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Living in the United States?

Mind the tax implications when
withdrawing from your RRSP
and RRIF

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Canadians who emigrate to the United States (the “**US**”) find themselves in an uncertain situation when it comes to saved funds in their Registered Retirement Savings Plan (“**RRSP**”) or Registered Retirement Income Fund (“**RRIF**”). The questions that most people have are whether they will still have to file an annual tax return in Canada, and what the Canadian tax implications will be when they withdraw funds from their RRSP or RRIF.

Do I still need to file a Canadian income tax return?

The answer depends on whether you have completely severed ties with Canada and if you have other sources of income in Canada.

Identifying whether you have severed ties with Canada is needed to determine whether you have ceased to be resident of Canada for tax purposes, despite moving to the US. Once it is established that you have severed ties with Canada and have become a non-resident of Canada, there is generally no requirement for you to file an income tax return, even if you make withdrawals from your RRSP or RRIF.

As a non-resident of Canada, however, you may still be required to file a tax return if you carry on a business in Canada, are employed in Canada, or dispose of Taxable Canadian Property (i.e., Canadian real estate).

What are the tax implications if I withdraw from my RRSP or RRIF?

When withdrawals are made from your RRSP or RRIF, you are considered to receive income and your Canadian financial institution will withhold and remit a 15 or 25 per cent non-resident tax to the Canada Revenue Agency (“**CRA**”). The 15 per cent rate applies to periodic pension payments, for example, periodic payments out of a RRIF.¹ Any lump-sum payments would be subject to a 25 per cent withholding tax.

The amount of tax deducted by your financial institution generally represents a final non-refundable tax liability to the Canadian government. As such, there is no obligation for you to report the withdrawal on a Canadian income tax return. However, if your financial institution withheld less than the required amount of tax, the CRA will send you an assessment for the difference.

Alternatively, if the tax withheld is more than the required amount, you can request a refund of the difference using Form NR7-R, Application for Refund of Part XIII Tax Withheld.

It is important that you notify your financial institution(s) of your non-resident status and the fact that you are a tax resident of the US. The income that you receive and the corresponding withheld tax will be reported on a NR4 slip, Statement of Amounts Paid or Credited to Non-Residents of Canada, which you will receive from your financial institution. The withholding taxes paid in Canada can often be used as a credit against taxes owing on your US tax return in respect of the income.

Filing an elective section 217 return

Filing an elective section 217 return allows you to pay tax at graduated rates on net income, rather than a flat rate on gross income. You will benefit from choosing to file a section 217

¹The Canada-US tax treaty provides for a reduction from the 25 per cent withholding tax rate under Article XVIII(2) for periodic pension payments.

return if your total tax payable on the return will be less than the tax otherwise withheld. In this case, filing the return could result in a refund of some or all of the tax withheld on the RRSP/RRIF income that you received. The CRA will only process your section 217 return if it is beneficial to you. To determine if filing a section 217 return is right for your tax situation, refer to the [CRA's guide](#) or contact a member of [Crowe Soberman's Tax Group](#).

One beneficial reason to file a section 217 return might be if you incurred non-capital losses while you were a resident of Canada. You may be able to offset these carried forward non-capital losses before expiration against your RRSP/RRIF withdrawals which would be included as income. The section 217 return may also be beneficial to you if you are entitled to other deductions since tax is calculated on net - rather than gross - income.

Once it is determined that filing an elective section 217 return is beneficial to you, you may choose to apply for a reduction

of the non-resident tax to be withheld by your financial institution before receiving any future RRSP/RRIF payments. To do this, you will need to send in a completed [Form NR5, Application for a Reduction in the Amount of Non-Resident Tax Required to be Withheld](#). If the filed NR5 application is approved, it will be valid for five taxation years, as long as your situation does not change. Once approved, the CRA will allow your Canadian financial institution to reduce the amount of tax to be withheld on RRSP/RRIF withdrawals. However, you must file the elective section 217 return for each tax year of the NR5 approval period.

Whether you're a Canadian living at home or abroad, our cross-border tax experts are here to help

The requirement to file a Canadian tax return and the resulting tax implications depends on an individual's situation. The scenario that was noted above involved a Canadian resident who moved permanently

to the US, who had completely severed ties with Canada and who only holds an RRSP or RRIF in Canada. In such a scenario, a Canadian income tax return is not required.

However, your situation may be different and may result in different filing obligations. To arrive at a definitive answer, a thorough assessment of your situation will need to be completed. We encourage you to reach out to [Crowe Soberman's Tax Group](#) for any professional advice.

This article has been prepared for the general information of our clients. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article. Please note that this publication should not be considered a substitute for personalized tax advice related to your particular situation.

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