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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.

XXXXXXXXXX

Dear XXXXXXXXXXXX :

I am replying to a letter from your constituent, XXXXXXXXXXXX, a copy of which was sent to me by your office on July 16, 1998, 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. To avoid adverse tax results, the RRSP trust must convert foreign currency into Canadian dollars when such an 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.

XXXXXXXXXX interpretation of the Income Tax Act is correct in that foreign currency is not a qualified investment for a trust governed by an RRSP. Money is a qualified investment only if it is legal tender in Canada. When a trust governed by an RRSP acquires property which is a non-qualified 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, the annuitant will get a deduction once the trust disposes of the non-qualified investment.)

Although the law is clear, the Department does have a position which evolved as a result of a submission received indicating that an RRSP trust trading in qualified investments denominated in a foreign currency would invariably hold foreign currency on a temporary basis. This could occur where interest or a dividend on a particular security held by the trust is received in foreign currency, or where the trust receives foreign currency on the disposition of a security denominated in the foreign currency. It could also occur where the trust converts Canadian dollars into a particular foreign currency to allow it to acquire a qualified investment denominated in that currency.

Technically, subsection 146(10) of the Act would apply each time the RRSP trust acquires the foreign currency and subsection 146(6) of the Act would apply each time it is disposed of. This was considered to be an unintentional result and the Department agreed not to apply those provisions where the foreign currency was

E9820478

converted to Canadian currency or used to acquire a qualified investment within a reasonable period of time (usually one month).

I trust that my comments will be of assistance in replying to XXXXXXXXXXXX .

Yours sincerely,

Herb Dhaliwal, P.C., M.P.

C.C. Minister's Office
Political Assistant

Philippe-Antoine Sarrazin

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