help protect the assets from the operating company's creditors. In addition, consider the pros and cons of having your company contribute to an Individual Pension Plan (IPP) in order to boost your retirement assets. As a bonus, the assets in an IPP are creditor-protected.

Risk of Market Downturns

As indicated in "Strategy 2" diversification is one of the golden rules of investing to reduce your risk of losing capital due to market downturns. Traditionally, diversification has meant allocating your assets among the three main asset classes (cash, fixed income and equities) as well as among different geographic areas and sectors of the economy. More and more people with $1 million-plus investment portfolios are considering alternative investments for further diversification to protect assets and boost returns. Speak to your RBC advisor about different alternative investment options.

Risk of Income Loss

If you become disabled or die, are you confident that your family will have the financial resources to maintain their lifestyle? Adequate disability and life insurance coverage should be a top priority when it comes to planning your finances. Without the proper coverage, you risk rapidly depleting assets you have worked so hard to accumulate and having a much lower standard of living. You should also have a discussion with your insurance representative on the costs and benefits of critical illness and long-term care insurance.

It is possible to appoint RBC Estate & Trust Services* as your corporate trustee. One of the key benefits of using RBC Estate & Trust Services as your corporate trustee is the security of knowing you are engaging experienced professionals to protect the interests and requirements of your trust. RBC Estate & Trust Services can administer the trust and invest in assets according to the directions set out in the trust agreement. Speak to your RBC advisor for more information on how RBC Estate & Trust Services can help.

* Naming or appointing Estate & Trust Services refers to appointing either Royal Trust Corporation of Canada or, in Quebec, The Royal Trust Company.

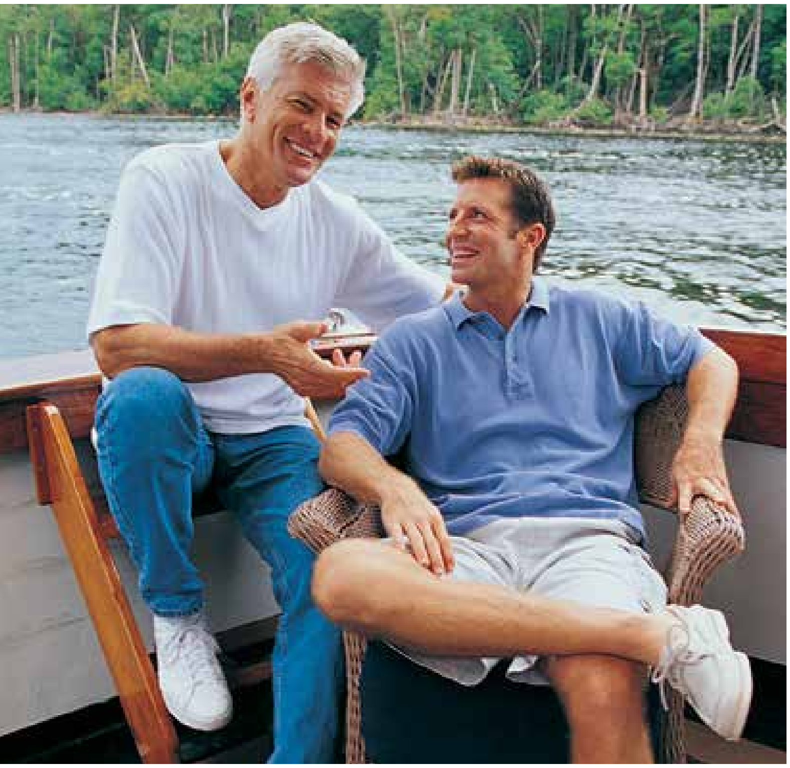
Strategy 6 – Vacation Home Planning

Maintain Family Harmony While Reducing Taxes

Many families own a vacation property or would like to purchase a second property as a family cottage in Canada or a winter home down south. If you would like to know how the purchase of a vacation home can impact other financial goals such as your retirement goals, then speak to your RBC advisor about incorporating this purchase into a financial plan. The following are some key issues and planning ideas you need to be aware of related to owning a vacation home.

Vacation Home Purchase Strategies

Before committing a large amount of money to purchasing a second property, consider renting in a few desirable areas for a period of time to test the location and neighbourhood. Once you are comfortable with the location and have selected an appropriate property to purchase or build on, the next major decision is how the property should be financed.



If you require a mortgage to assist in purchasing the property, speak to your RBC advisor. The mortgage interest will not be deductible if the property is used strictly for personal purposes. In order to make the loan interest deductible, consider the following two-step strategy:

1. Use existing cash or investable assets to purchase the property (note: disposing of investible assets may trigger capital gains or losses).
2. Take out a line of credit to purchase income-producing investments. In this case, since the loan is used directly to purchase income-producing investments and not the personal property, the interest on the loan is potentially deductible.

Succession Planning

In straightforward situations, a person often acquires ownership in a vacation property either solely or jointly with their spouse for control and ease of administration. As people get older and no longer actively use the vacation home, they sometimes decide to transfer the property to their children. However, if the transfer of the property is not structured correctly, disharmony among family members can occur.

Here are some succession planning strategies to consider related to a family vacation home:

- If your children will inherit the property and you expect it to significantly appreciate, consider gifting the property to your children today directly or through an inter-vivos family trust if you wish to maintain control. Although this results in a disposition at market value, triggering accrued capital gains to you today, the future capital gain tax is deferred and probate taxes are avoided. If the property is sold to the children, the capital gain can be spread over five years in some cases.
- Speak to your tax advisor about the tax advantages and disadvantages of transferring the property to either a Canadian corporation or to a non-profit corporation.
- If the property value is high and you are over age 65, consider the cost/benefit of rolling it into an alter-ego or joint partner trust today in order to avoid probate taxes

related to the property at death (particularly in provinces with high probate taxes).

- You may leave the vacation home to one or more family members under the terms of your Will. Some of your options include granting one or more children the option to purchase the property, allowing a child to take the property as part of their share in the estate or creating a trust to hold the vacation home under the terms of your Will.
- Life insurance can be used to pay any capital gains taxes triggered by the disposition of property when your estate is settled. It also creates a pool of funds to pay children who are not interested in inheriting the property (alternatively, children who are interested in the property can take out a mortgage to buy out siblings who are not interested). In addition, life insurance can be used to provide the children with the money necessary to pay for the maintenance and expenses related to the property. Since your children will benefit from this insurance coverage, consider asking them to pay the premiums.
- If more than one child will own the property, they can enter into a co-ownership agreement to determine when and how they can use it, as well as how expenses will be paid.

Regardless of the succession planning strategy chosen, two strategies to minimize capital gains tax on the disposition or deemed disposition of your vacation home, either during your lifetime or at death, are:

- Ensure that any vacation home renovation costs are tracked as these costs add to the cost of the property for tax purposes and will reduce any future capital gain.
- Use your principal residence exemption to reduce or eliminate the capital gains tax on the property. However, only one principal residence can be designated per family unit for years after 1981. So if the principal residence exemption is used for the vacation property to minimize the capital gains tax, then it cannot also be used to reduce tax on the disposition of the city home related to years after 1981.

Speak to your RBC advisor if you require more information on vacation home planning.

U.S. Real Estate Planning

The U.S. has an estate tax on the fair market value of property located in the U.S., even if it is owned by a non-resident. Furthermore, U.S. states may also impose a probate tax at death based on the value of real estate located in that state. To avoid state probate tax, some cross-border experts may recommend owning the U.S. real estate through a revocable living trust.

U.S. Estate Tax ranges from 18% – 40% of the fair market value of the U.S. assets; however, there are generous U.S. tax exemptions (indicated in Figure 1) that are available to minimize or potentially eliminate the U.S. Estate Tax.

If your worldwide assets are in excess of the US$5 million (indexed to inflation) exemption and you have considerable U.S. assets, then there are legitimate strategies to minimize or eliminate the U.S. Estate Tax such as:

- Purchasing U.S. real estate (and other assets such as U.S. stocks) through a Canadian corporation, trust or partnership. There are pros and cons to all three of these structures, but in particular you should be cautious about purchasing U.S. real estate through a Canadian corporation.
- Having a "non-recourse" mortgage against your U.S. real estate. This special type of mortgage reduces the value of U.S. real estate subject to U.S. Estate Tax dollar for dollar.

Many Canadian residents purchase life insurance to cover the Canadian income tax liability that arises upon their death. Similarly, one of the simplest methods to pay for the U.S. Estate Tax is to maintain sufficient life insurance. Note that the ownership of a life insurance policy must be structured properly; otherwise the death benefit will form part of your worldwide estate, and this may increase your U.S. estate tax liability.

For more information, ask your RBC advisor for a copy of our article discussing U.S. Estate Tax for Canadians.

Figure 1

Canadians should keep these two thresholds in mind:	
US$60,000	If your U.S. assets (typically U.S. real estate and U.S. stock) are US$60,000 or less on death, then no U.S. Estate Tax is payable, regardless of the value of your worldwide assets.
US$5 million (indexed to inflation)	If your worldwide estate is less than this threshold upon death, then no U.S. Estate Tax is payable, regardless of the value of U.S. assets. If your worldwide estate is greater than this threshold upon death, then there could be U.S. Estate Tax on the value of the U.S. assets.

Strategy 7 – Charitable Giving

Make the most of Your Family's Charitable Legacy

When it comes to charitable giving, you have a number of different options that can help you achieve your philanthropic goals, while at the same time providing you with some tax relief.

Donating Securities

The federal government has implemented several tax incentives to encourage charitable giving by Canadians, including the elimination of capital gains tax when you donate publicly listed securities to qualified charities. Not only do you receive a tax break, you also receive a donation receipt equal to the fair market value of the donated security.

For example, due to the donation tax credit, your out-of-pocket cost for making an in-kind donation of a security worth $100,000 with a cost of say $40,000 is approximately $55,000. However, if you sold the security first and then donated the cash, you could pay about $15,000 in capital gains tax, and your out-of-pocket donation cost would be $70,000.

Furthermore, if a corporation makes an in-kind donation of a listed security to a qualified charity, in addition to the capital gains exemption and the fair market value donation receipt, the corporation can also pay a tax-free dividend to the shareholder equal to the full capital gain.

Your RBC advisor can help you determine which securities would be best suited for donation.

Charitable Foundation

Another tax-effective charitable giving strategy is setting up your own charitable foundation.

- A private foundation gives you a high level of control and flexibility with respect to charitable giving, and enables you to create an enduring charitable legacy. You can make donations to your own foundation, and you will receive a donation tax receipt like any other donation. In addition, as of March 19, 2007, in-kind donations of publicly listed securities to a private foundation are eligible for a full capital gains tax exemption. Furthermore, you will receive a donation tax receipt equal to the fair market value of the security at the time of the gift.
- While providing a great deal of control and flexibility, a private foundation also involves certain costs and administrative requirements that must be considered. Potential associated costs may include legal, accounting, foundation registration, office space, staff, investment management fees, donor's time, and trustee or custody fees. To maintain its charitable status, 3.5% of the foundation's assets must be spent on charitable activities or on gifts to qualified donees.
- An alternative to a private foundation is making tax-deductible donations to a public foundation. Public foundations are very similar to private foundations in many respects, but may involve less cost and administration. Although you do not have outright control now, you can still recommend to the public foundation's directors which charities should receive grants. A big advantage of a public foundation is that in-kind donations of publicly listed securities are eligible for the zero capital gains inclusion rate.

Speak to your RBC advisor about ways that RBC can help you set up your own foundation.

Depending on your age and needs, there are other creative charitable giving strategies, especially those using life insurance, to reduce taxes and significantly increase your charitable contribution after death to your favourite charity. Speak to your RBC advisor if you want more information on charitable giving and legacy planning strategies.

The RBC Charitable Gift Program is specifically designed for individuals and families wishing to support charitable causes in a meaningful way, without the time and cost associated with establishing a private foundation. It is an easy, convenient way to support charitable causes you care about, today and in the future, while receiving important tax benefits. Through this program, you can make initial and ongoing contributions to a charitable gift fund administered by the Charitable Gift Funds Canada Foundation (CGFCF), one of the leading charitable foundations in the country. Ask your RBC advisor for a copy of our brochure about the RBC Charitable Gift Program and how this form of charitable giving may be right for you.

Strategy 8 – Testamentary Trusts

Family Wealth Management Tip

In addition to the tax benefits, there are many reasons why a testamentary trust may be advantageous. A testamentary trust provision in the Will can make sense in the following scenarios:

- Individuals in second marriages
- Disabled or minor beneficiaries
- Parents concerned about spendthrift beneficiaries
- Parents concerned about an inheritance being accessed by a son-in-law or daughter-in-law
- U.S. citizens living in Canada
- Parents who wish to provide for successive generations or preserve the continuity of ownership of family property

Manage the Transfer of Your Estate

For families concerned about intergenerational wealth transfer, an updated Will with a testamentary trust provision is an indispensable tool. A testamentary trust is a type of trust established through your Will that enables you to give assets to your beneficiaries with certain conditions that you have specified.

A testamentary trust can provide significant estate planning opportunities. In a trust, you specify an amount of money or other property to be held for a specified period for beneficiaries you have identified and on the terms directed by you. This allows you to create solutions to complex family situations. For example, you may wish to leave your children a portion of your estate, but you may feel that they should not receive their inheritance until they are old enough to manage it responsibly. Through your Will, you would direct your chosen trustees to hold and invest the inheritance in a trust for your children until they reached the age that you specified. Alternatively, you could give your trustee full discretion as to the amount and timing of trust distributions to the beneficiaries.

One of the benefits of having a testamentary trust has been the income tax advantages for the surviving beneficiaries, which was not available to beneficiaries that receive outright inheritances. Currently, taxable income earned in a testamentary trust is subject to the same graduated tax rates as an individual taxpayer (this is subject to change after December 31, 2015). Since the income earned within a testamentary trust is taxed on a separate tax return at graduated tax rates, an income-splitting opportunity arises for your beneficiaries.

Beginning 2016, the graduated tax rates that currently apply to testamentary trusts, certain estates and grandfathered inter-vivos trusts will be eliminated. The graduated rates for testamentary trusts will be replaced with flat top-rate taxation that's currently used for most inter-vivos trusts, subject to two exceptions. An estate that designates itself as a “graduated rate estate” will generally be subject to graduated rate taxation for the first 36 months of its existence. As well, graduated rates will continue to apply in respect of testamentary trusts for the benefit of disabled individuals who are eligible for the federal Disability Tax Credit where the trust and the qualifying beneficiary have jointly elected for the trust to be a "qualified disability trust" for a particular taxation year.

While these new measures may increase the amount of tax the trust will pay on investment income, the negative tax effects may be reduced by taking certain steps. For example, where the terms of the trust allow income to be distributed to the beneficiaries, the trustee can elect to pay out the trust income to the beneficiaries. In this case, the income will be taxed at their marginal tax rates. This may result in some tax savings if their marginal tax rate is lower than the trust's tax rate.

Testamentary trusts are generally created with assets passing through one's estate. Therefore, probate taxes (negligible in Alberta and Quebec) will likely have to be paid. However, there will be no probate tax for a properly structured testamentary trust funded with insurance proceeds.

If you intend to have your assets pass through your estate so they can fund a testamentary trust, then Joint Tenancy with Rights of Survivorship accounts (not applicable in Quebec) may not be appropriate, and you may also need to restructure beneficiary designations. Alternatively, if you have elderly parents that you know will be providing you with an inheritance, consider speaking to your parents about the benefits of including a testamentary trust provision in their Will.

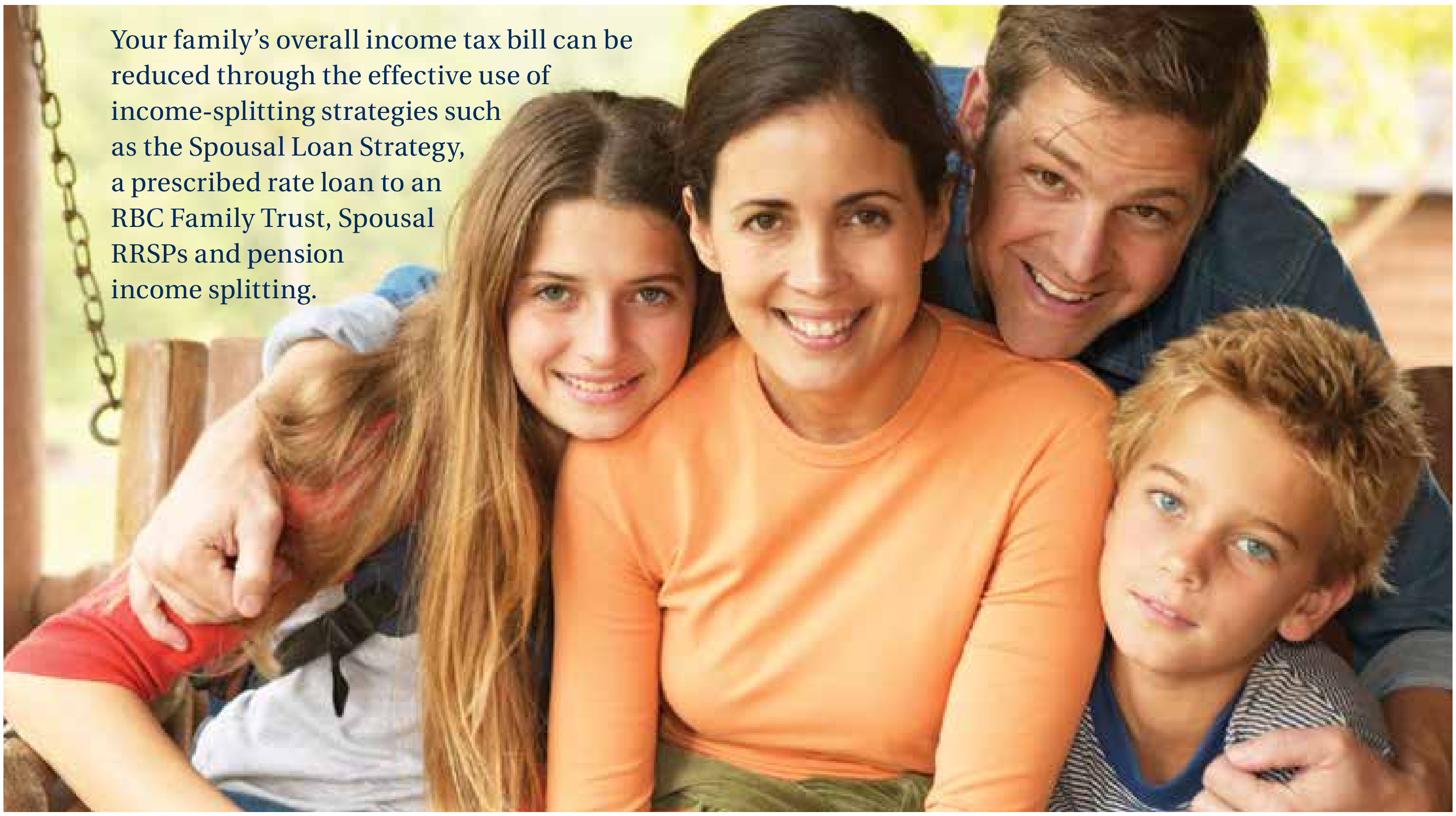
Speak to your RBC advisor if you are interested in having a Will and estate review from an RBC Wealth Management Will and Estate Consultant. Based on your situation, this specialist can provide Will and estate planning recommendations such as the suitability of a testamentary trust, vacation property succession planning strategies, the benefits of a secondary Will to avoid probate tax on private company shares and more.

For more information, ask your RBC advisor for a copy of the article titled "Testamentary Trusts."

You may choose to utilize the services of a professional trust company such as RBC Estate & Trust Services* to act as your trustee for your testamentary trust. One of the key benefits of using a trust company is the security of knowing you are engaging experienced professionals to protect the interests and requirements of your testamentary trust. If you would like the input of a family member or friend on personal matters related to your trust, you can name RBC Estate & Trust Services as your trustee, and appoint a family member or a friend as co-trustee. This will relieve the co-trustee of worries about managing the trust assets alone, and they will have access to the sound financial insights of the trustee. Speak to your RBC advisor regarding the trustee services available at RBC Estate & Trust Services.

* Naming or appointing Estate & Trust Services refers to appointing either Royal Trust Corporation of Canada or, in Quebec, The Royal Trust Company.

Strategy 9 – Family Income Splitting



Your family's overall income tax bill can be reduced through the effective use of income-splitting strategies such as the Spousal Loan Strategy, a prescribed rate loan to an RBC Family Trust, Spousal RRSPs and pension income splitting.

Reduce Your Family's Tax Burden

There are two reasons why income splitting is so important in Canada to reduce the family's tax burden:

- Canada's tax system is based on graduated tax rates
- Everyone in Canada has a tax-free basic exemption amount

A graduated tax rate system basically means that there is a higher marginal tax rate on taxable income as income increases. Furthermore, each Canadian resident can earn about $10,000 (varies by province/territory) of taxable income every year tax-free due to the basic personal tax credit. As a result of these two factors, if income can be shifted from a high-income parent to a low-income spouse or child, then the family can realize tax savings annually by shifting income. Due to the potential annual tax savings, families earning a high income should strongly consider family income-splitting strategies.

In order to prevent abusive income-splitting arrangements, the *Income Tax Act* has income attribution rules. These rules will attribute taxable income back to the high-income family member who actually supplied the capital for investment, thus achieving no tax savings.

Business owners can split income by paying reasonable salaries to lower-income family members based on the services they perform. However, if a low-income spouse or child is not actually working in the family business or their services are minimal, then paying them a salary or bonus that is in excess of the services rendered simply for income-splitting purposes is not permitted.

If you own a Canadian corporation, there are a number of creative strategies to split income with family members. One such strategy, typically done in combination with an estate freeze, is called "dividend sprinkling." Although there are some attribution rules to consider, this strategy involves paying dividends from the corporation to adult children and spouse shareholders based on the growth of the corporation after the estate freeze. If the spouse or adult children had no other income, then approximately $10,000 – $50,000 of tax-free dividends (varies based on the province/territory and the type of dividend) could be paid to them from the corporation every year if structured properly.

A common investment income-splitting strategy with a low-income spouse, whether you own a corporation or not, is the Spousal Loan Strategy. With this strategy, the high-income spouse loans capital to the low-income spouse for investment at the CRA prescribed interest rate in effect at that time. In this case, all future investment income is taxed to the low-income spouse. However, the high-income spouse must declare the interest received on the loan as income on their tax return.

Gifting funds to minor children and earning capital gains on the funds is still an effective income-splitting strategy that many high-income parents with low-income children should consider. A child with no other income can earn approximately $15,000 – $20,000 of capital gains every year tax-free (varies by province/territory) due to their basic exemption.

Although capital gains income earned on funds gifted to a minor child may not trigger the income attribution rules, interest and dividend income earned on funds gifted to a minor child will be taxable to the parent.

If you are concerned about gifting monies to your child, then consider loaning the funds to a family trust using a prescribed rate loan. This will accomplish the same capital gain income-splitting benefit as an outright gift if the trust and loan are set up properly, and you can call back the loan principal any time.

Further, with a prescribed rate loan all future investment income, including interest and dividends and capital gains, may be taxable to your child. The parent must declare the interest on the prescribed rate loan.

Speak to your RBC advisor if you require more information on family income-splitting strategies or would like to set up a family trust.

RBC offers a family trust solution. The solution is based on a standardized trust deed structured primarily for the purpose of splitting investment income with low-income family members to minimize the overall tax burden on the family. The RBC Family Trust can be used to fund your children's education and expenses while providing a mechanism for income splitting. With the RBC Family Trust, you have the option to loan or gift monies to the trust. If you are interested in learning more about the RBC Family Trust, speak to your RBC advisor.

Strategy 10 – Business Succession Planning

Plan a Successful Transition of Your Business

Many Canadians have built their wealth by operating a small business or will realize substantial wealth when their private business is sold. In a study by the Canadian Federation of Independent Business (CFIB), approximately 50% of all Canadian entrepreneurs plan to exit their business within five years and approximately 75% within 10 years.

However, the same CFIB study indicates that only one-half of business owners have a succession plan for the transition of their business to the next generation or for the outright sale of the business. Having a business succession plan can help a business owner plan for their family's future. In addition, other benefits of a succession plan include:

- Minimizing tax
- Improving the financial stability of the business
- Maintaining family harmony

Here are some key issues that you should consider for a successful business succession plan, along with the tax and estate planning strategies:

Choose Your Successor Wisely

Communicate openly with your children and determine which child is most interested and most capable of leading your business. In some cases, you may have to choose a non-family member, such as a key employee, to take over your business; or you may need to sell the business outright.

Let Your Chosen Successor Lead the Plan

In Dr. Dean Fowler's book *Successful Habits of Family Business Succession*, he proves that the traditional succession plan where the senior takes the lead, focusing on estate planning, tends to fail. However, plans where the chosen successor takes the lead, focusing on management succession and strategies to buy out the senior, are much more successful.

Common Financial Planning Strategies within a Business Succession Plan

- **Financial plan.** A financial plan for the owner is a critical component of a business succession plan and will determine if the owner has adequate resources to support their retirement lifestyle and highlight which, if any, additional retirement saving strategies (e.g. an IPP, Retirement Compensation Arrangement (RCA), etc.) are required.
- **Estate freeze.** An estate freeze using a family trust is a common business succession and income-splitting strategy that transfers some or all of the future growth of the business to the next generation, helping to minimize and defer tax. Ensure that the estate freeze is flexible enough so that you can possibly reverse the freeze if necessary.
- **Shareholder agreement.** A well-drafted shareholder agreement provides a framework for the smooth operation of a business and addresses business ownership issues when certain triggering events occur (death, disability, retirement, marriage breakdown and so on).
- **Insurance.** Appropriate disability, key person and life insurance are imperative to ensure that the business can continue and your family members are able to maintain their lifestyle should death or disability occur prematurely. Insurance is also a low-cost solution for funding taxes at death and funding buy/sell agreements. It can also be used to transfer surplus corporate assets to your beneficiaries on a tax-effective basis.

Groom and Transition Out

Have your chosen successor gradually take on more responsibility, and meet key business contacts well before you transition out. Then be willing to let go of the lead. Have faith in your chosen successor to take over the business.

Hire an External Advisor for Assistance

There are professional family business succession facilitators with years of experience to assist your family with the succession plan. Having a neutral third party facilitating the discussion in many cases can help open the lines of communication between the parents and children and lead to a more successful transition.

Fair Does Not Mean Equal

In order to maintain family harmony, it may make sense to give children who aren't involved in the business non-business assets, such as securities or life insurance proceeds, as part of their inheritance, instead of giving them active business shares.

Succession planning should start five to ten years before your anticipated retirement age. For more information on planning for business owners, ask your RBC advisor for a copy of the guidebook "Business Owners Guide to Wealth Management."

Family Wealth Management Tip

Many business owners tend to procrastinate when implementing a business succession plan since running and growing their business is their top priority. According to the CFIB, one of the main reasons for failed successions is the lack of adequate time to plan and execute the succession of the business. Therefore, it is never too early to start planning.

Conclusion

Families with more financial resources than the average Canadian family face some unique challenges – everything from coping with affluenza to properly transferring wealth to the next generation. But along with these challenges, there are certain opportunities to build and protect wealth, including various legal structures, insurance-based solutions and investment strategies.

In this guidebook, we have summarized some of the key opportunities that particularly apply to individuals and families responsible for a large amount of wealth. If you would like more information on any of these opportunities or strategies, for yourself, your family or someone you know, we would be pleased to help. Please contact your RBC advisor for more information and be sure to consult with your professional tax and legal advisor before implementing any strategy.

For more information on your wealth management needs:

- Speak with an RBC advisor
- Visit our website: www.rbcwealthmanagement.com

RBC Wealth Management

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