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Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the Department.
Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle du ministère.

PRINCIPAL ISSUES:

Whether US cash a qualified investment for RRSP purposes.

POSITION: No.

REASONS:

Although US currency is a non-qualified investment, there is no requirement that an RRSP dispose of a non-qualified investment. There may be tax consequences, however, if a non-qualified investment is held in the RRSP. After June 27, 1999, certain foreign currency and deposits thereof will be a qualified investment for an RRSP, RRIF and RESP - proposed by August 8, 2000 legislation under Finance release #2000-059.

Signed on October 11, 2000

XXXXXXXXXX

Dear Colleague:

I am replying to correspondence of July 7, 2000, from XXXXXXXXXXXX, addressed to Mr. Ajay Chopra of my office, on behalf of your constituent, XXXXXXXXXXXX, concerning the qualified investment rules for Registered Retirement Savings Plans (RRSPs).

In his letter, XXXXXXXXXXXX raised concerns about a trust governed by an RRSP which may buy and sell foreign-denominated investments from time to time. He wishes to know if the RRSP trust must convert foreign currency into Canadian dollars when the investment is sold, and convert Canadian dollars to foreign currency prior to purchasing another such investment. Each conversion has a cost and thus reduces the assets in the RRSP available for retirement.

There is no requirement in the Income Tax Act that foreign currency held by an RRSP be converted to Canadian currency. However, because foreign currency is not a qualified investment for a trust governed by an RRSP, there may be tax consequences if foreign currency is held.

When a trust governed by an RRSP acquires property which is a non-qualified

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investment, such as foreign currency, the fair market value of this investment must be included in the income of the annuitant, pursuant to subsection 146(10) of the Act. However, by virtue of subsection 146(6) of the Act, on disposition of the non-qualified investment the annuitant will get a deduction equal to the lesser of the proceeds of disposition and the amount previously included in income under subsection 146(10) of the Act. Therefore, there are generally no income tax implications for the annuitant when the foreign currency is disposed of within the same calendar year and there has been no fluctuation in the exchange rate. Accordingly, the Canada Customs and Revenue Agency will not apply these provisions where foreign currency is converted to Canadian currency or is used to acquire a qualified investment within a reasonable period of time (usually one month).

I am also pleased to inform you that on August 8, 2000, the Department of Finance announced proposed legislation which will generally allow RRSPs to hold foreign currency as a qualified investment after June 27, 1999.

I trust that my comments will assist you in replying to your constituent.

Yours sincerely,

Martin Cauchon

W. Harding
August 29, 2000
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