Canadian Registered Accounts (RRSP/RRIF/etc.)

Registered accounts in Canada enjoy a tax preferred status where money goes in the accounts before tax and grows tax deferred until withdrawn. As a Canadian resident, when the money is withdrawn, 100% of the proceeds are taxable in Canada and withholding percentage is based on the amount of the withdrawal. That is, very basically the Canadian rules, however if you are living in the US, not only are the US rules are very different, the Canadian rules change as well.

Canadian registered accounts do not meet the US requirements of a qualified retirement account and therefore are generally not allowed tax deferral status. However, the Canada-US Treaty has a provision that allows Canadian registered accounts to elect tax deferral. Note however that this deferral is not automatic, you must elect the deferral on IRS Form 8891. You must also report the name of financial institution, the account number, value of the account, and the amount of withdrawals, if any.

Note: You may be required to file FBAR and/or FATCA informational returns. Go to our resources page to learn more.

Caution, the Treaty only addresses federal law and states are not bound by the Treaty. This means some states, such as California, will not allow you to defer the California tax on registered accounts even though the federal tax is being deferred; this could lead to double tax.

As a nonresident of Canada you are subject to Part XII of the Income Tax Act. In general, Canada imposes a 25% withholding on all income earned by a nonresident. The Canada-US Treaty has provisions for lower withholding on various types of income. Withdrawals from an RRSP are a flat 25%, however withdrawals from an RRIF can be either 15% or 25%, depending on whether the withdrawal was classified as “periodic” or “lump-sum.”

From a US perspective, your registered account has a portion of the money that is considered “after-tax money” and is therefore tax free. When you withdraw money from a registered account, CRA will withhold on 100% of the money withdrawn, whereas the US will impose tax on the taxable portion only. Any US tax imposed on the withdrawal will be offset by the Canadian tax paid through foreign tax credits. Any unused foreign tax is carried forward for up to 10 years. The example below will show the interplay of the withholding, the tax free US portion and the resulting foreign tax credits. We ignore the currency differences and state income taxes for simplicity.

Assumptions:

- $100,000 in an RRSP
- RRSP is completely cashed it out
- Tax free portion in the US is $75,000 (US taxable portion is $25,000)
- US tax rate is 25%

Hypothetical Results:

- CRA will withhold $25,000 (25%)
- US tax will be $6,250 (25% times the US taxable portion)
- US tax is offset by using $6,250 in foreign tax credits, from the Canadian tax paid
- Foreign tax credits carried forward are $18,750 ($25,000-$6,250).

The question becomes, what happens to the $18,750 in foreign tax credits you have sitting there?

How We Help:

- We offer an RRSP Analysis (for a fee) that is designed to help you make informed decisions on what to do with your RRSP, RRIF, LIRA, etc. As part of the analysis, we will estimate the US tax free portion, provide various scenarios such as 1) leave money in RRSP, 2) cash out immediately and bring to the US, 3) tax minimum withdrawals over your lifetime, and 4) take minimum withdrawals for a few years and then take a lump-sum. All of these scenarios are performed on an after-tax basis.
- We calculate the tax free portion of your accounts and report them properly on all of the required forms.
- We may be able to increase the use of the foreign tax credits generated from the withdrawal of your registered accounts through our portfolio management services. We are licensed, professional money managers in the US and Canada (BC, AB and ON).
- Learn more at Resources Page
- Read our Cross Border Books
- Contact us on line
- Call us toll-free 800-394-9462