



Randy Perram
Investment Advisor

www.randyperram.com

Perram Wealth Management

RBC Dominion Securities
2400 Oxford Tower
10235 101 Street
Edmonton, AB.
T5J 2K8

"A typical simple estate freeze would entail that the parent who owns the common shares of a growing company would exchange the common shares for preferred shares of equivalent value on a tax-deferred basis."

When Does an Estate Freeze Make Sense?

By Randy Perram

An estate freeze is typically used by parents who would like to freeze the current value of their growing incorporated assets and transfer the future growth of these assets to their children. There are several methods available to accomplish an estate freeze. Although an estate freeze may turn into a complicated tax transaction, this Financial Planning Quick Tip only deals with the general aspects of an estate freeze.

A typical simple estate freeze would entail that the parent who owns the common shares of a growing company would exchange the common shares for preferred shares of equivalent value on a tax-deferred basis. That's right, it is possible to exchange the parent's common shares that may have a large accrued gain for preferred shares without triggering the accrued capital gain now. The preferred share consideration received for the common shares usually has a stated value and would not grow in value in the future. The children would then subscribe for new common shares. Future growth of the corporate assets would be reflected in the value of the new common shares now owned by the children.

The following are possible advantages that may be accomplished by an estate freeze:

1. The parents may retain control over the corporation by receiving voting preferred shares in exchange for their common shares. The parents should ensure sufficient voting preferred shares are issued in order to retain their

“The parents may ensure a regular income flow by receiving a dividend on the preferred shares”

control;

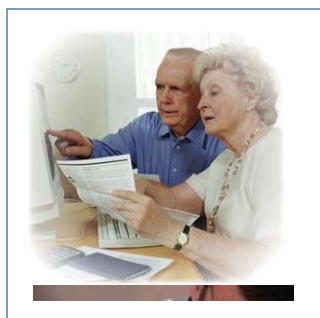
2. The parents may ensure a regular income flow by receiving a dividend on the preferred shares;

3. If the shares are Qualified Small Business Corporation (QSBC) shares, the parent may trigger a gain now in order to apply the enhanced \$500,000 capital gains exemption;

4. If the common shares continue to qualify as QSBC shares, the children receiving the new common shares may be able to utilize their own capital gains exemption as the shares grow in value;

5. If the parent has available capital losses from other transactions, the estate freeze may be structured in a way to realize capital gains on the common shares disposed of to offset available capital losses;

6. The parents can determine in advance the amount of capital gains that will be incurred on the shares upon their disposition or their death. The capital gain would be equal to the Fair Market Value of the shares exchanged less the ACB of the shares at the time of the estate freeze.



An estate freeze is a useful tool utilized to achieve various goals. However, there are complex rules such as the attribution rules, which may be triggered if the estate freeze is not completed properly. Professional advice should always be obtained when considering an estate freeze.

This document has been prepared for use by RBC Dominion Securities Inc.*, Royal Mutual Funds Inc., RBC Private Counsel Inc. and RBC DS Financial Services (Quebec) Inc., Member Companies under RBC Investments. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information that we believe to be accurate, but we cannot guarantee its accuracy or completeness. This document is not intended as nor does it constitute legal or tax advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This will ensure that their own circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change.

TM Trademark of Royal Bank of Canada, used under license. RBC Investments is a registered trademark of Royal Bank of Canada, used under licence. ©Royal Bank of Canada 2004. Printed in Canada.