

QUALIFIED REGISTERED INVESTMENTS

With the official RRSP season now behind us, advisors and their clients will begin to think about how to best invest their RRSP contributions. Since the self-directed plan holder will ultimately be accountable for any investment decisions made in the plan, special attention should be made to the types of investments chosen. This is important because investments that are “non-qualified” at the time of purchase must be included in the annuitant's income for the year acquired. Fortunately, however, Canada Customs and Revenue Agency allows you to select from a wide variety of qualified investments:

EQUITY

- Publicly traded shares and shares of public corporations: shares trading on a Canadian or foreign prescribed stock exchange, or any public corporation (other than a mortgage investment corporation)
- Shares of private and other corporations:
 - Shares of Canadian small business corporations which qualify as CCPCs (Canadian Controlled Private Corporations), further subject to certain eligibility requirements
 - Shares of eligible corporations, which are defined generally as either a specified holding corporation, a venture capital corporation, or a taxable Canadian corporation, further subject to certain eligibility requirements
 - Shares of venture capital corporations, provided that the annuitant, beneficiary, or subscriber under the plan is not a connected shareholder of the corporation, and further subject to certain eligibility requirements.

FIXED INCOME

- Negotiable bonds/debentures/notes/mortgages issued by the GOC, the provinces, municipal bodies, and crown corporations
- GICs and term deposits issued by Canadian banks and trust companies
- “Stripped bonds” and/or its detached coupons
- Bonds/debentures/notes of corporations listed on a Canadian or foreign prescribed stock exchange
- Bonds issued by public corporations (other than mortgage investment corporations)
- Foreign government-issued bonds with an investment grade rating
- Debt obligations issued by an authorized foreign bank and payable at a Canadian branch of the bank
- Debt obligations issued by a mutual fund trust, the units of which are listed on a prescribed stock exchange in Canada

CASH AND EQUIVALENTS

- Money deposits: cash deposits made in any currency, where the FMV of the money does not exceed its stated value as legal tender in its country of issue
- Deposit with credit unions, provided that certain conditions are met.
- Short-term debt: GOC, provincial, and foreign Government-issued Treasury-bills, Bankers Acceptances, GOC and provincial savings bonds, and Canadian and foreign Money Market investment funds

MORTGAGES

- Mortgages secured by real property located in Canada and insured under the National Housing Act, provided that further eligibility requirements are met.

MULTI-CLASS OR SPECIAL INVESTMENTS

- Installment Receipts: proof of partial payment on property, which evidences the purchase and beneficial ownership of such property
- Trust Interests: mutual fund trusts, foreign stock exchange index trusts, small business investment trusts, and real estate investment trusts
- Royalty Units: royalty units that are listed on a prescribed Canadian stock exchange, where the value of the units is derived solely from Canadian Resource Properties
- Annuity Contracts: when purchased from a licensed annuities provider and where the plan trust is the only person who is entitled to annuity payments upon maturity of the registered plan (or before maturity, where the contract may be surrendered for any amount that is approximately equal to its FMV)
- Warrants, Rights, and Options: warrants, rights, long calls, and short covered calls on eligible shares only
- Limited Partnership Units: where the LP unit is listed on a prescribed Canadian stock exchange, or is a limited partnership interest in a “small business investment limited partnership”. Note, however, that an interest in a general partnership is not a qualified investment.
- Depository Receipts that are listed on any Canadian or foreign prescribed stock exchange.
- Investment Funds: bond or mortgage investment funds, foreign-equity investment funds, derivative-based investment funds, and balanced investment funds.

NON-QUALIFIED INVESTMENTS

A non-qualified investment is any property acquired after 1971, which is not a qualified investment. The following is a list of common unqualified investments:

- Gold bars, silver bars, and other precious metals
- Foreign currency
- Shares of certain private corporations
- short naked calls, short puts, and long puts
- Commodity futures contracts
- Listed personal property, such as works of art, antiques, and coin collections
- Gems and other precious stones
- Real estate
- Shares of corporations that are traded over-the-counter (OTC)
- Employees’ options to purchase stock

What happens if I acquire a non-qualified investment into my RRSP?

Investments that are “non-qualified” at the time of purchase or acquisition must be included in the annuitant's income for the year acquired. At the point in time that the annuitant then

disposes of such property from his or her RRSP, he or she can deduct for that year an amount that equals the lesser of:

- The proceeds of disposition of the non-qualified investment, *and*
- The amount previously included in income at the time the property was acquired

What happens if a “qualified-investment” becomes a “non-qualified investment” while held in my registered account?

Investments that are qualified at the time of acquisition into a registered plan, which later become unqualified, are subject to a special tax which is equal to 1% of the FMV of the property, at the time it is acquired. The special tax is payable at the end of each month, for each month in which the property is held inside the RRSP.

Note: The above article is for information purposes only and should not be construed as offering tax advice. Individuals should consult with their personal tax advisors before taking any action based upon the information in this article.