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WealthStyles

# Navigate the maze of executive compensation

As you climb the corporate ladder, you will find that your salary structure is a little more complex than it use to be. So it pays to understand how to calculate the value of executive perks like low-interest loans, stock options and retirement compensation arrangements (RCAs), to name just a few.

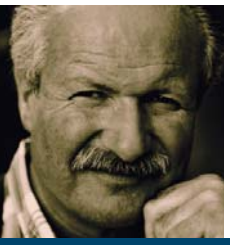
The first rule is: Don't assume a benefit is going to be tax-free, says David Burnie, a certified financial planner and partner with Ryan Lamontagne Inc. in Ottawa. Some are – but many are not. And although most benefits are still advantageous even if they're taxable, it's wise to understand how much tax you can expect to pay so that you can plan properly.

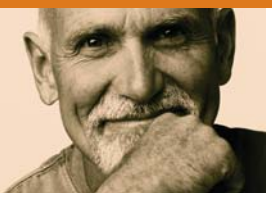
## NO FREE LUNCH

As an example, says Burnie, a low-interest loan is definitely a perk, but it isn't a no-strings gift. "The difference between the commercial rate and the lower executive rate is considered a taxable benefit," he says. So if your rate is 3 per cent and the going rate is 6 per cent, you'll pay tax on the difference.

Many executives don't understand how profits from stock options are taxed, says Burnie. Contrary to common belief, they aren't considered to be a capital gain – they're deemed to be a taxable benefit. You'll pay tax on half of your profits, much the same as you would on capital gains, but you have to make sure you report that income properly on your tax return. If you don't, you'll be taxed on the whole profit.

For executives about to retire, it's also worth knowing that if you exercise your options over a period of several years rather than all at once, you may continue







to make RRSP contributions, because the taxable benefit is considered to be earned income.

Two of the best perks, says Burnie, are individual pension plans and retirement compensation arrangements, because they're taxable only at retirement.

If you're in the lucky position of being offered an attractive executive compensation package, take the time to meet with your financial advisor to find out how the benefits work. It could save you considerable time and trouble – not to mention dollars.

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