Foreign retirement plans + Canadian RRSPs

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Transferring foreign retirement plans to Canada.

Looking to transfer existing retirement benefits to an RRSP?

Canadian resident investors who were previously residents of the U.S. may want to transfer benefits from their existing retirement plan to a Canadian Registered Retirement Savings Plan (RRSP).

In most cases this can be accomplished on a tax-deferred basis. Under the right conditions this can simplify retirement planning and reduce or eliminate the need for duplicate tax reporting. This article only applies to you if you are a Canadian resident and not considered a US person for tax purposes (i.e. U.S. citizen, resident or green card holder).

The U.S. offers several retirement plans including a 401(k), 403(b) and a Keogh Retirement Plan that can be transferred to a Canadian RRSP under subparagraph 60(j)(i) of the Canadian Income Tax Act (ITA). The U.S. also offers a traditional Individual Retirement Account (IRA) which can be transferred to a Canadian RRSP under subparagraph 60(j)(ii) of the ITA. The transfer of any of these plans to a Canadian RRSP allows you to defer Canadian taxation on these amounts.

To assist you in understanding the basics of some of the current retirement plans the following chart compares a Canadian RRSP to a variety of U.S. retirement plans. There are other variations of IRA plans, such as a SEP, which you may encounter. Although not illustrated here, all plans will generally fall into one of the illustrated categories.

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	Canadian RRSP	Traditional IRA	Roth IRA	401(k)	403(b)
Who can contribute?	Individuals age 71 or under at the close of the year, with earned income.	Individuals under 70½ at the close of the year, with earned income.	Individuals of any age with earned income.	Individuals who redirect part of their compensation to a retirement plan on a pre-tax basis in the U.S. May be matched by the employer. There is no age limit for contributing to this type of plan.	Available to certain employees of public schools, employees of certain tax-exempt organizations and certain religious ministries. Same contribution structure as a 401(k).
Contribution limits	Generally 18% of prior year's earned income to a maximum of $26,010 in 2017 and $26,230 in 2018. Unused contribution room may generally be carried forward to age 71.	2017 and 2018 maximum of US$5,500 (if single) or US$11,000; plus if age 50 or over, additional catch-up contribution of US$1,000.	2017 and 2018 maximum of US$5,500 (if single) or US$11,000; plus if age 50 or over, additional catch-up contribution of US$1,000.	2017 maximum contribution for people aged 49 and under is $18,000 and $24,000 for those 50 and over.	2017 maximum contribution (employer and employee) the lesser of $54,000 or 100% of the individual's includable compensation. The limit on elective deferrals (employee contributions) is $18,000; individuals who are 50 or over may contribute an additional $6,000.
Tax deductibility of contributions	Deductible from gross income.	Depends on adjusted gross income of family and participation in other types of plans.	Not deductible.	Not deductible by individual however contribution is not included in taxable income in the U.S. until withdrawn from plan.	Not deductible by individual however contribution is not included in taxable income in the U.S. until withdrawn from plan.
Taxation of growth	Canadian taxation deferred until withdrawn – then growth and capital taxed as income.	Growth not taxed in the U.S. until withdrawn. If contribution was deductible, will be taxable when withdrawn.	Growth not taxed in the U.S. provided funds not withdrawn until age 59½ or such time as you become disabled. To the extent income is not taxed in the U.S., it will not be taxed in Canada.	Growth and contribution amount not taxed in the U.S. until withdrawn.	Growth and contribution amount not taxed in the U.S. until withdrawn.
Classification of rollover under Canadian Income Tax Act	146(16)(a) rollover from one Canadian plan to another.	60(j)(ii) rollover of a foreign retirement arrangement.	Tax-deferred rollover not permitted to an RRSP.	60(j)(i) rollover of a foreign pension plan.	60(j)(i) rollover of a foreign pension plan.
Transfer of funds to an RRSP	In most situations, funds should be transferred directly between RRSPs.	Within taxation year or within 60 days after the end of the year.	Not applicable.	Within taxation year or within 60 days after the end of the year.	Within taxation year or within 60 days after the end of the year.
Age that plan must be collapsed	December of the year the account holder turns 71.	Minimum required distributions begin by April 1 the year following the year you reach 70½.	No mandatory age in which plan must be collapsed.	Distributions may begin at age 59½ or upon termination of employment. Can be rolled to an IRA. Must commence by April 1 of the year following the year you reach 70½.	Minimum required distributions begin by April 1 the year following the year you reach 70½.

Transferring a U.S. retirement plan to an RRSP

In order to transfer a 401(k), 403(b), Keogh retirement plan or a traditional IRA to a Canadian RRSP certain conditions must be satisfied:

- ☐ The transfer must be done as a lump sum and not as periodic payments;
- ☐ Payment must be in respect of employment services you, your spouse or common-law partner, or former spouse or common-law partner; rendered while not resident in Canada;
- ☐ You are a Canadian resident taxpayer and a non-U.S. citizen at the time you collapse your U.S. plan and contribute the proceeds to your Canadian RRSP.

To transfer your plan, you must contact your plan provider to obtain the required documentation to collapse your plan. A lump sum withdrawal of your retirement plan is required. A cheque in U.S. dollars will usually be sent directly to you. Generally, you will have to convert the U.S. currency to Canadian dollars prior to making the contribution to your Canadian RRSP. The contribution must be made to your RRSP within the calendar year in which you collapse your U.S. plan, or no later than 60 days after year end. This contribution will be considered a "transfer" as long as you meet the qualifications listed earlier, which are set out in subparagraph 60(j)(i) or 60(j)(ii) of the ITA.

If all conditions are met, the contribution to your RRSP will not affect your RRSP contribution room. If the pension has been taken as an annuity it cannot be transferred to an RRSP. U.S. withholding tax may apply to the transfer.

If it does, under the Canada-U.S. tax treaty, the withholding tax should be 15%. Withholding tax can be used as a tax credit in Canada and claimed as a foreign tax credit. This will reduce or eliminate double taxation.

Please note: If you are under age 59½ when planning to transfer, please check with the plan sponsor in the U.S. to see if a 10% early withdrawal penalty will apply. If you are assessed the 10% penalty you can claim the amount paid as a foreign tax credit on your Canadian income tax return. If you are considering collapsing your U.S. retirement plan, please speak to your financial advisor to ensure you have all of the information you need to provide you with the most tax-efficient transfer.

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Transfer of Roth IRA

A Roth IRA is not taxable income according to Article XIVIII of the Canada-U.S. tax treaty. As a result there is no benefit to transferring this type of plan to an RRSP.

If you are younger than 59½, a 10% early withdrawal penalty may apply.

Some Roth IRA's are set up as custodial accounts, while others are set up as trusts, annuities or endowment contracts. Based on the type of Roth IRA an individual holds, the Roth IRA may be collapsed and the proceeds brought to Canada on a tax-free basis. There is no provision in the ITA that will allow a Roth IRA to be transferred to a Canadian RRSP on a tax-deferred basis, so this would constitute non-registered monies for investing. The money could be deposited in a non-registered account or Tax Free Savings Account (TFSA) if you have TFSA contribution room available.

Prior to collapsing the account it is recommended that you contact the plan sponsor to see if there is any reason the account could not be transferred (such as an annuity that is required to continue).

Please note: that if you are younger than age 59½, a 10% early withdrawal penalty may apply. Check with your plan sponsor before considering collapsing your Roth IRA. In addition, some portions of the Roth IRA may be taxable to you. Speak to your financial advisor to ensure you have all of the information to provide you with the most tax-efficient method.

Canadian tax reporting on transfer of a foreign pension

Any amounts transferred from a foreign plan to your Canadian RRSP must be reported on your annual Canadian income tax return (T1 General).

As a part of your T1 General you will also need to complete the following forms:

- ☐ **Schedule 7** – RRSP unused contributions, transfers, and HBP or LLP activities
- ☐ **Form T2209 – Federal Foreign Tax Credits** — completed if foreign withholding tax is applicable. A similar provincial form is generally required.
- ☐ **Federal Tax – Schedule 1**

Effect of inheriting a foreign pension on Canadian residents

Spouse or Common-Law Partner

If you are a spouse or common-law partner (or former spouse or common-law partner) who inherits any of the subject plans, the inheritance may be taxable as income to you under clause 56(1)(a)(i) of the ITA unless you transfer the proceeds to your Canadian RRSP as outlined above.

Non-Spouse

If you inherit one of these plans from someone other than your late spouse or common-law partner (or former spouse or common-law partner) your inheritance of the plan must be included in your income under clause 56(1)(a)(i) of the ITA. If you have sufficient RRSP contribution room, this inheritance, or a portion of it, can be contributed to your RRSP account. You must generally include the proceeds of the foreign plan as income on your T1 General — any contribution to your RRSP will generate a deduction from your income.

Inheritance of a Roth IRA

Spouse or Common-Law Partner

If you as a spouse, common-law partner (or former spouse or common-law partner) inherit a Roth IRA, the proceeds of the account will generally not be taxable to you in Canada, as this account is not taxable in the U.S. You would be able to collapse the plan and move the proceeds to Canada. If you have Tax-Free Savings Account (TFSA) contribution room, you can contribute some or all of your inheritance to your TFSA to allow the money to continue to build tax-free.

Non-Spouse

If you inherit a Roth IRA from someone who was not a spouse, former spouse or common-law partner, the value of the Roth IRA is generally tax-free to you. Again, if you have TFSA contribution room, this may be a great opportunity for you to contribute some or all of your inheritance to your TFSA. **Note:** Any growth in the Roth IRA from the date of death until date of receipt by you as a non-spouse heir will generally result in taxable income to you in Canada.

Summary

Amalgamating your foreign retirement plans with your Canadian RRSPs can make sense if you are looking to simplify your retirement finances, minimize exposure to U.S. estate tax, or require more control over your investment decisions. If you are interested in learning more about the opportunities with your foreign plans, please speak with a Canadian financial advisor to get the best options available to you in your specific circumstances.

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For all of your general inquiries and account information please call:

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