The RRSP deadline has come and gone. For those of us that rely on our trusted financial advisor, thoughts of our RRSP will be put on the back shelf until early 2018, when we are scrambling to make our last-minute contributions before the deadline. For those of you that like to be a bit more hands on with your money, deciding how to invest your RRSP money continues to be at the forefront all year long. But deciding which stocks and investments will give you the best bang for your buck with your self-directed RRSP is not all that you should be focusing on. The number 1 guiding principle should always be to ensure that whichever investment you choose qualifies for RRSP purposes.

Make sure you qualify
Tax rules and regulations specify that if any of your investments are not on CanRev’s qualified list, you could face a tax of 50 per cent of the fair market value of such investments at the time they were acquired or became non-qualified - even though they’re held within your RRSP. A though this tax is refundable in certain circumstances, it is best to avoid these investments at the first instance. (By the way, similar requirements for qualified investments apply to RESPs and TSFAs.)

Of course, the government does not list each and every qualified investment - they’re listed by category. Some types of investments are fairly straightforward - shares of corporations listed on qualifying stock exchanges, for example. For most stock-market-type investments, your broker should be able to tell you whether or not they qualify. But sometimes the rules aren’t clear - and that’s where you can get into hot water. Much as they would like you to believe otherwise, financial institutions and investment advisors can be wrong about RRSP-qualified investments. If you’re investing in anything offbeat, and your financial institution/advisor says it’s qualified for RRSPs, my advice is to get this confirmed in writing, just to be safe.

Note on Qualified Investments
The following are some details on qualified investments (although not meant to be exhaustive):

Money and Canadian bank, trust company, or credit union deposits, including GICs. According to CanRev, money denominated in any currency is a qualified investment in an RRSP; however, the value of “money” cannot exceed its stated value as legal tender. This is to prohibit investments in “collectibles” such as rare coins or gold “Maple Leafs”.

Canadian government bonds, debentures or similar obligations. This includes bonds, debentures, notes, mortgages or similar obligations of the Government of Canada (or guaranteed by the Government of Canada); the government of a province (or an agent thereof); a municipality in Canada; most Crown corporations; an educational institution or hospital if repayment is made, guaranteed,
or secured by a province.

Included are Canada Savings Bonds. Strip bonds or coupons are generally regarded as qualified investments, if the bond itself would qualify.

Precious metals. Investment-grade gold and silver bullion, coins, bars, and certificates on such investments are qualified investments for RRSP purposes. However, these investments must be acquired either from the producer of the investment or from a regulated financial institution.

Shares of companies listed on the Canadian National Stock Exchange; the Toronto Stock Exchange; the Montreal Exchange; and the TSX Venture Exchange (formerly known as The Canadian Venture Exchange, which was the merger of the Vancouver, Alberta and Winnipeg Stock Exchanges). This includes all types of listed preferred or common shares (for warrants and rights, see below). Although over-the-counter shares do not qualify under this category, they may be qualified investments if they meet other criteria.

Limited partnerships. Units in or debt of a limited partnership listed on one of the designated stock exchanges (see list above) are qualified investments.

Foreign shares, if listed on a designated foreign stock exchange which has been designated as such by the minister of finance. Besides major U.S. exchanges (including NASDAQ), a number of major European exchanges are designated, as well as some in the Far East. However, securities quoted on the NASDAQ OTCB Bulletin Board, and other over-the-counter shares are not considered to be qualified investments.

It appears that you can write an option on these qualifying shares, provided it is “covered”. If a plan sells short, CanRev could (among other things) take the position that the RRSP is actively engaged in a business, resulting in certain tax penalties.

Warrants or rights giving the owner a right to acquire a qualified investment. This appears to include Canadian exchange-traded call options provided that the underlying investment is qualified, i.e., a call option for a Canadian-listed company. However, CanRev has indicated that a put option would not qualify. CanRev does not consider a convertible debenture to be a “warrant or right”, although such a debenture may, of course, qualify under another category. However, as per amendments in 2005, the issuer of the warrant or right will be required, on an ongoing basis, to deal at arm’s length with each person who is an annuitant, a beneficiary, an employer or a subscriber under the plan. Moreover, the underlying property has to be a share or unit of the issuer or a share, unit or debt of another person or partnership, or a warrant to acquire such property, which at the time of the issuance did not deal at arm’s length with the issuer. Canadian REITs and income trusts which are structured as mutual fund trusts are qualified RRSP investments. While the main popularity of these trusts stems from higher apparent yields than conventional interest-bearing investments, the tax features can also be quite beneficial. Corporations pay tax on their income and then distribute profits as dividends, which are taxed again in the hands of shareholders (with the dividend tax credit available to non-RRSP investors in Canadian Companies). Income trusts and REITs, on the other hand, are designed so that income is reported and tax is paid by the investor, not the trust, so there is only a single level of tax. In most trusts, there is a significant element of tax shelter on cash distributions due to depreciation or similar deductions claimed by the trust. Effectively, the benefit of this shelter will eventually be “recaptured” when the investor sells the trust units, but usually as a capital gain.

If income trusts and REITs are held by an RRSP, these tax benefits will be lost. However, to the extent that distributions from the trust generate taxable income, there will be no current tax to the RRSP either. While loss of tax benefits may make personal ownership preferable, the degree of shelter relative to the taxable income will vary from fund to fund, and may decrease over time, e.g., as assets in the trust become fully depreciated, leaving more ongoing tax exposure. However, flipping such a fund into an RRSP may result in significant tax exposure on the transfer, especially since the cost base of the fund will decrease as shelter is used.

One innovation is the use of funds that effectively divides income trusts into high-tax components (designed for RRSPs) and low-tax units, designed for individual investment.

Stock market index units or options can be complex. A Canadian “iUnit” (e.g., iUnits S&P/TSX 60 Index Fund, ...
known as an “i60”) is a qualify-
ing investment, since it is a 
“mutual fund trust”.

Options - Calls and Puts. 
CanRev used to consider the 
writing of “naked call options” 
or the short sale of a call option 
as being speculative in nature, 
thus resulting in the taxation of 
the RRSP on its taxable income 
for the year. However, the 
amendments to the Income Tax 
Regs in the fall of 2005 made 
certain derivatives RRSP eligi-
able. These include call options, 
and put options on stocks, cur-
currencies and indexes. Therefore, 
purchasing calls (instead of 
stocks), covered call writing 
and purchasing puts instead of 
selling stocks short are now 
allowed in RRSPs.

Mortgages. Generally, a 
qualifying mortgage must be 
from people who you deal with 
at “arm’s length” - so you can’t 
hold a mortgage from members 
of your immediate family or an 
in-law, for example. And if you 
and your neighbour give each 
other a mortgage - i.e., in a 
“crisscross” arrangement, this 
could also violate the “arm’s 
length” requirement. The mort-
gage must not exceed the fair 
market value of the property 
(other than as a result of a 
decline in the market after the 
mortgage was given). Accord-
ingly, there will be a couple of 
hurdles to make sure you don’t 
trip over. Happily, there’s a sec-
ond alternative – the RRSP 
mortgage, which involves having 
your RRSP make you a loan 
secured by a mortgage on your 
home. This can be permissible if 
the mortgage loan from your 
RRSP is insured and you pay 
your RRSP interest at market 
rates in effect when the RRSP 
loan is made.

Corporate Debt. Debt 
obligations issued by a Cana-
dian corporation or trust are qualified 
investments, assuming that cer-
tain conditions are met. The 
purpose behind the inclusion of 
corporate debt was to accommo-
date investments in debt obliga-
tions (more commonly known 
as asset-backed securities) that 
are backed by cash flows from 
pools of loans and other receiv-
ables.

Debt Obligations. Any 
debt obligation (e.g. bankers’ 
acceptance, commercial paper, 
debt of a foreign government) 
that has an investment grade 
rating and that is part of a mini-
um $25 million issuance.