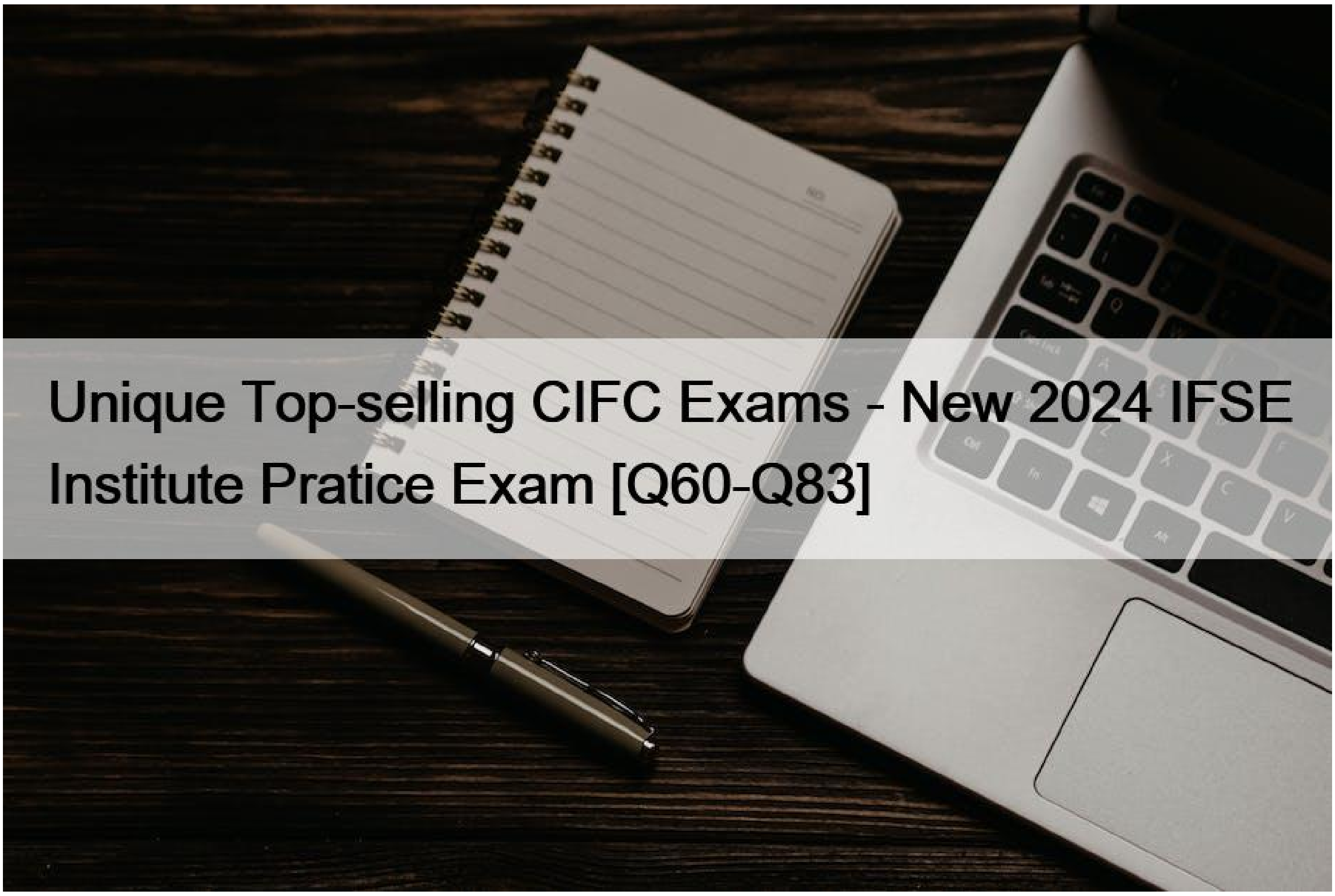
Unique Top-selling CIFC Exams - New 2024 IFSE Institute Pratice Exam [Q60-Q83



Unique Top-selling CIFC Exams - New 2024 IFSE Institute Pratice Exam
Investments & Banking Dumps CIFC Exam for Full Questions - Exam Study Guide

NEW QUESTION 60

At the close of business, Great Lengths Equity Fund had total assets of $135 million and total liabilities of $10 million. They had 11 million units outstanding. In addition, their current assets totalled $13 million and current liabilities were $3 million. Which of the following statements regarding Great Lengths Equity Fund’s net asset value per unit (NAVPU) is correct?
* The NAVPU is the total liabilities divided by the number of outstanding units.
* Current assets and current liabilities are used in the NAVPU calculation.
* There is not enough information available to calculate the NAVPU.
* Great Lengths Equity Fund’s NAVPU is $11.36.
Explanation

The net asset value per unit (NAVPU) of a mutual fund is calculated by dividing the net asset value (NAV) of the fund by the number of outstanding units. The NAV is the difference between the total assets and total liabilities of the fund. Current assets and current liabilities are not relevant for the NAVPU calculation.

Therefore, Great Lengths Equity Fund’s NAVPU is ($135 million – $10 million) / 11 million = $11.36.

References: Canadian Investment Funds Course (CIFC) | IFSE Institute, Unit 8, Lesson 1

NEW QUESTION 61

Throughout the year, the Redwood Global Equity Fund generated the following outcomes:

. $1.00 per unit of interest income from Canadian treasury bills

. $2.50 per unit of dividend income from foreign corporations

. $7.75 per unit of capital gains from the sale of Canadian corporations

. $6.50 per unit of capital gains from the sale of foreign corporations

. $2.00 per unit of capital losses from the sale of foreign corporations Given that the Redwood Global Equity Fund is structured as a mutual fund trust, which of the following statements is true?
* Redwood can flow the foreign dividends to unitholders, who can then take advantage of the dividend gross-up and tax credit mechanism.
* Unitholders will receive $12.25 per unit of net capital gains from Redwood, of which only 50% is subject to tax.
* Redwood can distribute the $2.00 per unit of capital losses to unitholders, who can then use them to offset their capital gains.
* Since Redwood pays the tax on foreign income, it does not distribute dividend or capital gains income from foreign sources to unitholders.

Explanation

This statement is true because a mutual fund trust can distribute its net income and net realized capital gains to its unitholders, and avoid paying tax at the fund level. The unitholders then report their share of the fund’s income and capital gains on their tax returns, and pay tax according to their marginal tax rates. In this case, Redwood has generated $14.25 per unit of capital gains from the sale of Canadian and foreign corporations, and $2.00 per unit of capital losses from the sale of foreign corporations. Therefore, its net capital gains are

$12.25 per unit ($14.25 – $2.00), which it can distribute to its unitholders. The unitholders will only include

50% of the net capital gains in their taxable income, as per the inclusion rate for capital gains in Canada1. The other 50% is tax-free.

The other statements are false because:

A: Redwood cannot flow the foreign dividends to unitholders, who can then take advantage of the dividend gross-up and tax credit mechanism. This mechanism only applies to dividends received from Canadian corporations that are eligible for the enhanced dividend tax credit or the ordinary dividend tax credit2. Foreign dividends are treated as foreign income, and are subject to withholding tax by the source country and income tax by Canada3.

C: Redwood cannot distribute the $2.00 per unit of capital losses to unitholders, who can then use them to offset their capital gains. A mutual fund trust can only distribute its net income and net realized capital gains, not its capital losses4. However, a mutual fund trust can carry forward its capital losses indefinitely and use them to reduce its taxable capital gains in future years5.

D: Redwood does not pay the tax on foreign income, and it does distribute dividend or capital gains income from foreign sources to unitholders. A mutual fund trust pays tax on its foreign income only if it does not distribute it to its unitholders in the same year it is earned. However, most mutual fund trusts distribute all or most of their foreign income to their unitholders, as they want to avoid paying tax at the fund level and maintain their status as a mutual fund trust.

References:

Canadian Investment Funds Course (CIFC) Study Guide, Chapter 7: Taxation, Section 7.3: Taxation of Mutual Funds, page 7-10
Canadian Investment Funds Course (CIFC) Study Guide, Chapter 7: Taxation, Section 7.2: Taxation of Investment Income, page 7-4
Foreign Income – Canada.ca Mutual Fund Trusts – Canada.ca Capital Losses and Deductions – Canada.ca Taxation of Foreign Income – IFSE Institute Mutual Fund Trusts – IFSE Institute

NEW QUESTION 62

Which of the following best describes implied needs of your clients?
* They are needs reflected by statements made by clients regarding problems and dissatisfactions.
* They are statements made by you showing readiness to solve a client’s problem.
* They are statements made by clients expressing the desire for lower commissions.
* They are statements of wants and needs made by clients.

NEW QUESTION 63

Grant is a Dealing Representative with WealthPlus Securities Inc. Grant becomes a volunteer member of his local arena’s Hockey Association and is appointed as the Association’s new Treasurer. Which of the following statements about Grant’s appointment as Treasurer is CORRECT?
* If Grant is not compensated for the Treasurer position, his firm’s approval is not required.
* Grant must obtain the firm’s approval before he starts the Treasurer position.
* Since Grant holds the Treasurer position on a voluntary basis, it is not an outside activity.
* Grant must disclose the Treasurer position to his firm once he has accepted the position.

Explanation

Grant’s appointment as Treasurer is considered an outside activity, regardless of whether he is compensated or not. According to the CIFC, Dealing Representatives must obtain their firm’s written approval before engaging in any outside activity that could interfere with their ability to perform their duties or create a conflict of interest with their clients or employer. Grant must disclose the nature and extent of his involvement with the Hockey Association and how it may affect his availability, reputation, or potential for conflicts of interest. The firm may approve, reject, or impose conditions on Grant’s outside activity.

References: Canadian Investment Funds Course, Chapter 8: Suitability and Know Your Client1

NEW QUESTION 64

Jasmine received an inheritance from her grandmother of $10,000. She wants to invest her money wisely. She has seen in the news that a particular energy company is doing very well and has good prospects. She has also seen how volatile its share price has been in the last year. She knows the risks of the resource sector and wants to invest but is not comfortable with so much volatility. Which of the following mutual fund benefits would address her concern?
* convenience
* low cost
* diversification
* liquidity

NEW QUESTION 65

Thomas, a resident of Ontario, is a full-time university student. He does food delivery to supplement his income. During the school year, he works on weekends and works full-time during his summer break.

Thomas’ pensionable earnings were $16,000 for the year. How much must Thomas contribute to CPP when CPP contribution rate is 5.95%?
* $0
* $743.75
* $912.00
* $1,425.00
Explanation

Thomas must contribute to CPP based on his pensionable earnings, which are his income from employment or self-employment that are subject to CPP. However, he can deduct a basic exemption amount from his pensionable earnings, which is $3,500 for the year. Therefore, his contributory earnings are:

16,0003,500=12,500

The CPP contribution rate is 5.95% for employees and self-employed workers. Therefore, Thomas must contribute:

12,500*5.95%=743.75

References:

* Canadian Investment Funds Course (CIFC) Study Guide, Chapter 6: Registered Plans, Section 6.3:

* Canada Pension Plan (CPP), page 6-101

* Canada Pension Plan – How much could you receive – Canada.ca2

NEW QUESTION 66

Maalik opens an account for a new client, John. During the new account process, Maalik determines that he will need to confirm John’s identity. Which of the following statements about Maalik’s identification requirements is CORRECT?
* If Maalik determines that there is anything suspicious about John’s transaction, he is required to report the matter to his dealer. The dealer must report the matter to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).
* If Maalik learns that John is the president of a state-owned company, Maalik is required to report John as a Politically Exposed Foreign Person (PEFP) to his dealer. If John is not a US person, the dealer must report the account to the Internal Revenue Service (IRS).
* If John wants to make a large cash deposit of $10,000 or more, Maalik is required to collect personal information about John and report it to his dealer. The dealer must report the information to the Canada Revenue Agency (CRA).
* If John attempts to make a suspicious deposit, Maalik is required to report the attempt to his dealer. The dealer must keep records of attempted suspicious transactions that are not reported to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).
Explanation

The statement that is correct about Maalik’s identification requirements is option A. According to Section 7 of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA), registered firms and individuals must report any suspicious transactions or attempted transactions to FINTRAC, which is Canada’s financial intelligence unit that collects, analyzes, and discloses information related to money laundering and terrorist financing activities. A suspicious transaction or attempted transaction is one that there are reasonable grounds to suspect that it is related to a money laundering or terrorist financing offence. Therefore, if Maalik determines that there is anything suspicious about John’s transaction, he must report the matter to his dealer, who must report it to FINTRAC within 30 days of making the determination. The other statements are not correct about Maalik’s identification requirements. Option B is false because Maalik does not need to report John as a PEFP to his dealer; rather, he must take reasonable measures to determine whether John is a PEFP or a family member or close associate of a PEFP, and if so, he must obtain senior management approval before opening an account for John, take enhanced measures to verify John’s identity, and conduct enhanced ongoing monitoring of John’s account activity. Option C is false because Maalik does not need to collect personal information about John and report it to his dealer if John wants to make a large cash deposit; rather, he must verify John’s identity using an original, valid, and current document or information from a reliable source, keep a record of John’s name and address and the date and amount of the deposit, and report any large cash transactions of $10,000 or more in Canadian currency or its equivalent to FINTRAC within 15 days of receiving the cash. Option D is false because Maalik does not need to report the attempt to his dealer if John attempts to make a suspicious deposit; rather, he must report the attempt directly to FINTRAC within 30 days of detecting the suspicion, regardless of whether the transaction was completed or not. References: [FINTRAC

– Home], [FINTRAC – Reporting], [FINTRAC – Guideline 2: Suspicious Transactions], [FINTRAC – Guideline 6A: Record Keeping and Client Identification for Financial Entities]

NEW QUESTION 67

What is the role of a custodian?
* to ensure safekeeping of all the securities in the portfolio
* to oversee the general administration of the mutual fund
* to construct and manage the portfolio of investments
* to calculate the daily net asset value per unit (NAVPU) of the mutual fund
Explanation

A custodian in mutual fund is a trust company, bank, or similar financial institution that is responsible for holding and safeguarding the securities owned within a mutual fund. The custodian also records and reports all transactions to the fund manager. The custodian does not oversee the general administration, construct and manage the portfolio, or calculate the NAVPU of the mutual fund. These are the roles of other entities such as the fund administrator, the fund manager, and the fund accountant.

References = Canadian Investment Funds Course (CIFC) – Module 2: Investment Products – Section 2.2:

Mutual Funds1 and web search results from search_web(query=”role of a custodian in mutual funds”)23

1: https://www.ifse.ca/wp-content/uploads/2021/08/CIFC-Module-2.pdf

NEW QUESTION 68

Which of the following statements best describes dollar-cost averaging?
* It is a type of systematic withdrawal program.
* It is buying a set dollar amount of a mutual fund on a regular basis
* It is the strategy of purchasing a set number of units of a mutual fund on a regular basis.
* It is making lump-sum purchases when the market price for a mutual fund is low.
Explanation

Dollar-cost averaging is the practice of systematically investing equal amounts of money at regular intervals, regardless of the price of a security. This strategy can reduce the overall impact of price volatility and lower the average cost per share. By buying regularly in up and down markets, investors buy more shares at lower prices and fewer shares at higher prices. Dollar-cost averaging aims to prevent a poorly timed lump sum investment at a potentially higher price. References: What Is Dollar-Cost Averaging? – Investopedia

NEW QUESTION 69

What trait or characteristic is normally associated with a person who would be designated as a Trusted Contact Person (TCP)?
* Normally has a financial interest in the client’s account or assets.
* Often involved with providing care for the client who requires personal assistance.
* Has the authority to make financial decisions on behalf of the client.
* Can simplify difficult financial concepts for the client.

Explanation

A Trusted Contact Person (TCP) is someone who the client authorizes their financial advisor to contact in limited circumstances, such as when the client is vulnerable, has a health issue, or cannot be reached. A TCP should be someone who the client trusts and who is mature and can handle difficult conversations about the client’s personal situation. Often, a TCP is someone who is involved with providing care for the client who requires personal assistance, such as a family member, a friend, or a caregiver. A TCP does not have a financial interest in the client’s account or assets, does not have the authority to make financial decisions on behalf of the client, and does not need to simplify financial concepts for the client

NEW QUESTION 70

Which of the following statements is TRUE about the movement of business cycles in the Canadian economy?
* A period of economic expansion is followed by a period of economic contraction.
* A period of economic expansion is of the same length in every cycle.
* A period of economic expansion is always of the same length as a period of economic contraction.
* A period of at least 3 consecutive months of contraction is called a recession.

NEW QUESTION 71

Eleanora receives a $500 eligible Canadian dividend from her mutual fund. Her federal marginal tax rate for the year is 29%. Assuming the enhanced gross-up of 38% and a federal dividend tax credit of 15.02%, how much federal tax will she pay on her dividend?
* $69.90
* $189.16
* $96.46
* $115.40

NEW QUESTION 72

Portia is a Dealing Representative with Highview Wealth Inc., a mutual fund dealer. Portia recommends the Stature Growth Fund to her client Clive. Which of the following CORRECTLY describes what Portia must do in order to satisfy her obligations under the Client Relationship Model (CRM) and Client Focused Reforms (CFR)?
* Portia must calculate the net asset value per unit (NAVPU) and report it to Give in the trade confirmation.
* Portia must mark the trade as unsolicited” if Clive wants to proceed with the trade and it is not suitable for him.
* Portia must disclose the costs, expenses, and ongoing fees associated with the investment prior to the trade.
* Portia must provide Clive with the pre-trade disclosure to address any material conflicts of interest with the trade.

NEW QUESTION 73

Jonathan is a Dealing Representative who has just finished an appointment with his new client, Shirley.

Jonathan has concluded that Shirley has a low-risk profile but wants to establish additional savings of

$500,000. During their discussion, Shirley emphasizes she wants investments that are also tax efficient.

Jonathan learned that currently Shirley has no registered retirement savings plan (RRSP) and tax-free savings account (TFSA) contribution room due to using those opportunities by investmenting elsewhere.

What variable is a PRIMARY consideration for Jonathan when making an investment recommendation?
* Investment objective
* Shirley’s risk profile.
* Expected time horizon.
* The tax consequences.
Explanation

Shirley’s risk profile is the primary consideration for Jonathan when making an investment recommendation.

Risk profile is a measure of how much risk an investor is willing and able to take on in their portfolio. It is determined by factors such as age, income, net worth, investment objectives, time horizon, and personal preferences. It is essential for a dealing representative to assess the risk profile of their client before recommending any investment products or strategies, as they have a fiduciary duty to act in the best interest of their client and ensure that their recommendations are suitable for their client’s needs and goals. The other variables are also important, but they are secondary to the risk profile. References: [Risk Profile], [Know Your Client (KYC)]

NEW QUESTION 74

Which of the following statements about nominee name accounts is TRUE?
* The dealer is the registered owner of the account and holds funds in trust for the client.
* Discretionary trading on a client’s account, without specific instructions, is permitted.
* Holding accounts in nominee name means the client no longer needs to provide any trading instructions.
* A Limited Trading Authorization (LTA) is necessary since the dealer, and not the client, is the registered owner of the mutual funds.
Explanation

A nominee name account is a type of account where the dealer, not the client, is the registered owner of the mutual funds held in the account. The dealer holds the funds in trust for the client and acts as the nominee for the client. The client is the beneficial owner of the funds and retains all the rights and benefits associated with the ownership. The dealer is responsible for maintaining the records of the client’s transactions and holdings, and for providing the client with confirmations, statements, and tax slips.

References = Canadian Investment Funds Course, Unit 8: Mutual Fund Administration, Lesson 1: Account Registration, Section 8.1.2: Nominee Name Accounts1; CIFC prepkit, Chapter 8: Mutual Fund Administration, Question 8.1.2 2

NEW QUESTION 75

Which of the following statements describes a feature of the Home Buyers’ Plan (HBP)?
* To qualify- as a first-time home buyer you or your spouse must never have previously owned a home
* Once you are required to repay the amounts back to your RRSP. any missed or incomplete payments are subject to tax.
* A qualifying home must be purchased by December 31 of the year of withdrawal.
* If you have a spouse or common-law partner, each of you can withdraw up to JE50.000 from your registered retirement savings plans (RRSPs).

Explanation

The Home Buyers’ Plan (HBP) is a program that allows eligible first-time home buyers to withdraw up to

$35,000 from their registered retirement savings plans (RRSPs) to buy or build a qualifying home without paying any tax on the withdrawal. The withdrawn amount must be repaid to the RRSP over a period of up to

15 years, starting from the second year after the withdrawal. If the required repayment for a year is not made, it is added to the taxpayer’s income and subject to tax. Therefore, option B describes a feature of the HBP. The other options are not correct descriptions of the HBP. Option A is false because to qualify as a first-time home buyer, you or your spouse must not have owned and lived in another home as your principal place of residence during the four-year period before the date of withdrawal. Option C is false because a qualifying home must be purchased or built before October 1 of the year following the year of withdrawal. Option D is false because if you have a spouse or common-law partner, each of you can withdraw up to $35,000 from your RRSPs, not

$50,000. References: [Home Buyers’ Plan (HBP)], [Home Buyers’ Plan (HBP) – Canada.ca], [Home Buyers’ Plan (HBP) | GetSmarterAboutMoney.ca]

NEW QUESTION 76

The owners of Underground Airways Ltd. want to take their privately owned corporation public through an initial public offering (IPO). They are speaking to a specialist from an investment dealer to determinewhether it would be advisable to become listed on a stock exchange or the over-the-counter (OTC) market.

In comparing the two options, which of the following considerations is TRUE?
* A stock exchange listing would provide Underground with greater market exposure and public confidence than listing on the OTC market.
* Underground would still be directly involved in the trading of their shares on either market.
* Underground would be subject to less stringent listing requirements if they chose the stock exchange as compared to the OTC market.
* If Underground chose to list on the OTC market, there would be no secondary market available for investors.

NEW QUESTION 77

Axis Wealth Management Inc. is a mutual fund dealer and member of the Mutual Fund Dealers Association of Canada (MFDA).

Indrek is a Branch Manager for the Guelph Branch and he is responsible for conducting suitability reviews in order to identify any unsuitable transactions or accounts. Which of the following accounts/transactions would be unsuitable?
* Gilles has invested in various mutual funds using a leverage strategy recommended by his Dealing Representative. Gilles is 82, he is retired, he needs regular income, and his risk profile is “low”.
* Hundolf holds the Fortune Small Cap Equity Fund. Hundolf is fully employed, he is saving for his retirement in 18 years, his investment objective is “growth”, and his risk profile is “medium-high”.
* Megara bought a principal protected note (PPN) with a 7-year maturity. Megara wants principal protection and has a long-term investment time horizon (10+ years).
* Ulani is saving for the final payment she will owe on her pre-construction condominium. Ulani has invested in the Harbour Money Market Fund because she is seeking “safety”.

Explanation

This account/transaction is unsuitable because it does not match Gilles’ investment needs and objectives, risk profile, and capacity for loss. A leverage strategy involves borrowing money to invest in mutual funds, which increases the potential returns but also the potential losses. This strategy is very risky and requires a high risk tolerance, a long-term investment horizon, and a sufficient income to cover the interest payments. Gilles is 82 years old, retired, and needs regular income, which means he has a low risk tolerance, a short-term investment horizon, and a limited income. He cannot afford to lose his principal or pay the interest costs. Therefore, a leverage strategy is not appropriate for him.

References = IFSE CIFC Module 3: Investment Products, page 3-24. What is Suitability? | MFDAMSN-0069 | MFDA

NEW QUESTION 78

You have been researching Canadian equity mutual funds for a new client. You come across the following information.

Key indicators	Chamberlain Equity Fund	Fontaine Equity Fund
5-year Annualized Return	13.42%	11.25%
Quartile Ranking	2	3
Volatility	Medium to High	Medium to High
Management Expense Ratio (MER)	2.57%	2.90%
Portfolio Manager Start Date	January 1986	July 2004
Sharpe Ratio	0.19	0.05

What can you conclude from this information?
* Chamberlain Equity Fund has lower volatility since its 5-year annualized return is higher.
* Fontaine Equity Fund is a better fund because it has a higher quartile ranking.
* Fontaine Equity Fund has a lower risk level since its Sharpe Ratio is lower.
* Fontaine Equity Fund’s higher MER contributes to its lower 5-year annualized return.

NEW QUESTION 79

Dakota is a Dealing Representative with Harvest Wealth Inc., a mutual fund dealer. Dakota starts a marketing campaign to contact prospective new clients and increase sales with existing clients. Which of the following CORRECTLY describes activities that Dakota can engage in under her marketing campaign?
* Dakota can make telemarketing calls to clients who are listed on the National Do Not Call List
* Dakota can send promotional emails to clients who have opted into Harvest Wealth’s Do Not Call List
* Dakota can send promotional emails to clients who have opted in to receive commercial electronic messages (CEMs).
* Dakota can make telemarketing calls to clients who have opted in to receive commercial electronic messages (CEMs).

Explanation

Dakota can send promotional emails to clients who have opted in to receive commercial electronic messages (CEMs). A CEM is any electronic message that encourages participation in a commercial activity, such as an email, a text message, or a social media message. Under Canada’s anti-spam legislation (CASL), Dakota must obtain consent from the recipients before sending CEMs, either explicitly (e.g., by asking them to sign up for a newsletter) or implicitly (e.g., by having an existing business relationship with them). Dakota must also identify himself and his dealer, provide contact information, and include an unsubscribe mechanism in every CEM. The other statements are incorrect. Dakota cannot make telemarketing calls to clients who are listed on the National Do Not Call List (DNCL). The DNCL is a list of telephone numbers of consumers who do not want to receive unsolicited telemarketing calls. Under the Telecommunications Act, Dakota must register with the National DNCL operator, subscribe to the National DNCL, and avoid calling any number on the list, unless he has express consent from the consumer or an exemption applies. Dakota cannot send promotional emails to clients who have opted into Harvest Wealth’s Do Not Call List. A Do Not Call List is a list of telephone numbers of consumers who do not want to receive telemarketing calls from a specific organization.

Under the Telecommunications Act, Dakota must maintain an internal Do Not Call List for his dealer and respect the requests of consumers who ask not to be called by his dealer. However, this does not mean that he can send promotional emails to those consumers, as that would violate CASL. Dakota cannot make telemarketing calls to clients who have opted in to receive commercial electronic messages (CEMs). Opting in to receive CEMs does not imply consent to receive telemarketing calls, as they are different forms of communication governed by different laws . Dakota must obtain separate consent from the clients before making telemarketing calls to them, either explicitly or implicitly. References: [Canada’s anti-spam legislation], [National Do Not Call List]

NEW QUESTION 80

As a measurement of risk, which of the following statements about beta is TRUE?
* A larger beta for a stock means it will outperform the market at any point in the business cycle.
* It is a relative measure that compares how an investment reacts to movements in a specific index.
* It is a ratio that compares a company’s current rate of return to its average rate of return overtime.
* It corresponds to a stock’s riskiness in relation to the frequency of dividend payments over a certain period of time.

NEW QUESTION 81

Janine will celebrate her 71st birthday this year. She currently has a lot of money in a personal registered retirement savings plan (RRSP) and knows there are rules about what she can do with those funds. Which of the following is TRUE?
* She can convert her RRSP to a locked-in retirement income fund (LRIF).
* She can convert her RRSP to a registered retirement income fund (RRIF) this year or by December 31st of next year.
* She can take the entire amount in cash, with no tax consequences because her RRSP funds were tax-sheltered.
* She can purchase a registered term or life annuity.

NEW QUESTION 82

Your clients, Philip and Helen, have a disabled son, Alex, age 22. They want to set up a registered disability savings plan (RDSP) for Alex and have asked you for some information.

Which statement is TRUE?
* Philip and Helen’s contributions are refundable to them.
* There is no annual or lifetime maximum limit on contributions.
* Alex must quality for the disability tax credit.
* Philip and Helen’s contributions are tax-deductible.

Explanation

A registered disability savings plan (RDSP) is a savings plan intended to help parents and others save for the long-term financial security of a person who is eligible for the disability tax credit (DTC). The DTC is a non-refundable tax credit that helps persons with disabilities or their supporting persons reduce the amount of income tax they may have to pay. To be eligible for the DTC, a person must have a severe and prolonged impairment in physical or mental functions, as defined by the Income Tax Act and as certified by a medical practitioner. Therefore, Alex must qualify for the DTC in order to be eligible for an RDSP. References: What is a registered disability savings plan (RDSP) – Canada.ca, Disability tax credit – Canada.ca

NEW QUESTION 83

Natasha currently owns 2 mutual funds: a bond fund and a Canadian equity fund. She would like to use one of them as her registered retirement savings plan (RRSP) contribution for the year. From a tax efficiency perspective, which mutual fund should she contribute?

* the equity fund
* the bond fund
* either since it makes no difference
* it depends on her marginal tax rate

Explanation

The bond fund should be contributed to Natasha’s RRSP from a tax efficiency perspective, because interest income from bonds is fully taxable at her marginal tax rate outside of an RRSP. By contributing the bond fund to her RRSP, Natasha can defer paying tax on the interest income until she withdraws it from her RRSP in retirement, when she may be in a lower tax bracket. The equity fund should be kept outside of her RRSP, because dividends and capital gains from equities receive preferential tax treatment compared to interest income. Dividends qualify for the dividend tax credit and capital gains are only 50% taxable. Furthermore, equities tend to have higher returns than bonds over the long term, which means that Natasha would have more after-tax income by keeping them outside of her RRSP. References: Registered Retirement Savings Plan (RRSP), Does it pay to invest in an RRSP? Here’s the math