THE RBC DOMINION SECURITIES FAMILY TRUST

Helping you reduce your family's tax burden

Professional Wealth Management Since 1901

RBC Dominion Securities

Who should consider an RBC Dominion Securities Family Trust?

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

- Have children or grandchildren who have little or no income
- Wish to reduce your family's overall tax burden through income-splitting strategies recognized by the Canada Revenue Agency
- Possess surplus capital you want to protect from your high personal tax rate
- Want to have access to the capital you fund to the trust
- Would like to assist your children or grandchildren with expenses such as private school tuition, post-secondary education and extracurricular activities

Helping you help your children

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

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

REDUCING YOUR FAMILY'S TAXES

A Family Trust enables you to minimize your family's overall taxes because, when properly structured, the capital gains earned within the trust are taxable to your children or grandchildren. Every child or grandchild in Canada who has no other income can earn approximately $18,000 of capital gains tax free every year (varies by province). To take advantage of this annual tax-saving opportunity, without giving up access to your capital, you can establish an RBC Dominion Securities Family Trust.

If you have low-income children or grandchildren, there are three major benefits of setting up a Family Trust:

1. Assuming your child or grandchild has no other income, they can earn approximately $18,000 of capital gains tax free every year due to their basic personal tax exemption. If they earn capital gains in excess of $18,000, they will still pay much less tax than you.

2. Because you loan money to the Family Trust, you never lose access to the loan capital.

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

HOW INCOME SPLITTING HELPS YOU MINIMIZE TAXES

There are two reasons why income splitting can help you reduce your family's tax burden:

1. Canada's tax system is based on graduated tax rates.
2. Everyone in Canada has a tax-free basic personal exemption amount of approximately $9,000.

A graduated tax rate system basically means that the higher your taxable income, the higher your tax rate. The highest tax rate applies once your taxable income exceeds approximately $120,000. However, the tax rate is fairly high even for those individuals with taxable income over $37,000.

Furthermore, anyone can earn their first $9,000 of taxable income tax free every year due to the basic personal tax exemption. Since only 50% of capital gains are taxable, this means that approximately $18,000 of capital gains can be earned tax free every year by someone with no other income, regardless of age.

These two factors mean that if you are a high-income earner, and you can transfer some of this income to low-income family members, your family can realize substantial tax savings every year (subject to the income attribution rules).

One way to take advantage of this annual tax savings opportunity is to establish an RBC Dominion Securities Family Trust.

Choosing the right option for you

To meet your family's specific needs, we offer three types of trusts at RBC Dominion Securities:

1. RBC Dominion Securities Formal Trust
2. RBC Dominion Securities Family Trust — Discretionary
3. RBC Dominion Securities Family Trust — Age 40

The key difference between the Formal Trust and both of the Family Trust options is that contributions to the Formal Trust are considered irrevocable gifts, which the child would have rights to at the age of majority. In the case of both Family Trust options, you would loan cash to the trust (with or without interest) so you never lose access to the loan capital. As you result, you may be more comfortable loaning more money to the Family Trust in order to generate larger amounts of tax-free capital gains, knowing you can call back the loan capital any time.

Deciding which of the two Family Trust options is most appropriate generally comes down to two key factors. First, the number of beneficiaries you want per trust. Second, when you want your beneficiaries to have access to the income that was payable to them but not spent on their expenses. The two Family Trust options are identical in all respects except for these two key differences:

	Family Trust – Discretionary	Family Trust – Age 40
Number of beneficiaries per trust	Multiple	One
Beneficiary's access to investment income payable to them that was not spent on their expenses	Immediate	If earned prior to age 21, then as late as age 40 and if earned after age 21, then immediate

Building long-term wealth

If you choose, you can simply allow the trust's investment earnings to accumulate for your beneficiaries. When you loan monies to the trust on an interest-free basis, then the interest and dividend income earned within the trust is taxable to you, but capital gains are not (when the trust is structured correctly).

This makes the RBC Dominion Securities Family Trust a tax-effective way to build long-term wealth for your children, grandchildren or other beneficiaries.

Using a trust to pay for children's expenses

The RBC Dominion Securities Family Trust is an inter-vivos trust. For tax purposes, this means that any investment income earned in the trust that is not paid or payable to a beneficiary will be subject to tax in the trust at the top marginal tax rate, thus achieving no income-splitting benefits.

However, any capital gains paid or payable to the beneficiary are taxed in their hands. In addition, the Canada Revenue Agency (CRA) allows capital gains used to pay for expenses that directly benefit a minor beneficiary to also be taxed in their hands.

QUALIFYING EXPENDITURES

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

Some types of expenses that may qualify include:

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

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

Please make sure you consult with your legal or tax advisor before using trust income to pay for a child's expenses.

We recommend that you review all trust and loan documents with your legal and tax advisors before establishing an RBC Dominion Securities Family Trust. It is also recommended that the trustee(s) consult with their tax and legal advisors to discuss the responsibilities of a trustee and record-keeping requirements.

Help your children achieve their goals with an RBC Dominion Securities Family Trust

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

Please contact your Investment Advisor for more information
about the RBC Dominion Securities Family Trust

RBC Dominion Securities

DSFT (11/07)