The Navigator

Wealth Management

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In kind RRSP contributions

Contributing investments to your RRSP

If you would like to make an RRSP contribution but don't have any cash available, consider contributing your non-registered investments in kind to your RRSP. This article discusses the tax implications of making in kind RRSP contributions. It also highlights other potential tax-saving strategies relating to RRSP contributions.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax and legal advisor before acting on any of the information in this article.

The basics

When you contribute securities in kind to your RRSP, the securities must be considered a "qualified investment" for RRSP purposes. Otherwise, you may face negative tax implications. Qualified investments include guaranteed investment certificates (GICs), government and corporate bonds, mutual funds, securities listed on a designated stock exchange and certain private Canadian corporate shares.

When you transfer any investment directly into your RRSP, the investment is deemed to be disposed of at fair market value (FMV) for tax purposes. If the investment is in a gain position, you will have to pay tax on 50% of the resulting capital gain in the year of transfer. When you transfer an investment with an unrealized loss to your RRSP, the capital loss is deemed to be nil and you cannot claim this loss. You will never be able to use this capital loss to offset any capital gains. In both cases, your RRSP contribution will be equal to the FMV of the investment on the date of transfer and you will receive an RRSP contribution receipt for that amount.

If you transfer interest-bearing securities to your RRSP, any accrued interest you have earned up to the date of transfer must be included in your income for year of the transfer, even if you did not actually receive the interest. The amount of your RRSP contribution will be equal to the FMV of the securities transferred, which includes the accrued interest.

To avoid losing the benefit of claiming your capital losses, sell your investments with an unrealized loss on the open market and contribute the cash proceeds to your RRSP.

Tax planning strategies

Claim your capital losses

To avoid losing the benefit of claiming your capital losses, sell your investments with an unrealized loss on the open market and contribute the cash proceeds to your RRSP. By doing so, you may be able to use the capital loss triggered against any capital gains you realized in the current year. If you still have net capital losses (after offsetting the current year capital gains), you can either carry them back three years or carry them forward indefinitely to offset future capital gains.

If you like the potential of the investments you just sold and want to immediately reacquire them inside your RRSP, you should be aware of the superficial loss rules. Essentially, if you sell an investment at a loss, the superficial loss rules prevent you from claiming the loss if you or a person affiliated with you, reacquires the investment within a certain period of time. This period of time includes the 30 days prior to and 30 days following the day of sale – a 61-day period in total. In addition, for the superficial loss rules to apply, at the end of that period, you, or a person affiliated with you need to own or have a right to acquire that identical security. Your RRSP is considered a person affiliated with you.

Contribute early

Consider contributing to your RRSP early in the year to boost your RRSP's growth. By contributing early, you may be able to maximize the advantage of tax-deferred compound growth by investing inside your RRSP.

In addition, to maximize the benefit of your in kind RRSP contribution, transfer investments to your RRSP within the first 60 days of the calendar year. This will enable you to claim an RRSP deduction on your prior year's tax return, assuming you have the available RRSP contribution room. Any income (i.e., capital gains realized or interest accrued) you realize as a result of the in kind contribution will be included in your current year's tax return and payable in the following year since it is taxable in the year of transfer. This allows you to claim a deduction over a year in advance of the income inclusion, which results in you deferring tax. However, if you expect your income to be higher in the current year or in future years, you may want to consider claiming the RRSP deduction in the year of contribution or in a future year.

Consider the investment you wish to transfer

From a tax perspective, it might be advantageous to make your in kind RRSP contributions with fixed income or foreign investments as opposed to Canadian equity investments. This is because investment income from Canadian equity investments, which generally includes Canadian dividends and capital gains, is taxed at more favourable rates outside your RRSP. Canadian dividends are generally taxed at a lower rate than interest income due to the gross-up and dividend tax credit treatment available on such income. Capital gains are also effectively taxed at a lower rate as only 50% of net capital gains are included in your income. If you transfer Canadian equity investments to your RRSP, any investment income generated will lose its preferential tax treatment and be fully taxed at your marginal tax rate when you withdraw the income.

On the other hand, interest and foreign income (including dividends from foreign corporations), just like RRSP withdrawals, are fully taxable at your marginal tax rate when held in your non-registered accounts.

If you want to make an RRSP contribution but are short on cash, consider transferring your investments in kind to your RRSP.

As such, it might be beneficial to transfer these types of investments in kind to your RRSP in order to defer the tax until you withdraw the funds. That said, you will not be able to claim foreign tax credits for any non-resident withholding tax paid on the foreign income you earn inside an RRSP. To determine whether an in kind transfer of these investments makes sense for you, speak with a qualified tax advisor.

Summary

If you want to make an RRSP contribution but are short on cash, consider transferring your investments in kind to your RRSP. Keep in mind that the transfer is considered a taxable disposition and will result in immediate tax consequences. You should weigh this accelerated tax cost against the potential value of the compounded tax-deferred growth in your RRSP and the tax savings from your RRSP deduction. To discuss whether an in kind RRSP contribution makes sense for you, speak with a qualified tax advisor.

Please contact us for more information about the topics discussed in this article.

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