

Swap of Registered or Non-Registered Assets

A swap involves the swapping of an asset held outside a registered plan for an asset that is held inside that registered plan. Provided that the fair market value (FMV) of the assets going into the plan is equal to the FMV of the assets which are coming out of the registered plan, there are no tax consequences other than a potential capital gain due to the deemed disposition rules (you are considered to have disposed of property, even though you did not actually sell it). There is no impact on contribution room or any instances pertaining to taxable withdrawals, as this is not considered as a withdrawal from a registered plan (i.e. RSP).

In situations where the values of the assets swapped do not match, this could be considered as a contribution to the plan along with a withdrawal from the plan. If you do not have sufficient contribution room you could potentially be subject to penalties.

From an adjusted cost base (ACB) perspective, the ACB of the assets being removed from the registered plan will equal the FMV of the assets on the day the swap takes place. The same is true for the assets swapped into that registered plan. It is important to note however that as with contributions in kind, the asset being transferred into the registered plan will trigger a deemed disposition. Any capital gain will be taxed. However, any potential capital losses that result can never be claimed.

Consider a simple example:

Logan currently holds 100 shares of ABC company in his RSP which he purchased 10 years ago at a cost of \$10 per share or \$1,000 total (ignore brokerage fees). On the day of the SWAP, ABC share is trading at \$20 per share or \$2,000 total. Logan therefore transfers \$2,000 cash to his RSP, in exchange for 100 shares of ABC Company which he places in his non-registered account.

Because the FMV of the shares matches the FMV of the swapped asset (cash in this case), there are no tax implications (taxes are deferred in the registered plan).

Should Logan choose to sell his ABC shares in the future, his ACB is now \$20 per share.

Why SWAP?

If interest bearing investments are held outside a registered plan (i.e. bonds), and equities are held inside a registered plan, a SWAP could be considered for the potential tax savings. The interest received on the interest bearing investment is potentially subject to higher taxes compared to the equities transferred out of your registered plan. The interest bearing investment would therefore benefit from the tax shelter provided by a registered plan. The equities transferred out of your registered plan would be taxed more favourably as capital gains.

Consider a complex example:

Logan currently holds a 5-year, \$10,000 Government Bond in his non-registered account, with 3 years left to maturity.

Logan also holds 200 shares of XYZ Corporation. in his RSP which are currently trading at \$100 per share.

Firstly, Logan must ensure that the FMV of both assets match. For swap purposes a bond is valued at its current trading value plus accrued interest. Assume that in this case, accrued interest to date on Logan's bond is \$100, and the bond is trading at face value of \$10,000. The bond is therefore valued at \$10,100 (value plus interest).

Logan can safely swap the \$10,100 bond for 101 shares of XYZ Corporation (worth \$10,100), because the FMV of both assets are matched.



Note, however, that the transfer of an asset to a registered plan is considered to be a contribution in kind. Consequently, the asset is considered disposed of at FMV.

A bond that has risen in value has accrued a capital gain which is taxable. Conversely, if a bond has dropped in value, no capital loss can be claimed.

Valuation Methods

The previous example referenced how various securities are valued such that the FMV of both assets match. The chart below provides an overview of how each security is valued for SWAP purposes.

Security	Valuation Method
Equities	<p>If the stock has traded, any price between the high and low of the day.</p> <p>If the stock has not traded, the price showing as the previous closing price.</p> <p>(Do not use the bid/ask)</p>
Mutual Funds	Previous day's NAVPS.
Bonds	Market value plus accrued interest.
Interest-bearing money market GICs , CSBs	Principal plus accrued interest.

Source: TD Waterhouse Registered Plans Department
 Last revised: January 28, 2010

The information contained herein has been provided by TD Waterhouse Canada Inc. and is for information purposes only. The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, trading or tax strategies should be evaluated relative to each individual's objectives and risk tolerance.

TD Waterhouse Canada Inc., The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

TD Waterhouse represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Waterhouse Private Banking (offered by The Toronto-Dominion Bank) and TD Waterhouse Private Trust (offered by The Canada Trust Company).

©/ The TD logo and other trade-marks are the property of The Toronto-Dominion Bank or a wholly-owned subsidiary, in Canada and/or in other countries.