



WHY ESTABLISH A DELAWARE TRUST?



While any trust can be a valuable financial planning tool, a Delaware trust offers many more advantages, with benefits for today and for many years to come.



THE DELAWARE ADVANTAGE

The state of Delaware has long been known as the corporate capital of the United States. More than half of the Fortune 500 companies are incorporated there. But Delaware is also a major center for personal trust management. And with good reason. Compared to other states, Delaware offers,

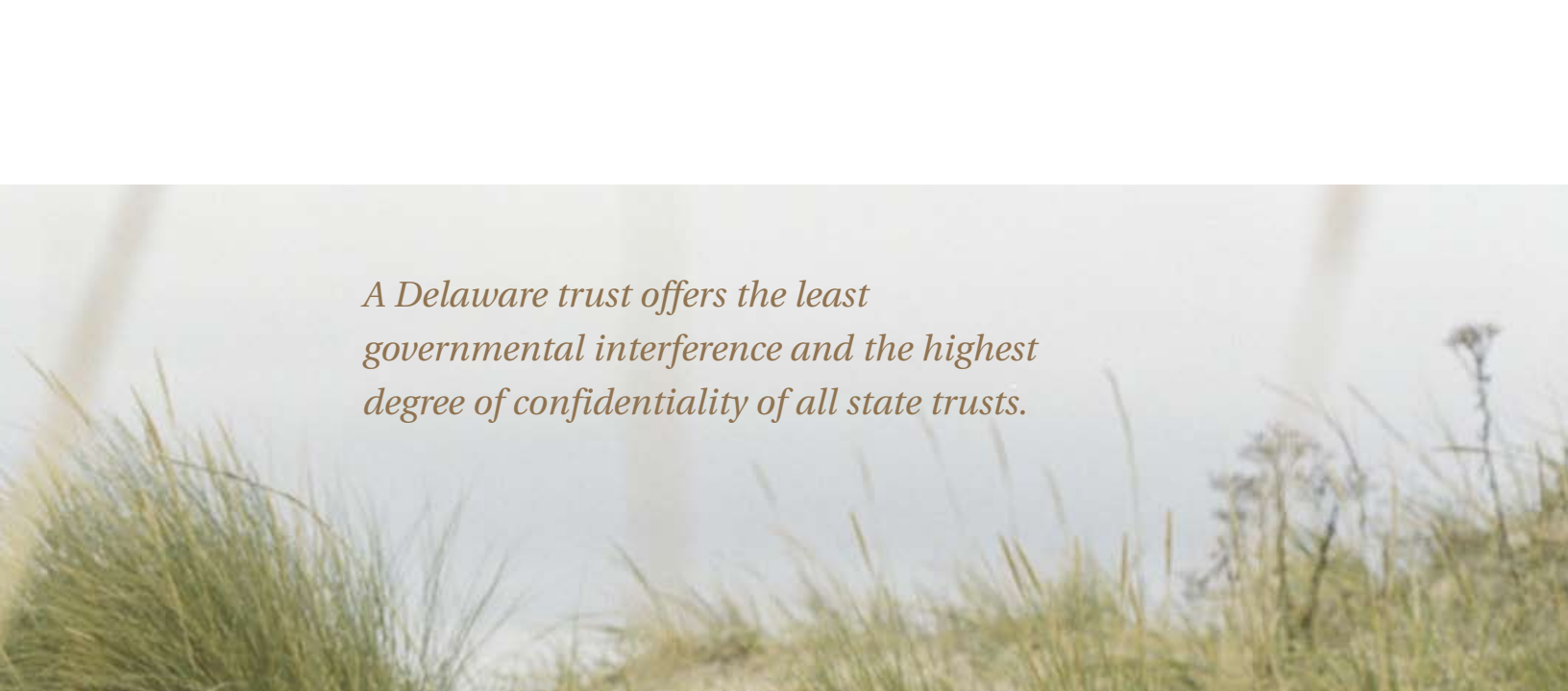
- Greater confidentiality
- A higher level of protection from creditors
- Greater investment flexibility
- Lower administration costs
- More financial planning options
- Greater tax savings — and more



As a result, large numbers of Americans, including many of our wealthiest people, from all 50 states, have set up Delaware trusts. For example, while less than 0.5% of the population lives in Delaware, over 10% of those listed in the Forbes 400 have established trusts in Delaware.

Note: For your convenience, we have endeavored to provide a general overview of some of the many reasons Delaware trusts are considered more advantageous than those offered in other states. The information contained herein includes indirect references to legal precedent and reflects legislation deemed accurate at the time of printing. It is by no means exhaustive and RBC Trust Company (Delaware) Limited accepts no liability for inaccuracies. This brochure is not intended as tax, legal, investment or other professional advice. As always, we recommend you obtain independent professional advice particular to your individual circumstances.

Key terms in this brochure are defined in the glossary on page 9.



A Delaware trust offers the least governmental interference and the highest degree of confidentiality of all state trusts.

GREATER CONFIDENTIALITY

Compared to other states, Delaware goes to great lengths to protect the confidentiality of a trust. For example, if you're like most people, you want to make sure certain aspects of your trust — such as its size, assets and terms, as well as the names and addresses of your beneficiaries — do not become a matter of public record.

Many other states simply don't offer that protection. And, unlike other states that require individuals to record trust agreements with the local government (as they would a deed to real estate), Delaware does not.

Some states also require trustees to render periodic court accountings of their trust, making exhibits, such as trust documents and asset inventory, public knowledge. Delaware does not require inter vivos trustees to render periodic court accountings.

States that don't require these accountings provide strong incentives to trustees to file them. In many states other than Delaware, a trustee that files an account may be relieved from liability for investment losses and other acts it discloses upon its approval by the court.

As a result, to avoid open-ended liability, trustees of long-term trusts in other states may file an accounting at certain times, for example, upon the death of a life beneficiary. Delaware has no routine procedure for a trustee to exonerate itself from liability, and thus, no incentive to go public.

Trustees in Delaware account to the beneficiaries of their trusts just like trustees in other states, and the beneficiaries can bring suit or request a judicial accounting if dissatisfied. In Delaware, however, the courts are not involved in the routine administration of a trust.





Delaware is one of the states which provides Trusts with the greatest protection against creditor claims.

GREATER ASSET PROTECTION

In every state, trust assets are protected from a trustee's creditors, but not necessarily from a beneficiary's creditors. For example, if a beneficiary is divorced, his or her estranged spouse may have a legal right to all or a portion of those assets.

Whether a creditor can obtain assets belonging to a trust beneficiary depends on state law concerning spendthrift provisions of a trust. Some states don't recognize spendthrift trusts; others only to limited degrees.

Delaware will not allow a creditor of a non-grantor beneficiary access to the principal of a spendthrift trust for any purpose. In fact, Delaware now has a law that makes it possible for assets placed in a trust by a grantor who is also a beneficiary to be protected from the grantor's creditors. This last provision of Delaware law makes Delaware trusts attractive alternatives to offshore asset protection trusts.

Discretionary income is also afforded a certain degree of protection. For instance, when a beneficiary is entitled to regular income from a trust,

Delaware allows the beneficiary's spouse or children to receive income to meet a support obligation, but neither a creditor nor a trustee in bankruptcy can reach that income.

In Delaware, assets held by a bank trustee are exempt from attachment; a beneficiary's creditors can't attach assets even if a trust has no spendthrift provision, and a would-be plaintiff can't use attachment proceedings to obtain jurisdiction over a trust beneficiary.

Even so, a beneficiary of a Delaware trust can assign up to one-half of the interest in a spendthrift trust to charity — even though spendthrift trust interests are generally unassignable. This gives Delaware beneficiaries greater flexibility than beneficiaries in other states and enables more sophisticated tax planning.



In Delaware, a trust grantor determines how much or how little control trustees have over investments.

INVESTMENT FLEXIBILITY AND CHOICE

Quite simply, Delaware allows a trust grantor to establish his or her own investment parameters. This allows more aggressive investment strategies, provided the entire portfolio, when viewed collectively, is appropriate for the trust as permitted by law.

Often, grantors — also known as trustors — choose to use investment managers from a state other than Delaware. In keeping with its investment-friendly approach, Delaware law recognizes that duties performed by an investment manager differ from those performed by a trustee responsible for administrative duties. By statute, a Delaware trust can give an investment advisor or manager the power to control trust investments while relieving the trustee of responsibility for both the choice of advisor and the advisor's investment results. The advisor or manager alone is liable for his or her own decisions. In many states, a trustee cannot relinquish this responsibility, no matter what the trust agreement says, and the trustee may be unwilling to accept a trust unless he or she can manage its investments.

GENEROUS TRUST DURATIONS

All trusts have a life span and terminate when the last living or charitable beneficiary receives all the property to which he, she or it is entitled. Surprisingly, many states still impose the Rule Against Perpetuities — an essentially antiquated law descending from feudal England — or a modified version of it. This rule requires that every beneficiary's interest in the trust vest (i.e. become unconditionally the beneficiary's) no later than 21 years after the death of designated individuals who were alive when the trust was created.

This rule has perplexed generations of law students because it's difficult to interpret and apply. Nonetheless, as it's written, this rule can result in the termination of a trust — even one for a grantor's grandchildren under certain circumstances — before the grantor originally intended.

Delaware has eliminated the Rule Against Perpetuities except in regard to real estate held in certain trusts for 110 years or more.

This opens up significant planning opportunities to deal with the federal Generation Skipping Transfer Tax. Since a properly structured trust can now last indefinitely in Delaware, it is possible to set up an irrevocable dynasty trust. A dynasty trust can be structured to provide income and principal distributions to successive generations without incurring estate or gift taxes at the death of each generation.



EXPEDITIOUS ADMINISTRATION

The Delaware Court of Chancery has earned a solid reputation for its well-reasoned decisions on corporate law. Most rules governing the relationships among management, the board of directors and shareholders of the largest U.S. corporations were written by that court.

The chancellors employ their knowledge of financial transactions appropriately in exercising their jurisdiction over trusts. As previously noted, the court does not exercise continuing jurisdiction over a trust. It takes jurisdiction only by petition, and then relinquishes it.

Because the court is not mired in routine administrative matters, such as court accountings, its calendar is relatively open. In essence, cases can be handled expeditiously and at a lower cost than in other jurisdictions.

As a result, trust and estate administration is significantly more efficient in Delaware than other states, making it advantageous for most nonresidents to have their will probated and estate settled in Delaware.

SPECIFIC ADVANTAGES FOR NONRESIDENTS

Simply put, no state can administer a trust for a lower tax cost than Delaware, resulting in significant savings — particularly over states with income tax. Additionally, the will of a nonresident who owns real or personal property in Delaware can be admitted to original probate in Delaware as if he or she were a resident. And while this doesn't alter a decedent's inheritance and estate tax obligations, it may save probate, legal and administrative costs by avoiding estate administration in the state of residence.

TAX ADVANTAGES

INCOME TAXATION OF THE TRUST

In some states, if an irrevocable trust is managed by a corporate trustee whose principal place of business is in the same state, and if the trust is governed by the state's laws, the trust may be treated as a resident trust for tax purposes.

As a result, the trustee may be required to pay the state's income tax on any capital gains or accumulated ordinary income — regardless of where the grantor or beneficiaries reside.

Delaware offers extremely favorable tax treatment to trusts for nonresident beneficiaries. While the trust is considered a Delaware resident trust for tax reporting purposes, the tax law provides a deduction for income accumulated for nonresidents. So long as the beneficiaries reside outside Delaware, no Delaware income tax is imposed on the trust.

Over the years, some high tax states have tried unsuccessfully to impose tax on trusts their residents established in low tax states. The fact that Delaware is a “no-tax” state as far as nonresidents are concerned makes it an even more favorable environment in which to establish a trust.



INCOME TAXATION OF THE TRUST'S BENEFICIARIES

Delaware imposes no tax on income distributed to a nonresident beneficiary. Income subject to tax is taxable under the laws of the beneficiary's state of residence. A trust with all nonresident beneficiaries will pay no Delaware income tax — directly or indirectly.



Delaware trusts offer a wide range of benefits — many of which simply aren't available in most other states.

AD VALOREM TAXATION

Some states impose an ad valorem tax on personal property, including investment assets. Resident trusts pay the tax, regardless of the residence of the grantor or beneficiaries. For example, a Pennsylvania trust with beneficiaries living in Delaware pays Pennsylvania personal property tax.

Delaware doesn't levy a personal property tax. If the beneficiaries live in states without such a tax, they won't pay one. If the beneficiaries live in states with a personal property tax, they may be subject to the tax on the part of the trust representing their actuarial interests.

However, the tax is the personal obligation of each beneficiary; the trust's assets are not subject to it, and the Delaware trustee has no legal obligation to collect it.

SALES AND USE TAX

Many states levy a sales and use tax on the purchase and sale of tangible personal property. The tax for resident trusts is usually similar to resident individuals. For example, if a California trust purchases or stores gold bullion within the state, the trustee must pay California sales or use tax. That's not the case in Delaware. If a Delaware resident trust purchases or stores tangible property inside the state, it pays no sales or use tax.

ESTATE TAX

Most states levy an estate tax. Usually, the tax on estates of deceased nonresidents is levied in proportion to the value of their real and tangible personal property situated within the state. For example, if a living trust held gold in Florida, the proportion of the trust invested in gold would be subject to Florida estate tax, regardless of the grantor's residence. Delaware does not levy an estate tax on nonresidents, regardless of where their assets are situated.

ADVANTAGES ABOUND

Delaware trusts offer a wide range of benefits — many of which simply aren't available in most other states. They provide the confidentiality, privacy and security you desire, as well as the investment flexibility and cost savings you need to help you maximize the trust's potential.

For more information about Delaware trusts, call your financial advisor or RBC Trust Company (Delaware) Limited at 1-800-441-7698. We will gladly answer any additional questions you may have, and in conjunction with your financial advisor, we will help you design a trust that best suits your individual financial needs.



GLOSSARY

Ad valorem

In proportion to the estimated value.

Attachment

The seizure of assets, property or person by legal authority.

Beneficiary

A person entitled to receive benefits (usually money or other property).

Fiduciary

Anyone responsible for the custody or management of property belonging to others, such as an executor, administrator, trustee, guardian or conservator.

Grantor

A person who creates a trust, often referred to as “trustor,” “donor” or “settlor.”

Inter vivos

Taking effect during the lifetimes of the parties involved; between living persons.

Irrevocable trust

A trust that cannot be changed or revoked by the person who created it.

Probate

The procedure in each state required to settle legally the estate of a deceased person and transfer his probate property.

Spendthrift provision

The provision in a trust agreement that allows the donor to place the beneficiary’s share out of reach of the beneficiary’s creditors. The funds of this particular beneficiary (other than the donor) while in the trust cannot be attached or recovered by someone suing the beneficiary.

Trust

A relationship in which one person (the trustee) is the holder of the legal title to property (the trust property) to keep or use for the benefit of another person (the beneficiary).

Trustee

An individual or professional organization that holds the legal title to property for the benefit of another person(s).

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