

IRS SIMPLIFIES PROCEDURES FOR FAVORABLE TAX TREATMENT ON RRSPS AND RRIFs

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October 8, 2014

The IRS has finally made it much easier for taxpayers who hold interests in either of two popular Canadian retirement plans—registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs)—to get favorable U.S. tax treatment, and it took additional steps to simplify reporting requirements for U.S. taxpayers with these plans.

Under this change, many Americans and Canadians with RRSPs and RRIFs now automatically qualify for tax deferral similar to that available to participants in U.S. individual retirement accounts (IRAs) and 401(k) plans. In general, U.S. citizens and resident aliens qualify for this special treatment as long as they filed and continue to file U.S. returns for any year they held an interest in an RRSP or RRIF and include any distributions from these plans as income on their U.S. returns.

The change relates to a provision in the U.S.-Canada tax treaty that allows U.S. citizens and resident aliens to defer tax on income earned in their RRSP or RRIF until it is distributed. Otherwise, U.S. tax is due each year on this income, even if it is not distributed. In the past, in order to enjoy these treaty benefits, taxpayers were required to attach IRS Form 8891 to their U.S. income tax return. Unfortunately, many eligible taxpayers failed to take this required action and found themselves inadvertently noncompliant. In the past, one way to correct this omission and retroactively obtain the treaty benefit was to request a private letter ruling from the IRS, a costly and often time-consuming process.

Many taxpayers also failed to comply with another requirement; namely, that they file Form 8891 each year to report details about each RRSP and RRIF, including contributions made, income earned, and distributions made. The IRS is eliminating Form 8891, and taxpayers are no longer required to file this form for any year, past or present.

The revenue procedure does not modify any other U.S. reporting requirements that may apply under the Bank Secrecy Act (BSA) and IRC Section 6038D. See FinCEN Form 114, due by June 30 of each year, and Form 8938, which still must be attached to a U.S. income tax return in certain circumstances. Different reporting thresholds and special rules apply to each of these forms.

Further details on this beneficial change can be found in Revenue Procedure 2014-55, posted on the [IRS website](http://www.irs.gov).