Small Business Financial Services

Personal financial management for business owners

FIRST › FOR YOU®

RBC

Financial management: Make it personal

Reaching your personal and business goals means planning for today and tomorrow

Whether you are a sole proprietor or a partner, you have a personal connection to your business that goes beyond a traditional nine-to-five commitment.

This connection extends to financial matters as well. Your business finances and your personal finances are closely intertwined. Your business will build your personal wealth and contribute to your income in retirement.

When you're devoting much of your time and energy to running your business, you may not have the time to give your personal finances the attention they deserve. However, reserving time for your personal finances is one of the best business investments you can make.

- **Take advantage of opportunities.** As a business owner, you have access to a number of financial solutions that are not available to paid employees, from splitting income with family members to setting your salary to maximize your RSP contribution room.
- **Save time.** With the various demands involved in running your business, your time is at a premium. We can offer a number of time-saving solutions that can help you manage your business and personal finances in a way that's both time- and cost-effective.
- **Build a plan to reach your goals.** Create a long-term course of action to take you where you want to go. Whether it's expanding your business or ensuring a financially secure retirement, we can help you build your plan for your future, then identify the steps to make it happen.

This guidebook has a wealth of information on how your personal and business finances can work together. Your RBC Royal Bank® small business advisor can work with you to help you achieve your goals for the future while enjoying your life today.

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Planning for today

There are a number of steps you can take today that can provide immediate personal financial benefits — from tax savings to protecting your existing assets.

While it can take a little time and thought upfront, the results of your efforts can be seen right away. So don't delay in taking the steps that are right for you.

What business structure is best for you?

The legal structure you choose for your business affects two key areas — compensation and taxation. The structure of your business should be tax-effective while providing the cash flow you need to cover your personal expenses.

There are three basic legal structures:

- **Sole proprietorship**
  You and the business are considered one for legal purposes. You are personally responsible for 100% of its debts and liabilities. All earnings are taxed as your personal income and any business losses can be deducted from your personal income from other sources. This is the simplest business structure.
- **Partnership**
  In a partnership, two or more owners agree to share profits and losses according to their share in the business. In a general partnership, all partners are liable for debts; in a limited partnership, one or more partners limit their liability by not actively managing the business.
- **Corporation**
  An incorporated business is considered a separate "entity" for legal and tax purposes. The company earns revenue, incurs losses and pays taxes separately from its owners. If the company qualifies for the special, lower tax rate available to Canadian businesses that generate earnings of less than $400,000 a year, it can pay tax on income retained in the corporation at a much lower rate than individuals. In addition, the owners' liability is typically limited to what they have invested in the company.

Owners of incorporated businesses have the flexibility to draw a salary from the business, pay themselves a bonus or authorize dividend payments to themselves. Each method of compensation has benefits under different circumstances. Using the most advantageous combination of salary, bonus and dividends can be instrumental in helping you to achieve your goals.

Income options for incorporated business owners

Compensation method	Benefits
Salary Paid by the corporation, with income tax and other required deductions	Provides a steady stream of income. Offers income-splitting opportunities for salaries paid to family members who are employees, which may reduce your overall family tax bill. Generates RSP contribution room and CPP pensionable earnings.
Bonus A lump-sum amount paid to you or any other employee	A year-end bonus can be used to bring corporate income below the Small Business Deduction limit. Tax deductable and no income tax paid if deposited directly into your RSP. Potential tax deferral — the business has 179 days after the end of its corporate year to pay bonuses that have been deducted; if your corporate year-end is after July 1, the bonus can be paid to you after December 31, and reported on your personal income tax for the following year.
Dividends Distribution of after-tax corporate profits to shareholders	No income taxes or other deductions are withheld. Taxed at a lower rate than employment income as a result of the dividend tax credit. Flexible timing — you can pay out the dividend when most advantageous for your personal financial situation. Potential income splitting if adult family members are also shareholders.

Talk to your small business advisor about other options, such as Group Plans.

Keep in mind that there are important tax implications relating to each form of income, and that your level of business income may change over time. Speak with a qualified tax advisor to ensure that you have the optimal mix of salary, bonuses and dividends.

Minimize your tax-expense

Income tax is likely to be your largest single expense. So identifying ways to reduce personal and business taxes is a priority for all business owners. Here are some possibilities that a qualified tax advisor can help you explore.

Claim all credits and deductions you're entitled to

- ☐ **Combine your charitable donations.** Consider pooling donations with your spouse or grouping donations made over as long as five years to maximize the amount over the $200 threshold, where the credit increases your write off.
- ☐ **Pool medical expenses.** Claiming the entire family's expenses on the return of the spouse with the lower income will increase the chances of being able to claim the medical expense tax credit. Expenses can be claimed for any 12-month period ending in the tax year.
- ☐ **Divvy up political contributions.** Tax credits for political contributions are more generous at lower levels (75% on the first $400, 50% on the next $350 and 33.3% on the next $525) so you and your spouse should split them.
- ☐ **Transfer unused credits.** Unused portions of both the age 65 credit and the disability tax credit can be transferred to a spouse. The disability tax credit can also be transferred to other supporting relatives.
- ☐ **Report dividends received by your lower-income spouse.** If your spouse has little income apart from dividends that qualify for the dividend tax credit, you can choose to report the dividends on your tax return — provided this increases or allows you to claim the spousal tax credit.
- ☐ **Claim your children's education credits.** Tax credits for tuition fees and textbooks as well as the education tax credit are transferable.
- ☐ **Don't overlook child care costs.** Child care expenses are generally deductible by the lower-income spouse, but can be claimed by the higher-income spouse if they're paid to allow you or your spouse to carry on a business, work or attend school full-time.

Make use of investment losses

Managing a business involves making decisions on when to cut losses. Managing your investments also involves making decisions, such as when to sell underperforming investments. This has an extra consideration because of the potential tax benefit that comes with it. When you sell an investment such as a stock or mutual fund outside of a registered plan for less than you paid for it, the resulting loss can be used to offset taxable capital gains. This is called "tax-loss selling."

There are a couple of key rules to keep in mind with regard to "tax-loss selling":

- Current-year capital losses must be applied first to current-year capital gains. Any remaining capital losses can be carried back and applied to capital gains from the past three years, or carried forward indefinitely.
- If you, or an affiliated person (eg. your spouse or a company controlled by either of you) buys back the investment in the 30 days following or preceding the sale, the capital loss will be disallowed.

Your decision to buy or sell an investment should never be based on the tax implications alone. They are only part of your long-term investment plan.

Make the most of business-linked tax benefits

Depending on your circumstances, your business may be able to provide a number of potential tax benefits. We suggest that you speak to an accountant about the following tax benefits.

- **Capital gains exemption**
  Qualifying small business shares are eligible for a special capital gains exemption. If you're incorporated and sell your shares, the first $500,000 ($750,000 proposed in the 2007 federal budget) may be tax-free. You may even be able to multiply the exemption by having other family members hold shares, either directly or through a family trust.
- **Business losses**
  If your business is not incorporated, any losses it suffers may be used to offset your personal income from other sources. This is especially valuable if you are just starting up or are transitioning out of full-time employment.
- **Premiums for health and disability insurance**
  Unlike regular employees, a business owner working as a sole proprietor or in partnership can deduct health and disability insurance premiums within limits.
- **Premiums for life insurance**
  A business owner who borrows for business purposes can deduct premiums for life insurance (usually term insurance). Coverage is required as a condition of borrowing.
- **Capital cost allowance**
  Businesses can depreciate their capital assets each year, at government-prescribed percentages, and deduct this amount from their taxable income. Unused depreciation can be carried forward for use in a higher-income year.

Take advantage of income splitting opportunities

Income splitting involves shifting income from someone in a high tax bracket to a spouse or family member in a lower tax bracket. The result in most cases is less tax overall for your family.

- **Put your spouse or other family members on the payroll.** As long as the pay is reasonable for the work performed, you can deduct wages paid to your spouse or children as a business expense. Your family members will have to report and pay tax on the income, but it may be taxable at a lower rate, depending on their other sources of income. Plus, it generates RSP contribution room for them the following year.
- **Family members as shareholders.** If your business is incorporated, you may also want to make your spouse and adult children shareholders. That way, they can receive dividends, on which they can claim the dividend tax credit.
- **Make a loan to a family member.** Under certain conditions, you can lend your spouse or children money to invest and the investment income and capital gains will be taxable to them. The interest charged on the loan must be at least equal to the government's prescribed rate, which is updated quarterly, and it must be paid to you no later than 30 days after the end of each calendar year. Lending while interest rates are low is advantageous.

Securing the funds you need

Credit comes at a cost but, used appropriately, it can build wealth and enhance your long-term financial security. As a business owner, you may have greater access to credit based on the assets and financial strength of your operations.

Match your debt to your timeline

Use short-term credit products, such as a credit card, to manage short-term debt that you expect to pay back quickly. This allows you to take advantage of the interest-free repayment period that credit cards offer.

For longer-term debt, such as a home purchase, use a longer-term credit product with a lower interest rate, such as a mortgage or line of credit.

Make the most of deductible interest

When you borrow money, the interest costs may be deductible if the loan is used to generate taxable income — for example, from an investment or from your business. So if you borrow to purchase common or preferred shares that can pay dividends, or you borrow to buy equipment that you use in your business, the interest should be deductible.

With this in mind, there are two potential opportunities you may want to explore.

- **Borrowing to invest.** Borrowing to invest or "leveraged investing" intensifies investment gains and losses. As there are risks involved with leveraging, it's important to plan carefully before investing — both in terms of your choice of investments and your ability to ride out short-term market volatility. Your banker will help make this planning easier for you.

- **Make non-deductible interest deductible.** Turning non-deductible interest charges into deductible interest charges is a process called "cash damming." For example, you're a sole proprietor and have a $100,000 mortgage on your home. You also have $100,000 in year-end cash from your business that you plan to invest. Use the $100,000 to pay off the mortgage, then take out a loan secured by your home to finance next year's business operating costs. You'll still be carrying debt of $100,000, but the difference is that now it's tax-deductible.

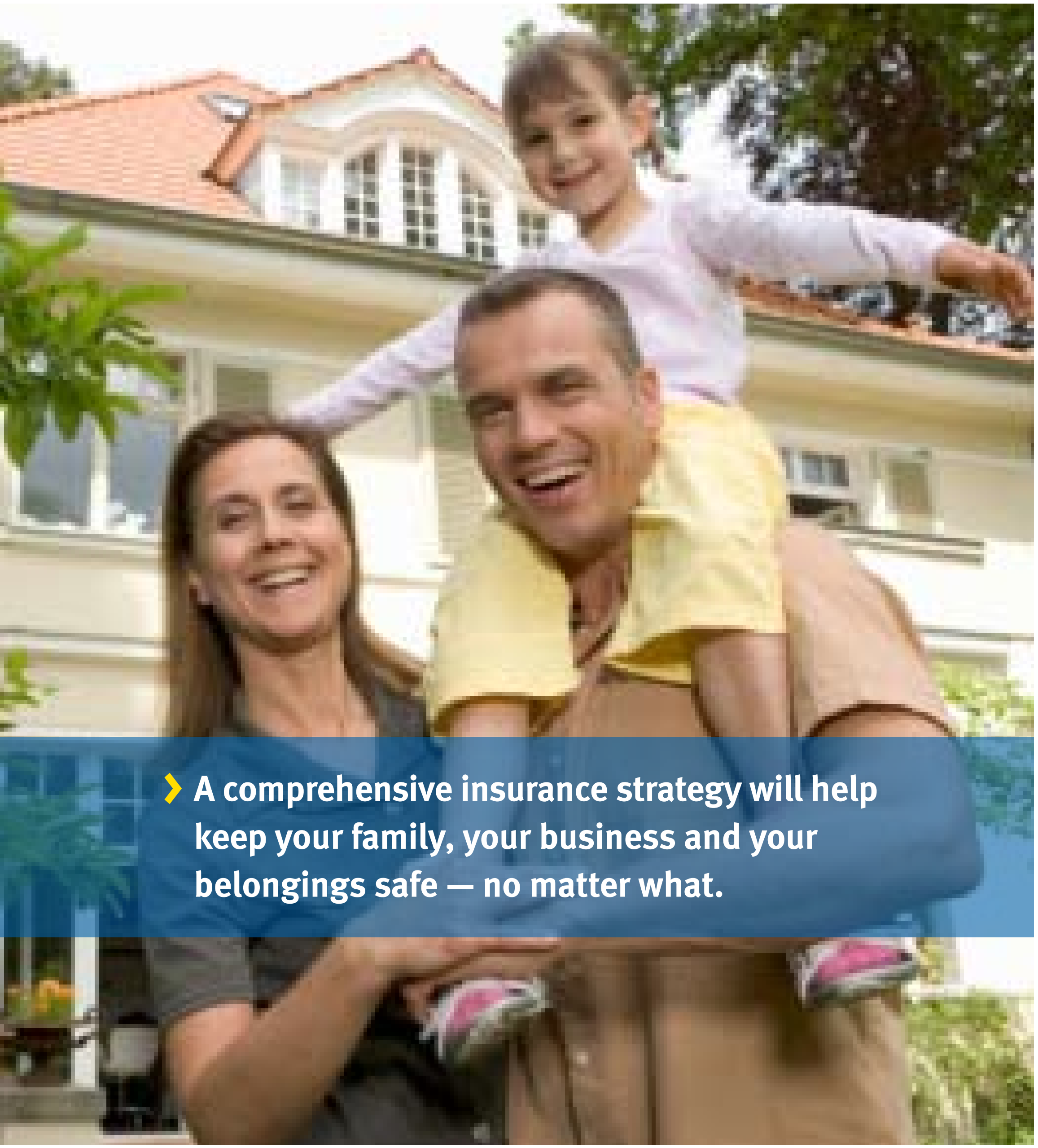
  Be aware that there are potential risks and costs to both leveraged investing and cash damming. Before you undertake either of these, consult with your financial advisor and a tax advisor to ensure it's appropriate for you.

Manage your credit rating

If you've applied for credit in Canada, you should have a credit file at the country's two main credit bureaus, Equifax and Trans Union of Canada. Your credit file contains a credit history going back six years — longer if you've ever declared bankruptcy.

Your rating is a determining factor in receiving credit and may affect the interest rate you're offered. Here are five ways to help keep a spotless record:

1. Consistently pay at least the minimum amount owing on your debts.
2. Don't miss making loan or mortgage payments.
3. Pay all your other bills (phone, utilities etc.) by the due dates.
4. Get a copy of your credit report to ensure it's accurate and you haven't been a victim of identity theft. Contact the credit bureaus directly: **Equifax: 1 800 465-7166** www.equifax.ca and **Trans Union of Canada 1 866 525-0262** www.tuc.ca
5. If you find a mistake on your credit report, follow up with the credit bureau to have it corrected.



Protecting you and your business

Your skills and expertise are essential to the success of your business. In turn, the success of your business is essential to the well being of you and your family. A comprehensive insurance strategy provides protection against unexpected events.

What concerns you?	How to protect yourself and your business
How can I make sure my family can manage financially, if my spouse or I were to pass away or become ill and unable to work?	**Life insurance** provides a tax-free benefit to support your loved ones if you or your spouse were to pass away. **Disability insurance** provides cash flow when an income-earner is unable to work because of illness or injury.
What if my spouse or I were diagnosed with a serious illness?	**Critical illness insurance** provides a tax-free lump sum if you or your spouse is diagnosed with any of a number of serious illnesses and survives.
How can I protect myself financially from accidents associated with my business?	**Liability insurance** provides financial protection for your company in case a person or another company suffers a loss because of an accident or negligence involving your company.
What happens in case of a fire or theft?	**Property insurance** covers losses from damage or theft of property and belongings.
What if someone makes a mistake or overlooks something while delivering my business's products or service?	**Errors and omissions insurance** protects your business from legal claims relating to mistakes, negligence or oversights in delivering products or services.
How could I keep my business going if I were to lose a key employee to illness, injury or worse?	**Key person insurance** (life, disability, critical illness or a combination) can provide the funds your business needs to cover potential losses.
How can I protect my employees from illness, injury or even death?	**Group benefits insurance** provides reimbursement for common health-related expenses for you and your employees, and financial protection in the event of illness, disability or worse.

(continued on p.14)

What concerns you?	How to protect yourself and your business
What kind of coverage do I need if my employees or I use my vehicle for business purposes?	**Auto insurance** provides protection from liability associated with motor vehicle accidents, as well as covering vehicle repairs or replacement.
How would I keep up payments on my business loans if I or another business owner got sick or was injured?	**Business Loan Insurance Plan** can help you maintain your insured loan payments during your absence due to a sickness or injury, to allow you to focus on your recovery.[1]
Sometimes, I need to travel on business to other provinces or out of the country. Does my provincial health plan provide sufficient coverage?	Government health insurance may not cover your expenses if you become ill or are injured outside your home province. **Travel HealthProtector®** insurance covers emergency hospitalization, medical costs and related services when you're away on business.[2]

For more general insurance information for your business, or specific information on the Business Loan Insurance Plan or Travel HealthProtector Insurance, talk to your RBC Royal Bank small business advisor.

Planning for your future

Personal goals. Business goals. One depends on the other, but how do you make them work together?

Whether you're saving for retirement, investing or planning your business succession, addressing your personal and business goals together can help you achieve both.

Set your goals

Look ahead several years — what kind of life would you like to see for yourself, your business and your family? Do you want to help your children or grandchildren pursue post-secondary education? Are you planning to retire within the next 10 to 15 years? Do you want to spend your retirement years down south?

By taking the time now to identify lifestyle and other goals for your future, you'll be able to lay the groundwork in order to realize them.

- How involved do you want to be in your business when you approach retirement?
- Are there other types of work that you would like to pursue when you retire?
- Do you want to sell your business or groom a family member to succeed you?
- If one child will succeed you in the business, how do you ensure that your other children are treated fairly in the estate plan?
- What role will your business's value have in funding your retirement lifestyle?
- If leaving a legacy is important, are there steps you can take now (donating assets or time, for example) to maximize your gift to family, charity or community?

What's your starting point?

To reach your goals, you must first know where you stand today. Work with your banker to:

- assess your current cash flow;
- calculate your net worth;
- develop a regular savings plan; and
- update you on your progress at regular intervals.

If you're interested in a quick self-assessment, you'll find many useful calculators online at www.rbcroyalbank.com. Just look for "calculators" under the Quick Links section of the navigation bar.

Saving for your retirement

Many business owners rely on their business to provide the funds they need for a comfortable retirement. Another way to save for retirement is with a registered Retirement Savings Plan (RSP).

An RSP is a tax-deferred vehicle that lets you hold a wide range of investments within one account. There are two key benefits:

- contributions are tax deductible (to the extent there is sufficient income), and
- investment earnings grow on a tax-deferred basis until withdrawn.

How we can help

We can help you open an RSP and select a mix of investments appropriate for your investor profile. Qualifying investments include:

- Cash
- Guaranteed Investment Certificates (GICs)
- Mutual funds
- Canadian and international equities and fixed-income instruments

How to make the most of your RSP

As a business owner, you can set your own income level, provided that your business generates sufficient income. This gives you a key advantage where your RSP is concerned.

Your RSP contribution limit is based on a percentage of the previous year's earned income. Provided your business generates sufficient revenue, you can pay yourself precisely enough each year to allow you to maximize your RSP contribution.

The following chart shows what you would need to earn to contribute the maximum to your RSP. After 2010, the maximum contribution is to be indexed to rise with inflation every year.

	Maximum contribution	Earnings required in the previous year
2007	$19,000	$105,555.55
2008	$20,000	$111,111.11
2009	$21,000	$116,666.67
2010	$22,000	$122,222.22

Note: If your company has a registered pension plan that you are a member of, your pension adjustment for the prior year will reduce your RSP contribution limit for the current year.

How we can help

Maximize your RSP potential

- **Commitment to regular savings**
  It's easy to contribute regularly with RBC Royal Bank® RSP-Matic. Just select the amount you wish to contribute and the frequency — and watch your savings grow. It's flexible and easy to set up.

- **RSP loan**
  If you have unused contribution room, an RSP loan can be an effective way to maximize your RSP. (Note that interest paid is not tax deductable for such loans.)

Looking beyond RSPs

While contributing to an RSP is the primary method of retirement saving for most business owners, you may be able to take advantage of two other effective methods.

Individual Pension Plan (IPP)
An IPP is a defined benefit pension plan set up by your company for a single member. Generally it's most beneficial to business owners in their early 40s with an annual salary of $100,000 or more.

In most cases, your company will contribute the amount needed to fund your pension, and these contributions are tax-deductible to the company. The amount the company can contribute may be much higher than you could contribute to your RSP. Additionally, as a registered pension plan, it offers a level of protection from creditors.

However, there are some factors to consider before you commit to an IPP:

- The pension adjustment arising from your IPP in the prior year will be deducted from your available RSP contribution room each year.
- Your pension benefits are locked in and subject to federal and provincial pension laws, so you may not have as much flexibility regarding your retirement income options.
- There are costs associated with administering an IPP, such as annual reporting requirements and regular valuations for accounting purposes.

Insured retirement plan
If you've maximized your RSP and have a need for life insurance, an insured retirement plan using a universal life insurance policy can significantly enhance your tax-deferred savings.

Here's how it works:

1. You make a series of deposits into a universal life insurance policy, allocating the minimum required amount to the insurance premiums and the rest to your investments.
2. Earnings from your investments grow tax-sheltered, just as they do in an RSP.
3. At retirement, you borrow against the policy's cash value, receiving tax-free payments to supplement your retirement income.
4. Upon your death, the life insurance proceeds are used to repay any outstanding loans. Any remaining value goes to your named beneficiaries.

Investment planning

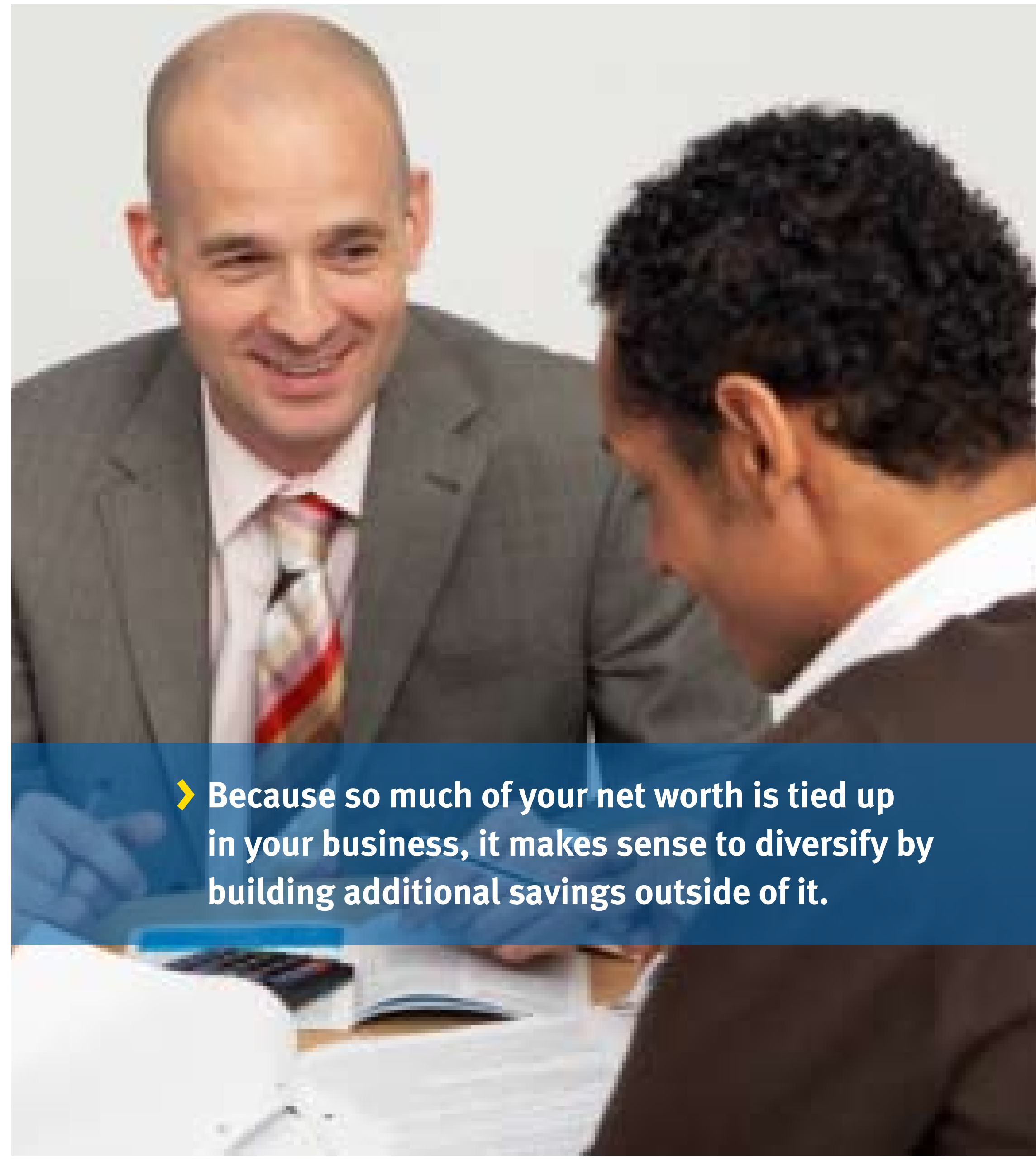
As a business owner, much of your personal net worth is likely to be tied up in your business. That means it's even more important to invest effectively outside of your business.

The foundation of effective long-term investing consists of three key strategies: invest regularly, diversify and don't pay more tax than you need to.

Why invest regularly?

Committing to a regular investing plan is one of the easiest and most effective ways to help reach your investment goals. Here's how you can benefit:

- **Keeps you on track.** Regular investing places the priority on saving for your future, before you spend the money on something else. And because your savings are automatically invested according to your personal investment plan, you'll remain on track to achieve your investment goals.
- **Provides built-in discipline.** When you save regularly for a long-term goal like retirement, you are contributing to your savings all year long.
- **Lets you dollar-cost average.** When you invest regularly in one or more mutual funds, you automatically buy more units when the price is lower, and fewer units when the price is higher. This helps to smooth out the peaks and valleys of market fluctuations over time, and lets you profit from purchases made when the unit price is lower.



Investment diversification

Your investments should provide you with exposure to different types of investments, different economies and different business sectors.

The most basic way to diversify is to hold assets from the three main asset classes:

- **Cash** provides security and liquidity
- **Fixed income** may give you stable returns
- **Equities** provide potential growth to offset the effects of inflation

In addition to diversifying by asset class, you can diversify by: geography, industry, management style, market capitalization and currency.

Once you have set up your portfolio, it's important to review it over time. Markets move in cycles and each type of investment will perform differently depending on the economic climate. These different rates of growth may shift the weightings in your portfolio, leaving you with a less-than-optimal investment mix. As well, if your personal situation or goals change, you may need to revise your investment approach or asset mix accordingly.

The 4 principles of sound investing

1. **Invest regularly.** It's one of the easiest and most effective ways of building wealth for your future.
2. **Diversify.** Lower your investment risk by exposing your portfolio to different economies, business sectors, asset classes and investment-manager styles.
3. **Review and rebalance.** Every portfolio changes with market movements. Make sure you and your investments stay on track for success.
4. **Invest tax-effectively.** With some investment income taxed at preferred rates, be sure to factor in taxation when structuring a non-registered portfolio.

Be a tax-smart investor

Inside a registered Retirement Savings Plan, your investment returns accumulate and compound tax-free until withdrawn. But if you're investing outside of a registered plan, the tax you pay is determined by the type of income you earn, along with your marginal tax rate.

- **Interest income** is taxed at your marginal tax rate in the year it's paid or accrues to you.
- **Dividends** from Canadian corporations are also taxable in the year received, but at a lower rate because of the dividend tax credit you can claim.
- **Capital gains** arise when you sell shares or other equity investments for more than their purchase price. Only 50% of any capital gain is taxable, and the tax isn't triggered until you actually sell or transfer the investment.

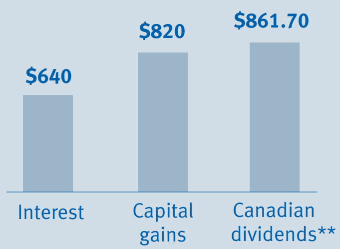
The above sources of income can flow through a trust fund or partnership to you as well.

While taxation of investment income should not form the basis of your investment decisions, it is a consideration for non-registered portfolios.

It’s what’s left in your pocket that counts

Outside of registered plans, interest income is taxed more heavily than capital gains and Canadian-source dividends.

This chart shows what’s left after tax on $1,000 earned as interest, dividends, and capital gains*.



Calculations based on an Alberta taxpayer earning $75,000. Reflects known rates in effect as of November 2, 2006. Source: Ernst & Young 2006 Personal Tax Calculator (www.ey.com). For information purposes only. Actual tax rates may vary.

* The after tax income determined above should be reduced by the applicable federal and provincial tax credits other than the basic personal tax credits which have been reflected in the calculations.

** The rates apply to the actual amount of taxable dividends received by individuals from taxable Canadian public corporations. Dividends from private companies may be subject to higher rates.

How we can help

- **Put your investment plan into action**
  Managing an investment portfolio is an ongoing process, and you may feel you don’t have the time or expertise to manage your investments effectively.

  Your RBC small business advisor can help you:

  - identify your different financial goals;
  - determine your tolerance for investment risk;
  - set up one or more savings plans to build capital; and
  - develop an investment approach that’s designed to achieve each goal within its given timeframe.

Exploring the benefits of investing through mutual funds

Where is the best place to invest your money? For many investors, the answer is a diversified portfolio of well chosen mutual funds.

- **Professional management.** The individual investments within a mutual fund are chosen and monitored by professional money managers who offer a high level of expertise, experience and skill.
- **Access to markets.** Mutual funds make global markets accessible to every investor, opening the door to investment opportunities around the world.
- **Diversification.** Mutual funds hold many different investments, offering diversification and reducing risk exposure commonly achieved only through large portfolios.
- **Cost-efficiency.** Economies of scale make mutual funds a cost-effective investment option. You share costs — such as transaction costs and management fees — with other investors in the fund.
- **Liquidity.** Most mutual fund units can be redeemed within two business days.
- **Variety.** All RBC and affiliates’ mutual funds, and many external mutual funds, are available to you, if criteria are met.

While the concept of diversification is easy to grasp, creating — and managing — a diversified portfolio can require a significant amount of time and expertise. That’s why you may prefer to invest in a portfolio solution. With a portfolio solution, you invest in a single fund that holds a diversified portfolio of investments.

We have a wide range of portfolio solutions to choose from, for every type of investor — from low-risk conservative options to those providing aggressive growth potential. Your RBC small business advisor can help you choose a portfolio solution that’s appropriate for you.

It's tough to find time to manage your investments. That's why many business owners prefer to invest in a one-stop portfolio solution.

For short-term needs

You may have more immediate business or personal goals, such as buying a new family car, taking a vacation or buying office furniture. In addition, it's always wise to have money set aside for use in an emergency.

For short-term needs like these, you want to earn the highest available return, but you also must be able to get your money out when you need it. As a result, the best place for these short-term funds is a safe, highly liquid investment, such as a money market mutual fund or high-yield savings account.

An easy, effective way to save for your children's education

If you have children, higher education is critical to their success. But with education costs constantly rising, how can you be sure you'll be able to afford it?

A single child or family Education Savings Plan (RESP) and the RBC Target Education Funds may be the savings vehicles you need.

How we can help

- **RESP-matic.** With RESP-matic, you contribute to an RESP regularly and automatically, so education savings get the priority they deserve.
- **RBC Target Education Funds.** These diversified portfolios take the worry out of managing RESP investments. The funds' asset allocation is professionally managed to maximize growth in the early years and ensure that funds are available in the later years. All you have to do is choose the fund closest to the year (2010, 2015 or 2020) in which your child will need the funds.

Estate planning

Estate planning can become complex when the estate includes business. For this reason, your estate plan and your business succession plan (see next section) need to be carefully co-ordinated.

What is an estate plan? An estate plan helps to ensure that your personal and business assets go to your intended beneficiaries in a timely, orderly and tax-efficient way. It also ensures that your assets will be managed appropriately and you will receive proper care if you should be unable to manage your own affairs.

Tools of the trade

There are four main tools involved in the estate planning process:

- **Your Will**
  A Will is a written statement that directs how you want your assets disposed of in the event of your death. Without a Will, provincial laws will govern who will receive your assets.

- **Power of Attorney**
  A complete estate plan should also include provisions for appointing someone you trust to make decisions for you should you become incapable of doing so. This is of particular importance to you as a business owner, as the business will still need ongoing decision-making and management.

- **Trusts**
  A *testamentary* trust is a trust that's created in your will and takes effect upon your death. It's a flexible tool that can be used to achieve a number of important objectives. For example, if you have children from a first marriage, your Will can establish a trust to provide support for your spouse during his or her lifetime while ensuring that your children eventually inherit any remaining assets.

  An *inter vivos*, or *living*, trust is one that is established during your lifetime. By transferring assets into a trust, you remove them from your estate, which provides the benefits of privacy and may reduce probate fees (in provinces where they exist).

- **Life insurance**
  Life insurance is a cost-effective way to preserve your estate assets for your beneficiaries. The tax-free death benefit can be used to cover any capital gains taxes as well as other debts the estate may have, leaving your assets intact.

Keep your estate plan up-to-date

If your life circumstances change, such as a business restructuring, divorce, marriage, common-law partnership or birth of a child, make sure you update your estate plan to reflect the change.

5 reasons why you need an estate plan

1 To help ensure your assets go to your intended beneficiaries.

2 To minimize estate taxes.

3 To preserve family harmony and reduce the potential for conflict.

4 To allow for an orderly business succession.

5 To appoint someone you trust to make decisions on your behalf if you are unable to make them yourself.

Succession planning

As you near retirement age, you may want to take a less active role in your business. That's why you need a business succession plan.

Succession planning is about the transfer of your business ownership. It involves two fundamental tasks:

- **Identifying a successor for your business.** For example, will one or more of your children want to take over your business, or do you expect to sell to an unrelated third party?
- **Structuring the sale** to ensure the transaction is tax-efficient and to maximize your retirement cash flow.

How we can help

Each succession plan is as unique as each individual business and its owner. Early-stage planning is critical. It can take years to identify and groom a family successor or find a suitable third-party buyer. We can help you chart a course to:

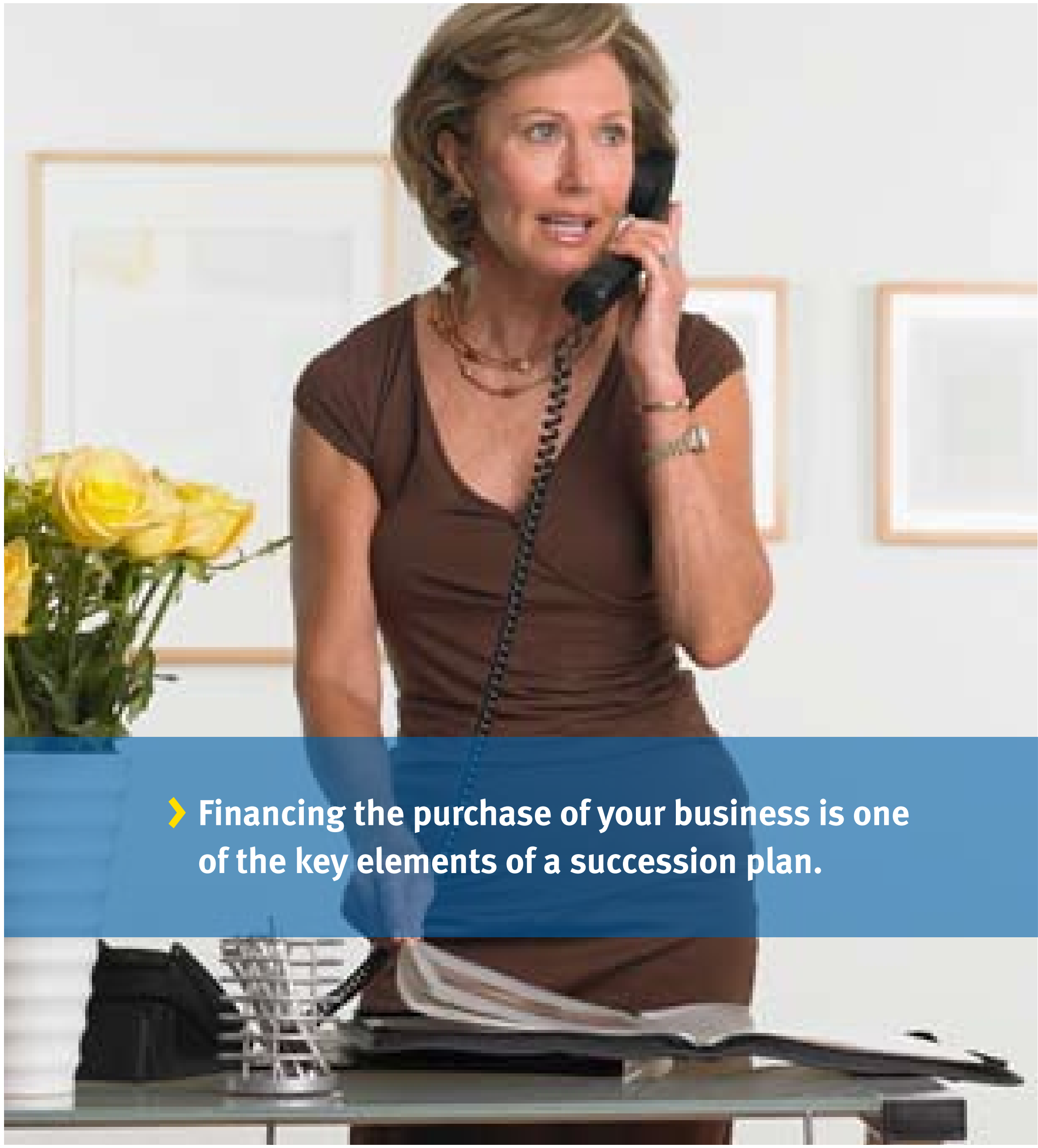
- Successfully transition your operation over time.
- Maximize the benefits to you and your successor.

Financing options for the buyout of your business

One of the key factors that a succession plan will help with is financing the purchase of your business. Most prospective purchasers will require some sort of credit. This topic is equally important to you. Unless the purchaser has sufficient funds, you may not be able to exit the business when you want, or the sale might not generate the cash flow you were anticipating.

Type of financing	How it works	Factors to address
Personal equity	You accept assets of equal value (perhaps a home or shares in another business) in exchange for your business	Prospective buyer may not have sufficient equity or assets that are attractive to you
Personal loan	Your buyer gets a loan for the purchase price secured by business or personal assets	Younger buyers may not have assets needed to secure the loan. And the business may not have unencumbered assets to offer as security
Gradual transition	The buyer makes a series of small payments over time, gradually gaining control of the business; in the meantime, you continue to operate it	May not allow you to exit the business when you want; sale may fall through if the business or your buyer encounters difficulties during the transition period
Vendor takeback	You provide financing for the buyer, with the business acting as security for the loan	Need to investigate the creditworthiness and business management ability of the buyer; if the business begins to lose money, not only might the loan go into default but the value of the assets securing it could decline

Talk to your RBC small business advisor to ensure a smooth transition.



> Financing the purchase of your business is one of the key elements of a succession plan.

Consider an estate freeze

When you sell shares in your business, you may find that your business has grown in value. The special capital gains exemption available for small business shares may cover the first $500,000 ($750,000 proposed in the 2007 federal budget) of capital gains, but 50% of any excess could be subject to tax at your marginal rate. If your business has grown substantially over the years, the tax bite can be significant.

However, there is a way to lock in your business's value at a time of your choosing and restructure it so that any future appreciation is taxable in the hands of your children or another owner.

Here's how an estate freeze works:

- **Step 1:** You exchange your common shares for fixed-value preferred shares of your company, usually with special voting rights so that you can continue to control the business. Under a special section of the Income Tax Act, you can establish the transfer price for the shares anywhere between their original cost and their current market value. This gives you the flexibility to trigger or defer a capital gain — whatever works better for you.
- **Step 2:** Your children (or a trust on their behalf) subscribe for common shares of the company. Any future increase in the shares' value will accrue to your children and won't be taxable until they sell their shares or pass away.
- **Step 3:** The company can pay dividends on your preferred shares out of cash flow or profits, giving you income during your retirement.
- **Step 4:** When the time comes to exit the business, your preferred shares can be redeemed or you can leave them to your heirs so they gain full ownership and control.

Your company should also consider whether life insurance on your life should be purchased to pay for company outlays following your death.

Because of the complexities associated with the estate freeze process, it's essential that you consult with a professional tax advisor and your lawyer to determine the best structure and to ensure that a freeze is appropriate in your situation.

How we can help

Your RBC small business advisor can play a key role in helping you with your business succession planning. Your advisor can:

- Help you identify your retirement goals and the lifestyle you want to live.
- Assess your funding needs to achieve these goals, including the potential role your business can play.

Business or personal — one call is all it takes

One of the key benefits of choosing to work with an RBC small business advisor is that you have a single point of contact for both your business and personal financial needs.

Whether you need guidance regarding cash flow solutions for work, want to explore personal savings strategies for retirement or are looking for integrated financial solutions for you and your business, your advisor has the expertise to provide the information you need and answer any questions you might have.

To contact a small business advisor, call 1-800-ROYAL® 2-0 or visit an RBC Royal Bank branch.

How RBC can help

Owning a business involves a number of challenges but, when it comes to managing the financial end, you are not alone.

At RBC Royal Bank® we take time to understand your business and how it works. You get the banking and financial resources you need, delivered in a way that best suits your business.

Single point of contact

Your personal and business finances are tightly connected. You need to work seamlessly with both sides of your financial life. We can help. Our small business advisors are fully qualified to provide you with both personal and business banking services and advice.

Banking that's right for you

We know your time is valuable, with little to spare and none to waste. With our online and telephone banking, you can bank when it's convenient for you. For timely advice on your business or personal finances, our small business advisors in branches or at 1-800 ROYAL® 2-0 across the country are trained to listen, understand your business and work with you to find the solutions that are right for you. Come in and talk with us. Our experience in helping businesses at every stage of development — from startup, to growth, to maturity — can help enhance your business success.

Additional resources

RBC Royal Bank guides

RBC Royal Bank guidebooks offer practical, easy-to-read advice written specifically for small business owners. To order, visit www.rbcroyalbank.com/definitiveguide or call 1-800-ROYAL® 2-0.

Topics include:

- Retirement and Succession Planning
- Growing Your Business
- Marketing for Small Business
- Small Business Financing in Canada
- Streamlining Your Business
- Maximizing Cash Flow
- Improving Your Company's Productivity
- Customer Loyalty

Other RBC Royal Bank resources

At www.rbcroyalbank.com you'll find a wide range of valuable tools and information designed to help you and your business grow and succeed.

To find the sites for the categories below, log in to *www.rbcroyalbank.com*. Choose "Business Banking," choose "Small Business" and select the heading of your choice.

- **Growing a Business** provides practical, detailed advice for planning, financing and achieving growth.
- **Business Succession** is a mini-website offering creative advice for planning your business exit or retirement.
- **Professionals** offers management insight and advice as well as innovative financial services for business and health-care professionals.
- **Agriculture & AgriBusiness** is a mini-site offering news and information, as well as advice from farm finance specialists across Canada.
- **Franchise** offers information and solutions for franchisees and franchisors alike.

RBC economics tools

Access exclusive economic intelligence at *www.rbc.com/economics*. You can sign up for exclusive e-newsletters featuring Daily Economic Updates or the monthly Economics Digest. Also available: Financial Markets Monthly; Economic and Financial Market Outlook; Provincial Economies; or our Financial Industry Monitoring Service.

You can also monitor current publications, including U.S. market updates, quarterly economic forecasts and much more.
www.rbc.com/economics

Government resources

Governments in Canada at every level offer help to small businesses. The federal government's Canada Business Network website (www.cbsc.org) can connect you to all of them.

On the home page, you'll find links to information on the wide variety of programs and services offered by the federal government. Across the bottom of the home page are links to each province and territory.

A small business advisor at RBC can help you manage both your personal finances and your business. To contact a small business advisor:

› Visit your nearest RBC Royal Bank® branch

› Call 1-800-ROYAL® 2-0

› Check out www.rbcroyalbank.com

[1] Business Loan Insurance Plan is underwritten by Sun Life Assurance Company of Canada.

[2] Travel HealthProtector insurance is underwritten by RBC Insurance Company of Canada.

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