

## RRSP - SWAPS

Did you know that you are able to swap assets within your RRSP with assets in your non-registered accounts?

### What Is A Swap?

A swap is the exchange of one asset for another asset between a RRSP account and a non-registered account. One of the assets usually is cash.

### Why Would You Swap?

Given the recent changes in capital gain inclusion rates it may be beneficial to put interest-earning investments (such as bonds and term deposits) into your RRSP and keep equities outside of your RRSP. This is because interest income is fully taxable while only one-half of capital gains realized today are subject to tax. If you sell an asset within your RRSP account, the entire proceeds will be fully taxable when the money is withdrawn from the RRSP account. On the other hand, if the same sale takes place outside of your RRSP account, only one half of the capital gain will be taxable.

When considering a swap, one should look at their entire portfolio (RRSP and non-RRSP) and decide what percentage of their total portfolio should be invested in equity investments vs. interest earning investments. The interest earning investments should be swapped into the RRSP if and only if the cash flow derived from the interest earning investments is not needed.

For example, Jane Smith has an RRSP account worth \$150,000 and a non registered account worth \$50,000 and would like to maintain a 70/30 split between equity and interest earning investments. The \$60,000 of interest earning investments ( $\$200,000 \times 30\%$ ) should be held in the RRSP. The remaining \$140,000 ( $\$200,000 \times 70\%$ ) will be invested in equities; \$90,000 in the RRSP account and \$50,000 in the non-registered.

### How Does The Swap Work?

The individual who is planning on swapping assets needs to pick two assets, one in the RRSP and one in the non-RRSP account with the **same fair market value**. Since the fair market value of the assets are the same, there is no tax consequence on the withdrawal from the RRSP (this includes no withholding tax).

The adjusted cost base of the asset taken out of the RRSP will be equal to the fair market value of the asset at the close of the day before the swap is requested. The cost amount to the RRSP of the asset swapped in will equal the fair market value of the asset at the close of the day before the swap is requested. Please note, you are not given a RRSP tax deduction for the swap of assets.

If the asset transferred into your RRSP has an accrued capital gain you will need to report the capital gain for tax purposes (swap fair market value – adjusted cost base). On the other hand, if the asset transferred into your RRSP has an accrued capital loss you will not be able to report this capital loss for tax purposes.



## Is There A Fee For Swaps?

If both the RRSP account and non-registered account are at Scotia McLeod, there is no fee.

### Things To Remember When Swapping Assets:

- Assets transferred into the RRSP must be eligible investments for a registered account. If you are unsure if an asset is eligible for an RRSP, please consult your administration guide 'Registered Accounts Questions & Answers 2004– 2005 or your Financial Planning Consultant.
- Fair market value in must equal fair market value out. If this is not the case, the swap will be considered a withdrawal from the RRSP, subject to withholding tax as well as a contribution to the RRSP, which may be subject to interest and penalties if one does not have contribution room available.

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