

A **prohibited investment** in a registered plan is generally an investment to which the plan's controlling individual (account holder) is closely connected.

Registered plans must comply with restrictions on prohibited investments as defined under the [Income Tax Act and guided by Canada Revenue Agency \(CRA\) regulations](#). Non-compliance may result in significant tax consequences, including penalties and reassessments.

The following accounts are considered a registered plan:

- Registered Retirement Savings Plan (RRSP)
- Spousal Registered Retirement Savings Plan (RRSP Spousal)
- Registered Retirement Income Fund (RRIF)
 - Various income fund accounts depending on legislation
- Locked-In Retirement Account (LIRA)
 - Various locked-in retirement accounts depending on legislation
- Registered Education Savings Plan (RESP)
- Tax-Free Savings Account (TFSA)
- First Home Savings Account (FHSA)

Roles and Responsibilities

Responsibility of the controlling individual:

- Under Section 2.4 of CRA Tax Folio S3-F10-C2 (Prohibited Investments – RRSPs, RRIFs, RESPs, RDSPs and TFSAs), the controlling individual of the registered plan is responsible for ensuring that investments held within their registered plans do not constitute prohibited investments.
- Account holders must monitor their investment decisions in accordance with CRA guidance and legislation.
- Clients are responsible for filing all required returns and paying any applicable taxes resulting from prohibited investments.

Trustee obligations (Olympia):

- Trustees have no general obligation to act or identify prohibited investments that may result in taxes payable by the controlling individual.
- Trustees must not knowingly facilitate the acquisition or holding of prohibited investments, given the serious tax consequences imposed by the CRA.
- Trustees are **not** responsible for monitoring, identifying, or preventing the acquisition of prohibited investments on behalf of clients.

CRA enforcement:

- Clients identified by the CRA as holding a prohibited investment will receive a letter directly from the CRA.
- The letter will outline the tax consequences and compliance requirements.

Tax Consequences of Prohibited Investments in Registered Plans

When a registered plan holds a prohibited investment, the controlling individual becomes subject to specific tax penalties under the *Income Tax Act*.

50% tax:

- A tax equal to 50% of the fair market value of the prohibited investment at the time it is acquired or becomes prohibited. This tax may be refundable in limited circumstances if the investment is promptly disposed of and no advantage is received.

100% tax:

- A tax equal to 100% of any income or capital gains earned from the prohibited investment.

Clients must file *CRA form RC339 - Individual Return for Certain Taxes for RRSPs, RRIFs, RESPs, RDSPs and TFSAs* to report and pay these taxes.