

If you have worked in the US for some time and are returning to Canada, are you planning to transfer your IRA or 401K plan?

Under the right conditions, this can simplify retirement planning and reduce or eliminate the need for duplicate tax reporting.



Need to Transfer an IRA or 401K to Canada?

If you have worked in the US for some time and are returning to Canada, do you know how to transfer your 401K plan?

Clients who have worked in the U.S for a number of years and who have returned to Canada may want to transfer benefits from their US retirement arrangement 401(k) or Individual Retirement Arrangement (IRA) to their Canadian Registered Retirement Savings Plan (RRSP) on a tax-deferred basis.

Under the right conditions, this can simplify retirement planning and reduce or eliminate the need for duplicate tax reporting.

Depending on age, the rules for the US plan and certain other criteria, a Canadian resident taxpayer is

able to transfer lump sum superannuation or pension benefits such as a 401(k) plan or a foreign pension plan such as an IRA under subparagraphs 60(j)(i) and 60(j)(ii) of the Canadian Income Tax Act and defer Canadian taxation on these amounts.

SIN Required:

The individual must have a Canadian social insurance number (SIN), which is the nine-digit number that identifies individual Canadian residents for income tax and benefit purposes. A SIN is also required to open a Canadian Registered Retirement Savings Plan.

Tax treatment on cross-border rollovers:

Under Canadian and US tax rules, funds withdrawn from your 401(k) plan or an IRA are taxable as income in the year of withdrawal. The amount received from the US retirement assets being rolled over must be included as income in the Canadian year-end tax return. The income inclusion may be offset by a deduction to the extent that amounts are transferred to the taxpayer's rrsp in the year or within 60 days after the end of the year.

Non resident requirement for deduction:

To qualify for this offsetting deduction, the amounts from the 401 (k) or IRA must be attributable to services rendered while the taxpayer was non resident in Canada.

Withholding Requirement:

The US plan holder is required to withhold 20% of the withdrawal amount where paid to individuals who are subject to US taxation



(reduced to 15% for payments to non-resident aliens) and make one lump sum transfer to the RRSP.

Although the withholding tax can be claimed for a refund, this means that only part of the withdrawal will be available for deposit to the Canadian RRSP.

The full withdrawal of 100% (including the withholding tax) is included in income, but unless the difference is available from other means, the client will only be able to offset part of the income inclusion on transfer. If the client is under age 59.5 at the time of withdrawal, the funds may be subject to a further 10% early withdrawal penalty.

This penalty is not refundable through the Canadian tax system, and is therefore a consideration when deciding to transfer the plan to Canada.

Here are the steps to bringing US retirement accounts to Canada:

1. **Look at the plan** specifics (is this a Simple IRA, Roth IRA, 401(k) and is it a transferable plan?). If not transferable, it can usually be rolled into another IRA in the US that is transferable. If transferable, go to the next step
2. **Examine the tax implications** of collapsing the plan in the US, especially if minimum distributions upon retirement will be tax-free
3. **Determine the value** of the transfer in Canadian dollars
4. **Consider the age** of the client (ideal is age 59½ to 69) .

5. **Calculate the withholdings** and their effect on the transfer in (and the possibility of the client replacing the amount withheld to effectively tax shelter 100% of the plan assets)

6. If not already in existence, **open a Canadian RRSP** account to receive the transfer

7. **Deposit the funds** in the tax year of the withdrawal from the US plan, or up to 60 days after year-end

8. Code the transfer as a 60(j)(i) or 60 (j)(ii) transfer

The information presented is only of a general nature, may omit many details and special rules, is current only as of its published date, and accordingly cannot be regarded as legal or tax advice. Please contact our office for more information on this subject and how it pertains to your specific tax or financial situation.