

Wealth Wise

An exclusive newsletter for our clients and friends

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Welcome & Thank You

A warm welcome to the clients who have recently joined us, and a special thank you to the people who mentioned our name to them. We appreciate your trust and support.



Vancouver 2010 Olympics

The Vancouver 2010 Olympics are over but for Canadians the glow of the Olympic flame will linger for a long time to come. That's certainly true for David Klein, a Vancouver lawyer who was nominated to carry the Olympic Torch by his RBC investment advisor, Don Allen. David carried the Torch through Vancouver on February 11, 2010, the day before the games began. "It was the experience of a lifetime," said Klein. He added "The enthusiasm of the crowd affected all of us. I can't thank Don Allen and his team enough for all their years of support and for giving me the opportunity to participate in this historic event."

Taking positive action: New opportunities to reduce taxes

Following are several strategies that can help you reduce your family's tax bill.

A HISTORIC OPPORTUNITY RIGHT NOW: THE SPOUSAL LOAN STRATEGY

If you pay taxes at the highest rate, you know just how punishing Canada's marginal tax system can be. But if your spouse earns little or no taxable income, you currently have a historic opportunity to reduce your family's overall tax bill using the Spousal Loan Strategy. Here's how it works. First, you make a loan to your spouse, which is backed by a simple promissory note setting out the terms of the loan. Then your spouse invests the entire loan amount in their own name. This way, the investment income is taxed at your spouse's lower marginal rate – reducing your family's overall taxes.

To ensure the income is taxed in your spouse's hands – and not yours – your spouse must pay you interest at a certain rate, which is set by the Canada Revenue Agency (CRA). However, until June 30, 2010, the CRA-prescribed interest rate on spousal loans drops to a historic low of 1%, creating an unprecedented opportunity to maximize this proven, yet often overlooked strategy. Bear in mind the rate may be different after June 30, so consult with a professional advisor for the latest rate.

HELPING YOUR FAMILY WHILE REDUCING TAXES: THE FAMILY TRUST

You could be looking at some large capital gains over the next few years as the stock markets recover. While this is welcome news, capital gains are of course taxable outside a non-taxable account. One way you can reduce these taxes is through the new RBC Dominion Securities Family Trust. With the RBC Dominion Securities Family Trust, you can effectively transfer the tax-reporting obligation for the taxable income generated in the trust to your children or grandchildren. Because of the basic personal amount they can claim on their tax returns, they can each earn up to approximately \$50,000 in tax-free income, depending on the income mix generated in the trust (varies by province of residence).

To qualify for the tax break, the income generated in the trust must be used for the benefit of, or allocated to, the beneficiaries of your RBC Dominion Securities Family

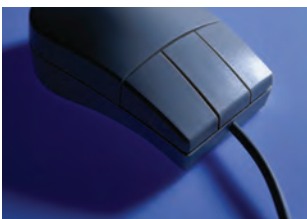


Trust. If you are currently paying for things like your children's education costs from your after-tax income, the Family Trust can make a lot of sense. When properly structured, you don't pay taxes on the capital gains earned within the trust, so your dollar goes a lot further in covering this sort of cost.

EARN TAX-FREE INVESTMENT INCOME

The new Tax-Free Savings Account (TFSA) is a no-brainer for anyone looking to reduce taxes. With the TFSA, you can earn tax-free investment income and make tax-free withdrawals any time you want for any reason. You can contribute up to \$5,000 annually and, while this may seem like a small amount now, over time it can make a big difference, especially with the effect of tax-free compound growth.

Please contact us for more information about these, and other, tax-reducing strategies.



Don't forget we are online

You can visit us at: www.allenwealthmanagement.ca

Here you will find a wealth of information on our team, our approach and client services.

We hope you find the site interesting and helpful. Of course it's meant to complement our existing one-on-one personalized service. If you have any questions please feel free to contact us!

Key decisions for business owners: Will you sell your business?

Get top dollar by making your business more attractive to potential buyers and minimize taxes on the sale.

If you are planning to sell your business to a non-family member, you are not alone. Many business owners in Canada will exit their business by selling to a non-family member, but only a small percentage of owners planning to transfer their business in the near future have a succession plan. This apparent lack of succession planning is often due to the difficulty in finding a suitable buyer with financing to close the purchase. If you're selling your business outside the family, bear in mind the factors that can make it more attractive to a prospective purchaser. It will be easier to find a buyer for a business that has potential for future growth. Other corporations in your business sector may also be interested in acquiring your business with a view to improving its profitability. Valuation is of central importance. You can get an indication of this by researching the selling price of similar businesses in your area. Remember that small businesses can sell for significantly less than the asking price. Buyers may evaluate your business on its projected cash flow for the next few years to assess the value of that cash flow against the business risks.

To help you find a purchaser and obtain a better offer:

Have a valid reason to sell.

But try not to disclose personal information that could weaken your negotiating power.

Don't wait until you're under pressure to sell for economic or emotional reasons.

This can force you to accept a poor offer.

Gather essential information.

This may include:

- Three years' financial statements and tax returns
- Lists of fixtures and equipment
- Lists of employees and customers
- Copies of leases for premises and equipment
- Franchise agreement
- Lists of loans and payment schedule
- Names of professional advisors, for example, business broker, qualified legal advisor and tax specialist

Have financial statements professionally prepared for the sale.

This will increase the value of the business in the eyes of potential buyers.

Consider hiring a business broker to help you identify a purchaser.

A broker can act as your agent while you're looking for a purchaser and during the negotiations.

Maintain confidentiality.

Don't divulge information about your day-to-day business activities that can be used by competitors. Ask a potential buyer to sign a non-disclosure agreement and provide financial information only to potential buyers who have paid a deposit.

Don't let the business decline while you're preoccupied with the sale.

Maintain your premises, inventory and normal business hours.



Learn to judge whether a potential buyer is serious.

Don't waste time on tire kickers.

Assemble a team of experts to help you.

Your team of experts should include an experienced tax advisor to ensure you have planned your sale in the most tax-efficient manner, a qualified legal professional to prepare legal documentation and a business valuator. By working with your advisor at RBC, you can create a financial plan that can give you an idea of what level of after-tax sale proceeds will be adequate to meet your retirement goals. They can also help you manage the investment of the sale proceeds. In addition, consider hiring a business broker to help you find a purchaser.

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HIRING A BUSINESS BROKER

Give your broker information about your business and then follow their advice. Here are some factors to consider:

- You can maintain confidentiality during the early stages of the sale process and let the broker deal with potential purchasers on your behalf until they identify an acceptable prospect.
- Potential buyers may be more comfortable talking to an intermediary.
- Some brokers specialize in a particular industry and may have contacts at corporations that may be interested in buying your company.
- Brokers' fees are usually a percentage of the final sale price. Weigh this expense against the benefit they provide before you hire them.

You are strongly advised to consult an experienced legal professional when you're selling your business. A professionally prepared document summarizing your business for potential purchasers can be invaluable and may help you avoid potential litigation and suggestions of misrepresentation if the purchaser finds the business less successful than expected. Your legal advisor should also prepare the sale and purchase agreement so that all contingencies are covered and you minimize the risk of future litigation.

TAX MINIMIZATION STRATEGIES

The following strategies may help you minimize the tax consequences when you're selling your active business to an outside buyer. Some strategies must be undertaken well before the closing date, so remember to plan ahead.

- If the purchaser is buying the shares of your business, you may be able to claim the capital gains exemption if your shares qualify. Note that substantially all your business assets must be "active Canadian business assets" at the

time of sale and at least half the assets must be active assets during the 24 months before the sale.

- Consider the pros and cons of setting up an Individual Pension Plan or a Retirement Compensation Arrangement, which may help to defer some of the tax upon a future sale.
- If you have a prospective purchaser for your unincorporated business, consider incorporating and selling the shares to utilize the capital gains exemption.
- If the shares of your business are sold, then consider reinvesting some of the proceeds in the shares of another active Canadian private company in the year of sale or within 120 days after the year of sale in order to defer some of the capital gains tax on the sale.
- If your sale isn't imminent and the value of your business is increasing, an estate freeze may allow future capital gains to accrue to other family members and possibly multiply the use of the capital gains exemption.
- If you pay yourself a retiring allowance before the sale, you may be able to transfer a portion to your Retirement Savings Plan, tax-deferred, if you had years of service before 1996, irrespective of your available contribution room.
- Use some of the sale proceeds to make a charitable donation in the year of sale. The donation tax credit may help you minimize the tax on any capital gains realized on the sale. If your donation is expected to be at least \$25,000, then consider the benefits of setting up your own charitable foundation in the year of sale through our charitable gift program.
- Consider receiving the sale proceeds over several years using a capital gain reserve to spread the gain over a longer period.

Please ask us for more information on making the most of your business sale proceeds for your retirement. We can help you develop a comprehensive financial plan and provide a wide range of retirement planning and investment services.

We value your feedback!

We welcome your feedback on what you'd like to see in our next issue.

Or if you would like to contribute an article, please contact us at (604) 257-7244.

Thank you for your kind words.

To all of you who recently referred a friend or family member my way to help them answer a question they had about their financial situation, I thank you. If ever you are speaking to someone who is concerned about any aspect of their investment portfolio, feel free to pass along my name and number.