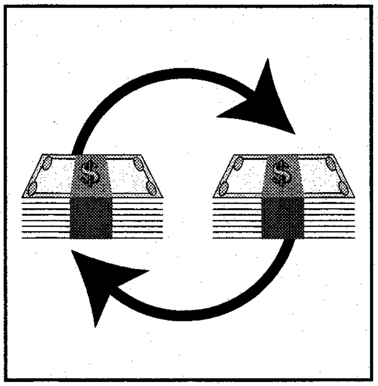
Davidson & Company
CHARTERED ACCOUNTANTS

"INVESTMENT SWAP" WITH AN RRSP



Occasionally, an investor may wish to "swap" an investment that is held outside the investor's RRSP with an investment that is held inside the RRSP.

For example, the investor may hold "Investment A" that earns interest outside the RRSP, and "Investment B" that earns capital gains inside the RRSP. Because interest income is fully included in income while only half of capital gains are included in income, the investor would probably prefer the investments to be held the other way around. That is, if one of the investments has to be held outside the RRSP, it makes more sense to have Investment B outside the RRSP because of the lower tax payable on the capital gains as compared to the interest income.

In order to "swap" the two investments, the investor can simply sell Investment A to the RRSP in return for Investment B. This type of investment swap does not count as an RRSP contribution, because it is considered a sale of property to the RRSP rather than a contribution. Accordingly, if the transaction is done at fair market value (see below), the swap does not affect the investor's RRSP deduction room. This means that a swap can be performed even if the investor has no RRSP deduction room.

After the swap, the RRSP will own Investment A, and the interest income earned on it will be tax-free inside the RRSP. The investor will own Investment B and will be taxed at the lower capital gains rates in respect of that investment.

When undertaking such a "swap", the investor should ensure that the two investments are of equal value. If they are not of equal value, adverse tax consequences may result.

Note that the sale of Investment A to the RRSP will be considered a sale of the property at fair market value for capital gains purposes. Accordingly, if the fair market value of Investment A is greater than its cost to the investor, the swap will give rise to a capital gain. The swap might not be advisable, depending on the amount of that capital gain.