Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

Transferring a foreign pension plan to your RRSP or RRIF

How to tax-efficiently consolidate with your RRSP or RRIF

This article discusses transferring a foreign pension plan to a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF) on a tax-efficient basis. This planning is available only to Canadian tax residents in the year of transfer; they must also be the original plan owner, or a spouse or common-law partner who inherited the plan or acquired the plan because of a relationship breakdown.

This planning was previously only available to Canadian tax residents who are turning age 71 or under in the year of transfer, as the rules only allowed for a transfer to an RRSP. As of August 4, 2023, this planning is also available for Canadian tax residents age 72 or over for a transfer to a RRIF. Check with your financial institution to determine if they are able to administer a transfer to a RRIF.

Not all foreign retirement plans will qualify as foreign pension plans under Canadian tax rules and not everyone can or will benefit from transferring plans that do qualify, to their RRSP/RRIF. With these factors in mind, it's very important to consult with a qualified cross-border tax advisor. Your qualified tax advisor will help you determine not only if your foreign retirement plan is eligible and if your plan can be transferred on a tax-efficient basis, but also whether it makes sense for you to transfer the plan rather than leaving it in the foreign country.

If you have a U.S. retirement plan, please ask your RBC advisor for a separate article specifically discussing transferring a U.S. retirement plan to your RRSP/RRIF.

Canadian taxation of foreign pension plans

Foreign retirement plans or arrangements that aren't considered a pension plan or superannuation under Canadian rules are not discussed in this article. These plans wouldn't be eligible for transfer to your RRSP/RRIF without contribution room. One example of these is a U.K. self-funded "personal pension scheme." Therefore, it's very important to engage a qualified tax advisor to review your foreign retirement plan to confirm whether it's a foreign pension plan under Canadian tax rules.

In addition, there are instances where a foreign retirement plan is considered a pension plan or superannuation under Canadian rules, but the applicable tax treaty may say the foreign pension is only taxable in the foreign country and exempt from tax in Canada. In these circumstances, the foreign pension plan can't be transferred to your RRSP/RRIF under the special rules discussed in this article, as the pension is not taxable in Canada.

Generally, foreign pension plans are tax deferred in Canada until distributions are made from the plan, unless exempt from taxation in Canada because of a tax treaty between Canada and the foreign country. If the plan is tax deferred in both Canada and the foreign country, you may want to keep the plan intact in the foreign country while you're a Canadian tax resident. Where the distributions are taxable in Canada, your overall tax rate on distributions received will generally be the higher of the two countries' tax rates.

If you choose to collapse your foreign pension plan while you're a resident of Canada without any planning, you'll generally accelerate the timing of taxation in Canada (if not exempt) and in the foreign country. Although foreign tax credits (FTCs) may be available to minimize or eliminate double tax, collapsing the plan will generally end the benefit of tax deferral in both Canada and the foreign country.

The options to discuss with your qualified cross-border tax advisor include leaving the foreign pension plan in the foreign country, collapsing the foreign pension plan and bringing the assets to Canada, or transferring it to your RRSP/RRIF tax-efficiently. This article focuses on the last option.

Canadian rules that allow for a tax-efficient transfer to an RRSP/a RRIF

The tax-efficient transfer of a foreign pension plan to your RRSP/RRIF is based on special rules contained in the Canadian Income Tax Act (ITA), but it isn't a direct tax-free rollover. To do this transfer, you must withdraw from your foreign pension plan and deposit the amount withdrawn to your RRSP/RRIF under the special rules. The ITA allows

Generally, foreign pension plans are tax deferred in Canada until distributions are made from the plan, unless exempt from taxation in Canada because of a tax treaty between Canada and the foreign country.

you to pay into your RRSP/RRIF, without contribution room, and claim a special RRSP/RRIF deduction in respect of "certain amounts" received in the year. The deposit to your RRSP/RRIF must be made in the year you withdraw from your foreign pension plan or in the first 60 days of the year following the year of withdrawal.

"Certain amounts" include a lump-sum payment that's income received in the year as a superannuation or pension benefit included in your income for the year for Canadian tax purposes. The lump-sum payment must be payable out of or under an unregistered pension plan (based on Canadian tax rules), including a "foreign pension plan," and attributable to services rendered by you or your spouse or common-law partner, or former spouse or common-law partner, in a period throughout which the person rendering the services wasn't resident in Canada when they provided the services.

The special rules in the ITA only apply where the withdrawal from the foreign pension plan isn't part of a series of periodic payments (i.e. it must be considered a lump-sum withdrawal). The Canada Revenue Agency (CRA) has indicated that whether a payment is considered a lump sum or a series of periodic payments is based on the particular facts and circumstances in each case. They have not provided an opinion specifically related to these rules but have stated for other purposes that, in general, a periodic payment is one of a series of at least three equivalent payments made under an arrangement that specifies the interval between payments. It may be reasonable to apply this view here as well and suggests that a withdrawal of the entire plan in two equal or unequal payments in different years may qualify as lump-sum payments. It's important for you to seek tax advice from a qualified professional on how to structure your withdrawal to ensure it's considered a lump-sum payment.

Does your foreign pension plan meet the requirements?

To meet the requirements under the special ITA rules just discussed, your foreign retirement plan must be classified under Canadian tax law as a foreign pension plan. To be classified as a foreign pension plan, it must be set up by an employer as a superannuation or pension plan. This generally means an arrangement to which contributions were made by or on behalf of an employer or former

employer in consideration for services you rendered as an employee and are used to provide you an annuity or other periodic payment on or after your retirement.

Don't assume your foreign retirement plan automatically qualifies. It's possible the foreign plan could contain terms that may exclude it from being a superannuation or pension plan under Canadian tax rules. It's important to have your foreign retirement plan documents reviewed by a qualified tax advisor.

Inherited plans and relationship breakdown

If you inherit a foreign pension plan from a deceased spouse or common-law partner, or because of a relationship breakdown, you may also be able to transfer the plan to your RRSP/RRIF without contribution room on a tax-efficient basis. If you inherit the plan from anyone other than a spouse or common-law partner, or former spouse or common-law partner, you wouldn't be able to transfer it under the special ITA rules. However, if you have RRSP contribution room, you may choose to use your room to transfer the plan to your RRSP (refer to the separate section that discusses using RRSP contribution room if your plan doesn't qualify).

Using RRSP contribution room if your plan doesn't meet the requirements

It's possible your plan is a foreign pension plan but doesn't meet other criteria under the special ITA rules. Perhaps you earned the foreign pension while you were a resident of Canada for tax purposes, or you inherited the plan from a parent. You can still achieve a tax-efficient transfer to your RRSP provided you have sufficient RRSP contribution room and can claim a full FTC. When using RRSP contribution room, you can choose to make an RRSP contribution to your RRSP or to a spousal RRSP.

You should confirm with your qualified tax advisor whether it makes sense for you to use your RRSP contribution room to transfer your foreign pension plan to your RRSP or a spousal RRSP when it may already be tax deferred. Examples where this strategy may be useful are if you're no longer able to hold the foreign pension plan in the foreign country, or you prefer to simplify your estate by consolidating your property within Canada. If you have sufficient RRSP contribution room, you can contribute the funds to your RRSP, or a spousal RRSP, to offset your Canadian taxable income; if there is foreign income tax, you can claim FTCs to recoup the foreign income tax.

The section on evaluating whether to transfer a foreign pension plan to your RRSP/RRIF discusses other important considerations.

If you inherit a foreign pension plan from a deceased spouse or common-law partner, or because of a relationship breakdown, you may also be able to transfer the plan to your RRSP/RRIF without contribution room on a tax-efficient basis.

Overview of the process to transfer a foreign pension plan to your RRSP/RRIF

Get information from the plan administrator

If you're a resident of Canada and interested in moving your foreign pension plan to Canada, you may want to confirm the following with the foreign plan administrator:

- Whether lump-sum withdrawals are permitted from the plan
- If there are any penalties or fees
- The withholding tax rate they'll apply to your withdrawal as a resident of Canada
- Any foreign documentation that may need to be completed

If the foreign country has specific tax or pension rules and reporting requirements that must be followed by a Canadian financial institution, you should confirm the Canadian financial institution is able to accept the funds transferred from the foreign pension plan.

Engage a qualified cross-border tax advisor

It's very important to engage a qualified cross-border tax advisor who can review your foreign retirement plan to evaluate whether a transfer to an RRSP/RRIF is possible and would be beneficial for you. They can determine if the plan meets the requirements under the special ITA rules and estimate whether you'll be able to fully recoup the foreign tax and penalties, if any.

Collapse the foreign pension plan by making a lump-sum withdrawal

Once you and your qualified tax advisor have decided that this strategy makes sense for you, you may execute the transfer by making a lump-sum withdrawal from your foreign pension plan. This lump-sum withdrawal may be subject to foreign taxation, which may simply be a foreign withholding tax. You should confirm with your qualified cross-border tax advisor if there are any other tax obligations in the foreign country.

Deposit gross amount to your RRSP/RRIF

The gross amount (before any foreign withholding tax is applied) of the lump-sum withdrawal from your foreign pension plan is included as income on your Canadian tax return in Canadian dollars. By depositing this amount to your RRSP/RRIF under the special ITA rules, you can claim an offsetting RRSP/RRIF deduction equal to the amount that's included as income on your Canadian tax return. The effect is a complete offset of the income included on your Canadian tax return, resulting in no taxable income in Canada related to the transfer.

You must make the deposit by the end of the regular RRSP contribution deadline, which is no later than 60 days after the end of the year in which the lump-sum withdrawal is made.

Claim FTCs

You can claim FTCs on your Canadian tax return for any foreign income tax paid. To fully recoup the foreign tax, you must have sufficient Canadian income tax. FTCs reduce your Canadian tax liability that you'd otherwise incur, so if you don't have sufficient Canadian tax, you won't be able to recoup all of the foreign tax paid. You can't carry forward this type of FTC.

There are a few options your qualified tax advisor may suggest if they estimate you don't have sufficient Canadian tax to claim an FTC that will recoup all of the foreign tax. These include:

- Breaking up the lump-sum withdrawal into two equal or unequal amounts over two years; the CRA may not consider this a series of periodic payments
- Creating additional Canadian taxable income (e.g. selling stock with accrued gains) to increase your Canadian tax liability to allow you to fully recoup the foreign tax
- Delaying claiming optional tax deductions that will reduce your Canadian tax liability

Before you make a withdrawal from your foreign pension plan using this strategy, it's important to confirm whether you'll be able to fully recoup the foreign tax and penalties, if any. If you can't, you could be subject to double tax. This is because you'll have paid foreign tax (and possibly penalties) on the amount withdrawn from the foreign plan and will then pay Canadian taxes when you withdraw the same amount in the future from your RRSP/RRIF.

You can claim FTCs on your Canadian tax return for any foreign income tax paid. To fully recoup the foreign tax, you must have sufficient Canadian income tax.

Evaluating whether transferring a foreign pension plan to an RRSP/RRIF makes sense for you

In addition to the considerations discussed, the following are some other factors to assess in deciding whether it makes sense to transfer a foreign pension plan to your RRSP/RRIF.

You should compare the attributes of your foreign pension plan to an RRSP/RRIF, including the age you're required to begin receiving distributions, the amount of the required annual distributions, investment restrictions, account currency options and the tax treatment of the distributions. The first required distribution for an RRSP/RRIF is in the year you turn age 72.

Consider the importance of the Canadian pension income splitting rules to you. These rules allow for up to 50% of eligible pension income to be allocated to your spouse or common-law partner and reported on their Canadian tax return. This could lower your family's overall tax burden if your spouse or common-law partner is in a lower tax bracket. You could receive a payment from a foreign pension plan that's eligible for pension income splitting at any age, whereas if you transfer the plan to an RRSP/RRIF, it's only eligible for pension income splitting once you're age 65 or over, and provided the RRSP is converted to a RRIF or other income stream.

It's important to understand the tax treatment of your plan upon your death and on the transfer to different types of beneficiaries under both Canadian and the foreign country's tax laws.

As discussed earlier, it may be important to you to have all your financial and retirement accounts located in the same country and managed by the same advisor. The tax-efficient transfer to an RRSP/RRIF can help you consolidate your plans within Canada on a tax-deferred basis. However, once you transfer the foreign pension plan to an RRSP/RRIF, there may be no equivalent strategy to transfer the property in your RRSP/RRIF back to a foreign retirement plan.

If you're a temporary resident of Canada and will eventually move from Canada and become a non-resident, this may factor into your decision to either

keep your foreign plan intact or transfer it to an RRSP/RRIF. Please speak to a qualified tax advisor to help you evaluate this further.

Conclusion

Before you decide to collapse your foreign pension plan to implement the strategies discussed in this article, it's very important that you obtain advice from a qualified cross-border tax advisor to determine if your plan qualifies under the special ITA rules, if the transfer can be implemented on a tax-efficient basis, and that it makes sense for you to implement the transfer as opposed to keeping the foreign plan intact.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

RBC Wealth Management

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI). *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2026. All rights reserved.

NAV0092 (04/2026)