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Investments

Retirement savings

Bringing your savings home

How to transfer existing foreign retirement pensions to an RRSP

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Canadians who have lived and worked outside of Canada may have contributed to a foreign retirement or pension plan. If they return to Canada permanently and plan to retire here, they may wish to transfer their foreign retirement or pension plan to Canada – and do so as tax-efficiently as possible.

The *Income Tax Act* has some general rules when it comes to transferring a foreign plan to Canada. It's important to note that there's no opportunity to transfer a foreign pension plan directly to a Canadian retirement plan, such as an RRSP, on a tax-deferred basis.

To transfer a foreign pension plan, you must first collapse the pension plan in the other country. This will generally result in taxation in both that country, as well as in Canada. As a starting point, the individual should always confirm the income tax implications (withholding and other taxes) in the other country before considering a transfer to Canada.

It's important to note that there's no opportunity to transfer a foreign pension plan directly to a Canadian retirement plan.

For Canadian tax purposes, the *Income Tax Act* (ITA), under subparagraph 60(j)(i) and subject to meeting certain conditions, allows for an offsetting tax deduction to the extent that the amounts are contributed to a Canadian RRSP. While there may be taxes to pay in the foreign country, there may not be any tax to pay in Canada if the following conditions are met:

1. The foreign plan is a pension plan, which is determined by the terms of the plan. Generally, a plan will be considered pension where contributions have been made by or on behalf of an employer or former employer of an employee in consideration for services rendered by the employee, and the contributions are used to provide an annuity or other periodic payment upon retirement.
2. The amount to be transferred from the pension must be in a lump sum amount, and not part of a series of periodic payments.
3. The pension must be attributable to services rendered by the individual (or their spouse/common-law partner (CLP)) to an employer in a period throughout which the individual was **not** resident in Canada.
4. The pension benefit must be included in the individual's income for the year and not be exempt from tax in Canada under an income tax treaty.
5. An RRSP contribution must be made in the year the pension benefit is received, or within 60 days after the end of the year. It's important to note that due to the withholding tax applied by the foreign country, the individual may need to use other sources of cash to top up the RRSP contribution if they wish to transfer the full amount to their RRSP.

You must designate the RRSP contribution as a transfer in your income tax and benefit return for the year (Schedule 7 of the T1 Personal Income Tax Return). The deduction is limited to the lesser of the amount designated and the amount of the benefit included in income. More importantly, no RRSP contribution room is required if the above conditions are met.

Minimizing double taxation

When a foreign pension plan is collapsed, the foreign country would generally apply income taxes at the time of withdrawal. For Canadian tax purposes, the same pension income may also be taxable in Canada as well. Therefore, a Canadian resident taxpayer may be eligible to claim a foreign tax credit (FTC) against their Canadian taxes payable. This reduces the Canadian taxes payable on the income that has already been taxed by the other country. The purpose of the FTC is to minimize double tax by giving the taxpayer credit for taxes paid in another country on the same source of income.

With respect to foreign pension transfers, taxpayers will usually pay a withholding tax at the time the pension is collapsed in the foreign country and transferred to Canada. The foreign taxes qualify as a foreign tax credit and can be used to reduce Canadian taxes payable.

Example

Canadian resident taxpayer earns income in Germany.

Assume the taxpayer is taxed at a **40%** tax rate in Canada and is subject to **15%** withholding tax in Germany.

The FTC gives the taxpayer a **15% credit** against the Canadian taxes payable. They still pay **40%** tax, with **15%** paid to Germany and **25%** paid to Canada.

The general goal of transferring a foreign pension plan is to make full use of the foreign tax credits and provide for a tax neutral transfer of the money to a Canadian RRSP. This involves a careful review of the foreign withholding taxes and determining the extent possible that the FTC is maximized in the year of transfer as unused FTC amounts cannot be carried forward to a future year. Every case is unique and must be reviewed based on the taxpayer's personal circumstances. It's always best to consult with a professional tax advisor before initiating a transfer.

Canadian tax reporting on transfer of a foreign pension

Any amounts withdrawn from a foreign plan 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

MACKENZIE
Investments

Retirement savings

UK transfers hit a roadblock

Since 2011, Mackenzie has been providing financial advisors with the opportunity to transfer most UK pensions (other than UK state pensions, public sector pensions and pensions which have been converted to annuities). This was available as Mackenzie was recognized by the UK government as a "Recognized Overseas Pension Scheme" (ROPS), which allowed transfers to an RRSP without tax implications in either country at the time of transfer.

Unfortunately, since November 2016 the UK government removed all Canadian financial institutions from the ROPS list. As a result, individuals transferring their UK pension to Canada will now face substantial withholding taxes in the UK, resulting in a very tax-inefficient scenario. At present, Mackenzie cannot accept any new pension transfer requests from the UK.

Transferring US Pension Plans to Canada

Canada enjoys a very close relationship with the US, and many Canadians who have worked in the US may hold American retirement plans, such as a 401(k), 403(b) or Keogh retirement plan.

Canadians planning to retire in Canada may want to transfer these plans to a Canadian RRSP. To do so, you must obtain the required documentation to collapse the US plan from the plan provider. A lump sum withdrawal of the retirement plan is required, and a cheque in US dollars will usually be sent directly to you. Generally, you will have to convert the US currency to Canadian dollars prior to making the contribution to your Canadian RRSP.

The gross amount (before withholding tax) paid from the US plan is taxable to the recipient in Canada. The proceeds must be contributed to the RRSP within the calendar year in which the US plan is collapsed, or within 60 days after year-end. If all the above noted conditions under subparagraph 60(j)(i) of the ITA are met, the income will be offset by a deduction. This type of contribution will not affect your RRSP contribution room.

US withholding tax may apply to the transfer. Under the Canada-US tax treaty, the withholding tax is set at 30% of the gross proceeds from the US plan. The withholding tax qualifies for the FTC and can minimize income tax on the Canadian tax return, as the amount received is also taxable on this side of the border.

The FTC should be fully utilized in the year of the transfer to minimize the impact of taxation on the transfer, since unused amounts cannot be carried forward. It's always best to consult the US plan administrator to confirm the withholding tax rates applicable to the plan.

If the individual is under age 59 ½ at the time of transfer, the US will apply a 10% early disbursement penalty in addition to the withholding tax at source. The good news is that the 10% early disbursement penalty also qualifies for the FTC.

Note

If the pension has been converted to an annuity prior to collapsing the plan, it cannot be transferred to an RRSP

MACKENZIE
Investments

Retirement savings

Individual Retirement Account (IRA)

An Individual Retirement Account (IRA) is another tax-advantaged retirement plan used by individuals living in the US. Canadians who have contributed to an IRA may consider transferring these assets to a Canadian RRSP. Under the ITA, an IRA is considered a foreign retirement arrangement (FRA) and is treated a little differently than US pension plans like a 401(k).

When a taxpayer collapses an IRA, the gross value of the IRA (before withholding tax) is included in income in Canada. This reported income can be offset by a corresponding deduction (subparagraph 60(j)(ii) of the ITA) of the amount contributed to the RRSP for the same tax year. This does not affect any existing RRSP contribution room as long as the contribution is made in the year or within 60 days after the end of the year. The amount must be reported as a transfer on the T1 Personal Income Tax return for the year. For the FRA benefit to qualify for the offsetting tax deduction, it must meet all of the following conditions:

- The amount must be included in the taxpayer's income;
- The amount must be received from the FRA as a lump sum payment and not as part of a series of periodic payments; and
- The amount must have been derived from contributions made to the FRA by the taxpayer (or their spouse/CLP).

An Individual Retirement Account (IRA) is another tax-advantaged retirement plan used by individuals living in the US.

Note

IRA contributions made by an employer are not eligible to be transferred on a tax-neutral basis. If an employer has made contributions, that portion of the IRA would require RRSP contribution room to be transferred to the Canadian RRSP. In addition, there's no requirement in the ITA that the individual be a non-resident of Canada at the time contributions are made to the plan (as is the case with other foreign pension plans)

The following table provides an overview of the basic features and benefits of various US retirement plans as compared to a Canadian RRSP. There are other variations of IRA plans, such as a simplified employee pension (SEP), which you may encounter. Although not illustrated here, all plans will generally fall into one of the illustrated categories.

MACKENZIE
Investments

Retirement savings

US retirement Plans vs. RRSP

	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 70 ½ 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 US 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 $27,230 in 2020 and $27,830 in 2021. Unused contribution room may generally be carried forward to age 71.	For 2020, the maximum of US$6,000 (if single) or US$12,000; plus if age 50 or over, additional catch-up contribution of US$1,000.	2020 and 2021 maximum of US$6,000 (if single) or US$12,000; plus if age 50 or over, additional catch-up contribution of US$1,000.	2021 maximum contribution for people aged 49 and under is $19,500 and $26,000 for those 50 and over.	2021 maximum contribution (employer and employee) the lesser of $58,000 or 100% of the individual's includable compensation. The limit on elective deferrals (employee contributions) is $19,500; individuals who are 50 or over may contribute an additional $6,500.
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 US until withdrawn from plan.	Not deductible by individual however contribution is not included in taxable income in the US until withdrawn from plan.
Taxation of growth	Canadian taxation deferred until withdrawn – then growth and capital taxed as income.	Growth not taxed in the US until withdrawn. If contribution was deductible, will be taxable when withdrawn.	Growth not taxed in the US provided funds not withdrawn until age 59 ½ or such time as you become disabled. To the extent income is not taxed in the US, it will not be taxed in Canada.	Growth and contribution amount not taxed in the US until withdrawn.	Growth and contribution amount not taxed in the US until withdrawn.

MACKENZIE Investments

Retirement savings

	Canadian RRSP	Traditional IRA	Roth IRA	401(k)	403(b)
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 72.	No mandatory age in which plan must be collapsed.	Distributions may begin at age 59 ½ or upon termination of employment. Can be rolled to an IRA. Must commence by April 1 of the year following the year you reach 72.	Minimum required distributions begin by April 1 the year following the year you reach 72.

Transfer of Roth IRA

A Roth IRA is not taxable income according to Article XVIII of the Canada-US tax treaty. As a result, there's 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 IRAs are set up as custodial accounts, while others are set up as trusts, annuities or endowment contracts. Based on the type of Roth IRA you may own, the Roth IRA may be collapsed, and the proceeds brought to Canada on a tax-free basis. There's 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 contribution room.

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

Note

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 the information to provide you with the most tax-efficient outcome

Inheriting a foreign pension

The tax treatment of an inherited foreign pension is affected primarily by your relationship to the deceased and the type of account you are inheriting.

Spouse/CLP

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

Non-spouse/CLP

If you inherit one of these plans from someone other than a spouse or CLP, you must generally include the proceeds as income on your T1 General. If you have RRSP contribution room, you may contribute it to your RRSP to defer taxes.

Inheritance of a Roth IRA

Spouse/CLP

If you inherit a Roth IRA as a current or former spouse/CLP, the proceeds of the account will generally not be taxable to you in Canada, as this account is not taxable in the US. You would be able to collapse the plan and move the proceeds to Canada. You can contribute your inheritance to your TFSA, up to your contribution limit, to allow the money to continue to build tax-free.

Non-spouse/CLP

If you inherit a Roth IRA from someone other than a current or former spouse/CLP, 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 your inheritance for tax-free growth.

Note

Any growth in the Roth IRA, from the date of death until date of receipt by you, will generally be considered taxable income to you in Canada

Consolidating your retirement savings

Consolidating your foreign retirement plans with your Canadian RRSPs can make sense if you are looking to simplify the sources of your income in retirement, minimize exposure to US estate tax, or desire more control over your investment decisions.

Retirement savings

General Inquiries

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

English: 1-800-387-0614
Bilingual: 1-800-387-0615
Asian Investor Services: 1-888-465-1668
TTY: 1-855-325-7030
Fax: 1-866-766-6623
E-mail: service@mackenzieinvestments.com
Web: mackenzieinvestments.com

To learn more about the opportunities with your foreign plans, please speak with a Canadian financial advisor and tax professional to get the best options available for your specific circumstances.

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