

IRS simplifies procedures for Canadian retirement plans

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On October 7, 2014, the Internal Revenue Service released welcome changes to simplify the reporting procedures and defer tax for US taxpayers who hold interests in two popular Canadian retirement plans. In addition, the IRS announced retroactive relief to eligible taxpayers who failed to properly choose this benefit in the past.

In general, the change permits taxpayers with interests in registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs) to now automatically qualify for tax deferral similar to that available to participants in US individual retirement accounts (IRAs) and 401(k) plans. To qualify, US citizens and resident aliens must have and continue to file US tax returns for any year in which they had an interest in either of these investments.

While the deferral on tax on income accruing in RRSP or RRIFs has historically been available under the provision in the Canada-US tax treaty, to access this treatment, taxpayers were required to choose to apply the treaty benefit provisions by attaching Form 8891. In addition, taxpayers were required to annually re-file the form reporting any transaction details about each of their RRSP or RRIFs. In many instances, eligible taxpayers failed to file this form and thus, were not afforded the tax deferral. Correcting this omission to retroactively seek treaty benefit has historically been a costly and trying process.

Under the new changes, the IRS is eliminating Form 8891, and taxpayers are no longer required to file this form for any year, past or present.

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