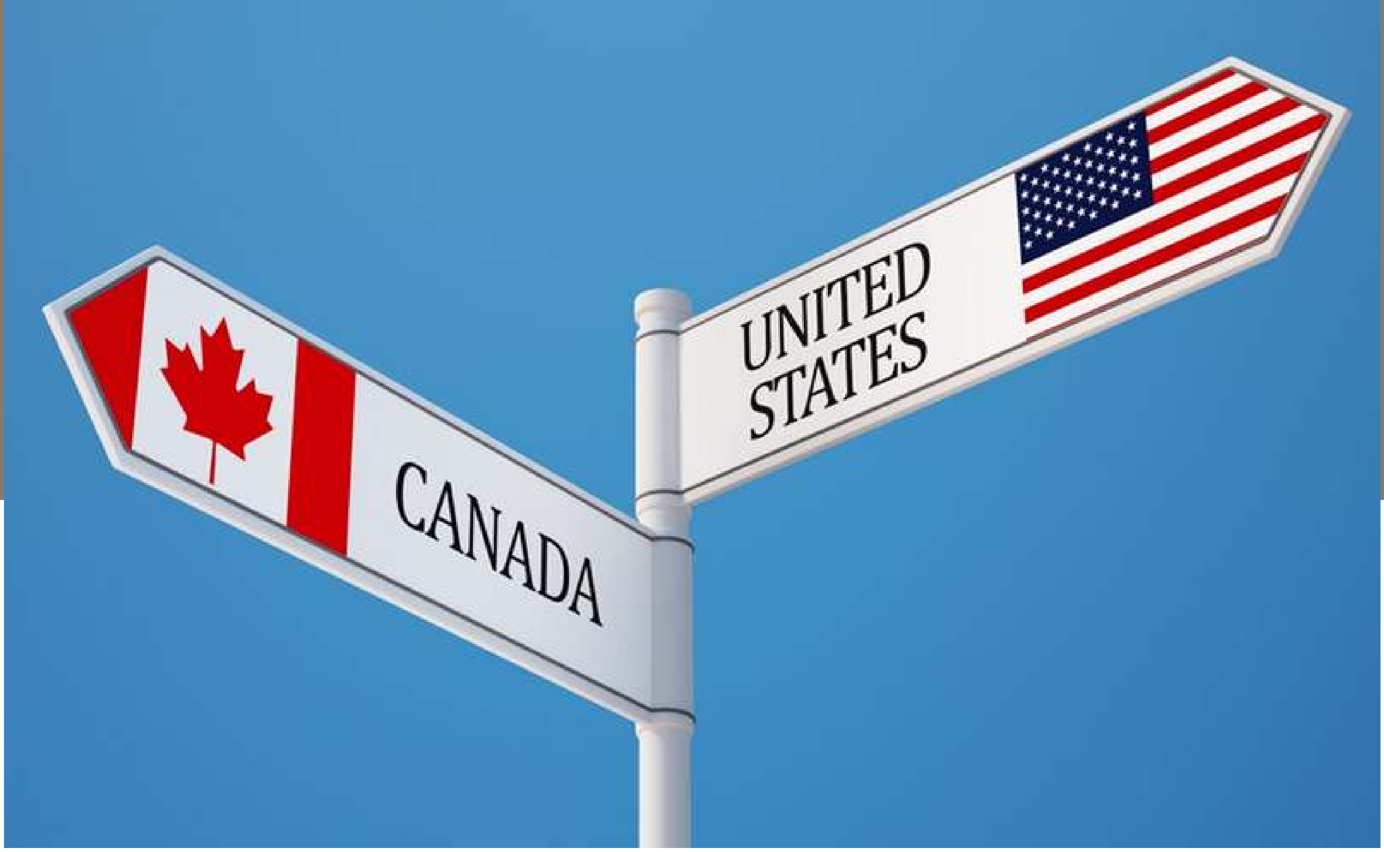
Income Tax Implications of RRSP Withdrawals as a **Non-Resident of Canada**

CARDINAL | POINT

CROSS-BORDER WEALTH MANAGEMENT



A large number of the clients that we work with are those that move from Canada to the United States. In these cases, we spend quite a bit of time making our clients aware of the income tax implications of leaving Canada and establishing tax residency in the U.S. We have written many publications on this topic, including a recent article, "Moving from Canada to the United States: What You Need to Know."

For many of these people transitioning from Canada to the U.S., some of their larger financial assets are held within their registered plans (RRSPs, LIRAs, RRIFs, etc.). Given that our firm is properly registered and licensed in both Canada and the U.S., we can provide ongoing financial planning, tax and investment management for our clients who choose to leave their registered assets in Canada.

By leaving these assets in Canada, continued tax deferral in Canada and most U.S. states will continue. The State of California, however, has a different set of tax rules that relate to registered plans that remain in Canada. See our article, "California Residents: Does Your Financial Advisor Tax-Manage Your RRSPs?"

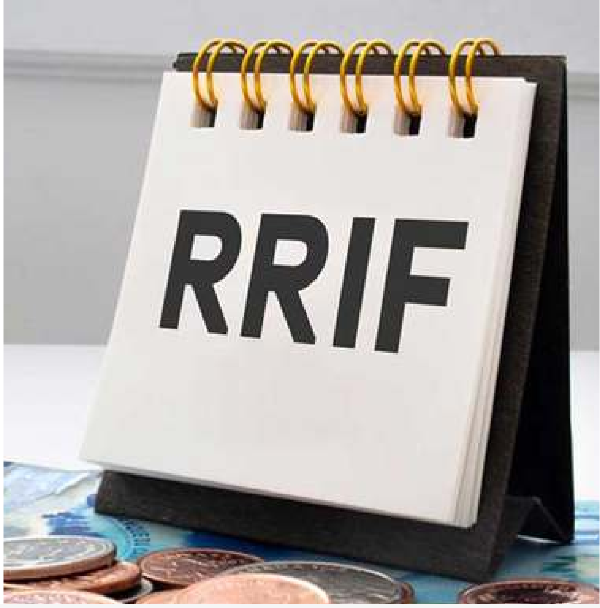
As we develop our clients' comprehensive Canada/U.S. financial plans, discussions and decisions with respect to taking distributions from their RRSPs for future lifestyle or retirement planning purposes are reviewed. For the vast majority of our clients, RRSPs continue to be managed by us through our Canadian institutional custodian until clients retire or are required to convert their RRSP to a RRIF.

However, what if one was looking to take a distribution from their RRSP as a non-resident of Canada prior to retirement, i.e. for the down payment on a new U.S. home or to meet current lifestyle requirements?

Let's first review the tax impact of de-registering a Canadian RRSP before becoming a U.S. tax resident. As a resident of Canada, distributions from an RRSP are subject to ordinary income tax rates depending on the province of tax residency. The bank or custodian holding the RRSP would be obligated to withhold tax upon the RRSP distribution at the following rates:

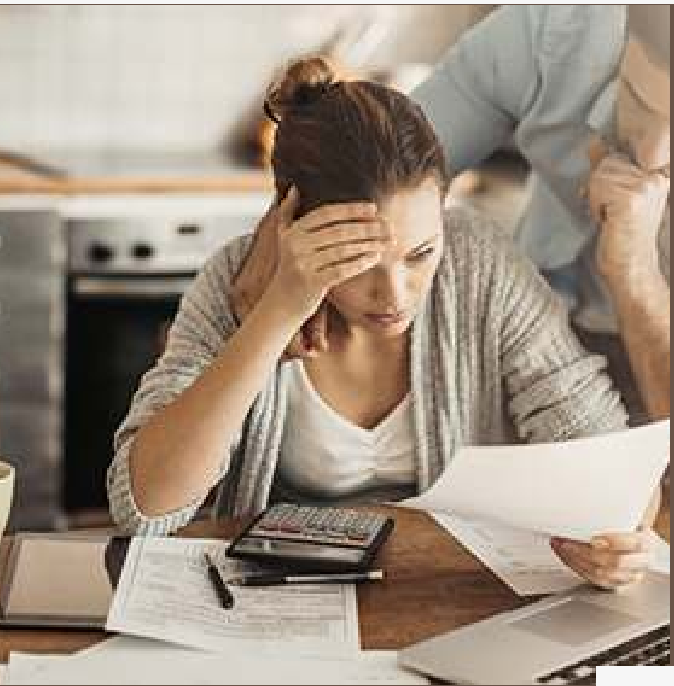
Withdrawal Amount	% Federal Tax Withheld
From $0 to $5,000	10% (5% in Quebec)
From $5,001 to $15,000	20% (10% in Quebec)
Greater than $15,000	30% (15% in Quebec)

The withholding tax rates above would only be applied for those individuals who would still be considered tax residents of Canada. If one were to become a U.S. tax resident or non-resident of Canada, the Canadian withholding tax imposed on distributions would be 25%. Under Article XVIII(2) of the Canada-U.S. Tax Treaty, distributions from RRSPs/RRIFs can be reduced to 15% under certain and very specific guidelines.



This would generally only be the case if one was to convert their RRSP to a RRIF and take periodic distributions from the RRIF. Under the Canada-U.S. Tax Treaty, this would include payments out of a RRIF where the total amount paid in the current year does not exceed twice the “minimum amount” and 10% of the value of the RRIF at the beginning of the tax year. The “minimum amount” is determined by a percentage factor based on the RRIF holder’s age at the beginning of the tax year.

Some Canadian financial advisors and individuals believe that the withholding tax rates would be applied irrespective of Canadian and U.S. tax residency, which is incorrect. If the departure planning is done properly, then the Canadian institution should have the correct U.S. address on record and the tax residency indicated as a non-resident of Canada. This would generally be acknowledged by the bank or custodian via the completion of CRA Form NR301 and IRS W-9 form at the time the account becomes tagged as a non-resident of Canada account. Therefore, a 25% Canadian withholding tax would apply for lump-sum distributions.



If the individual or advisor still maintains a Canadian address on the account while claiming to no longer be a tax resident of Canada, they are opening themselves up for a number of issues. For example, the ability of an advisor to properly and legally manage registered accounts can be problematic, and so can the indication to CRA that Canadian residency is maintained (though the use of a Canadian address) when a previously filed Canadian tax return indicates a date of departure from Canada.

In some unique situations, former residents of Canada might be able to file a Canadian income tax return as a non-resident under Section 217. Filing a return under this election allows a non-resident to file a Canadian tax return if it would be beneficial for them to do so. In this case, the non-resident taxpayer would be able to claim the same deductions and credits as that of a traditional Canadian taxpayer. There are limited reasons for a non-resident to make this election. One reason is when an individual has a non-working spouse in the U.S. with, for example, $50,000 in their RRSP. In this case, the individual could withdraw the RRSP tax free over five years without paying any Canadian income tax. Conversely, if the non-working spouse withdrew the $50,000 in a lump sum, there would be a 25% withholding tax imposed at the time of distribution.

As part of our comprehensive wealth management process, and based on our clients' specific financial planning objectives, we can provide an RRSP distribution analysis to review the options available and the related Canada and U.S. income tax results. Further, because we manage our investment and retirement accounts on a Canada/U.S. tax-effective basis (we understand tax!), we can ensure that withholding tax paid in Canada can be recovered over time through proper portfolio and tax management.

Contact Cardinal Point for more information

Copyright © 2022. Cardinal Point Wealth Management Partners, LLC and Cardinal Point Capital Management ULC All Rights Reserved.

"Cardinal Point" is the brand under which the dedicated professionals within the independent Cardinal Point Group of Companies collaborate to provide financial and investment advisory, risk management, financial planning and tax services to selected clients. Cardinal Point comprises two legally separate companies: Cardinal Point Wealth Management Partners, LLC, a U.S. registered investment advisor and Cardinal Point Capital Management ULC is a U.S. registered investment advisor and a registered portfolio manager in Canada (ON, QC, MB, SK, NS, NB, AB, BC). Advisory services are only offered to clients or prospective clients where the independent Cardinal Point firms and its representatives are properly registered or exempt from registration. Each firm enters into client engagements independently. This website is solely for informational purposes. Past performance is no guarantee of future returns. Investing involves risk and possible loss of principal capital.

CARDINAL | POINT

CROSS-BORDER WEALTH MANAGEMENT