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What Happens to Your RRSP When You Move to the United States?

A Canadian's Complete Guide to Managing Your RRSP, TFSA & Retirement Accounts After Crossing the Border

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ABOUT THIS GUIDE

About This Guide: Written by Lucas Wennersten, CFA, CFP® (U.S. & Canada), this white paper is designed for Canadians who are moving to the U.S., already living there, or holding a green card or U.S. citizenship. It covers how the IRS treats your RRSP, TFSA, and other Canadian registered accounts — and what you should do about it. It reflects rules in effect as of 2025 and is for educational purposes only.

Introduction

Your RRSP Did Not Cross the Border With You

For most Canadians, the RRSP is the foundation of retirement savings — a tax-sheltered account that has quietly grown for decades, largely out of sight and out of mind. When you move to the United States, it is easy to assume that because the account stays in Canada, it remains Canada's problem. That assumption is dangerously wrong.

The IRS does not recognize the RRSP as a tax-exempt account. It does not automatically treat your RRSP contributions as deductible. It has specific rules — and significant penalties — for the investments you hold inside it, the income it earns, and the withdrawals you take. The Canada-U.S. Tax Treaty offers important protections, but only if you take the right steps to claim them. Many Canadians who move to the U.S. never do.

This guide walks you through everything you need to know: how the IRS views your RRSP, what to do with the investments inside it, when and how to withdraw, how the TFSA creates its own set of problems, and which of three broad strategies makes sense for your specific situation.

$1.5T+	Treaty	PFIC	TFSA
Total RRSP assets held by Canadians	Election required to defer U.S. tax	Most Canadian funds are toxic for U.S. filers	Zero U.S. recognition as tax-free

Who This Guide Is For

This guide is written for: Canadians who are planning to move to the U.S. for work, retirement, or family reasons; Canadians who have already moved and have never addressed their RRSP with a U.S. advisor; dual citizens or green card holders who still hold Canadian registered accounts; and snowbirds who may have inadvertently triggered U.S. tax residency under the Substantial Presence Test.

SECTION 1

How the IRS Views Your RRSP

The starting point for every cross-border RRSP conversation is this: the IRS does not care that your RRSP is registered in Canada. From the IRS perspective, it is a foreign trust — and foreign trusts have their own set of reporting and tax rules.

The IRS Default Position

Without any action on your part, the IRS treats your RRSP as a foreign grantor trust. This means that every dollar of income earned inside the RRSP — dividends, interest, capital gains — would be taxable to you annually in the U.S., even though you never received it and even though it is tax-deferred in Canada. This could result in U.S. tax bills on phantom income you cannot access.

The Tax Treaty Election — Your Protection

Article XVIII(7) of the Canada-U.S. Tax Treaty allows U.S. residents to elect to defer U.S. taxation on income accruing inside an RRSP until it is actually distributed. This is the protection you need — but it does not happen automatically. You must elect it, and historically you did this on IRS Form 8891.

IMPORTANT: FORM 8891 IS GONE

Form 8891 — Current Status: The IRS eliminated Form 8891 in 2014. Under current rules, U.S. persons holding RRSPs must make the treaty election using Form 8833 (Treaty-Based Return Position Disclosure) or by attaching a statement to their return. If you have been filing U.S. returns and have never made this election, your RRSP income may have been improperly reported — or not reported at all. Both situations can be corrected through amended returns or IRS streamlined procedures.

What the Treaty Election Does — and Does Not — Cover

What It Covers	What It Does Not Cover
Defers U.S. tax on RRSP income until distribution	Does not protect TFSA income (see Section 5)
Aligns U.S. treatment with Canadian tax deferral	Does not exempt RRSP from FBAR reporting
Prevents phantom income taxation on growth	Does not eliminate FATCA Form 8938 reporting
Works for both RRSP and RRIF accounts	Does not apply in states that reject the Treaty
Available to green card holders and U.S. citizens	Does not cover new contributions post-residency

RRSP Reporting Obligations

Even with the treaty election in place, U.S. persons holding RRSPs have annual reporting obligations that many overlook:

1. **FBAR (FinCEN 114):** Your RRSP must be reported if its value, combined with other foreign accounts, exceeds USD $10,000 at any point during the year.
2. **FATCA (Form 8938):** Report the RRSP on Form 8938 if the account value exceeds the applicable threshold ($50,000 for single filers, $100,000 for joint filers).
3. **Form 8833:** Attach this form to your U.S. return each year to claim the treaty deferral. Without it, the election is not made for that tax year.

SECTION 2

Contributions — Can You Still Add to Your RRSP?

Once you become a U.S. person — whether through citizenship, green card, or meeting the Substantial Presence Test — the question of whether to keep contributing to your RRSP becomes significantly more complicated.

The Canadian Side

From Canada's perspective, you can continue contributing to your RRSP as long as you have Canadian earned income and contribution room. If you are still earning income from Canadian sources — rental income, employment in Canada, or business income — the contribution rules remain the same. You get a deduction on your Canadian return and your RRSP grows tax-deferred in Canada.

The U.S. Side

The IRS does not recognize RRSP contributions as deductible. A new RRSP contribution made after you become a U.S. person is treated as a contribution to a foreign trust — potentially triggering foreign trust reporting obligations and, in some cases, immediate U.S. taxation of the contributed amount. The treaty deferral applies to income accruing inside the RRSP, but not necessarily to the contributions themselves.

KEY TAKEAWAY

Practical Guidance: For most Canadians who have moved to the U.S., the answer is to stop making new RRSP contributions unless you have a specific reason and have modelled the U.S. tax implications with a cross-border advisor. The deduction you save in Canada may cost you more in U.S. tax complexity and potential liability than it is worth. In many cases, redirecting savings into a U.S. IRA or Roth IRA is a cleaner and more tax-efficient strategy.

RRSP vs. U.S. Retirement Account: Side-by-Side

RRSP (Canadian)

- Contributions deductible in Canada
- Growth tax-deferred (Canada)
- No U.S. deduction for contributions
- Must elect treaty deferral (Form 8833)
- Subject to FBAR + FATCA reporting
- Withholding on withdrawal (25% NR)

Traditional IRA (U.S.)

- Contributions may be deductible in U.S.
- Growth tax-deferred (U.S.)
- No Canadian recognition
- No treaty election needed
- No FBAR/FATCA (domestic account)
- Withdrawals taxed as ordinary income

SECTION 3

Investments Inside Your RRSP — The PFIC Problem

This is the section most cross-border Canadians have never heard of — and it may be the most financially consequential issue they face. The investments inside your RRSP may be perfectly sensible from a Canadian perspective and deeply problematic from a U.S. one.

What Is a PFIC?

A Passive Foreign Investment Company (PFIC) is a foreign corporation that derives most of its income passively (dividends, interest, rent, royalties, capital gains) or holds most of its assets for passive income production. By this definition, nearly every Canadian mutual fund, balanced fund, ETF, and pooled investment vehicle is a PFIC from the IRS's perspective.

CRITICAL ISSUE

The Scope of the Problem: If your RRSP holds a diversified Canadian equity mutual fund, a balanced portfolio fund, or any Canadian-domiciled ETF, you likely hold PFICs. This is not unusual or careless — it is how most Canadian RRSPs are invested. But from the IRS's perspective, each of these is a problem requiring its own Form 8621 filing.

Why PFICs Are Punitive

The IRS applies the "excess distribution" method to PFICs by default. Under this method, gains and distributions from a PFIC are taxed at the highest marginal rate that applied in each year the PFIC was held — plus interest charges for each year the tax was deferred. The result can be an effective tax rate substantially higher than the ordinary capital gains rate you would pay on a U.S. investment.

Method	How It Works	Typical Impact
Excess Distribution (Default)	Gains allocated back across holding period; taxed at highest historical rate + interest	Often punitive; effective rate 40–60%+
Mark-to-Market (Election)	Annual gains taxed as ordinary income; losses deductible up to prior gains	Simpler but creates annual tax on unrealized gains
QEF Election	Tax current income/gains annually as earned; capital gains treatment for gains	Most favorable but requires QEF annual information statement

What to Hold Inside Your RRSP as a U.S. Person

The solution is to restructure the investments inside your RRSP to hold only PFIC-safe assets. These include:

1. **Individual Canadian stocks** — a Canadian company's shares held directly are not PFICs (they are CFCs or simply foreign stocks, but not PFICs).
2. **U.S.-listed ETFs** — ETFs domiciled in the United States (e.g., iShares, Vanguard U.S.-listed funds) are not PFICs. You can hold these inside a Canadian RRSP.
3. **GICs and fixed income** — Canadian GICs and bonds held directly are not PFICs.
4. **Cash in CAD or USD** — no PFIC issue.

BEFORE YOU ACT

Note: Restructuring your RRSP investments to eliminate PFICs may trigger Canadian tax consequences if you hold the investments outside an RRSP. Inside an RRSP, the restructuring is generally sheltered from Canadian tax — but you should confirm with your Canadian tax advisor before making changes.

SECTION 4

Withdrawals — Timing, Tax Strategy & Roth Opportunity

How and when you withdraw from your RRSP as a U.S. resident is one of the most important financial decisions you will make — and one where the right advice can save you tens of thousands of dollars.

Canadian Withholding Tax on RRSP Withdrawals

When a Canadian non-resident withdraws from an RRSP, the Canadian financial institution withholds tax at source. Under the Canada-U.S. Tax Treaty, this rate is reduced for U.S. residents:

Withdrawal Type	Standard NR Rate	Treaty Rate (U.S. Residents)	Notes
Periodic payments (RRIF minimum)	25%	15%	Treaty Article XVIII applies
Lump sum / non-periodic	25%	25%	Full rate applies — no treaty reduction
RRIF minimum withdrawals	25%	15%	Qualifies as periodic pension
RRSP collapse (full withdrawal)	25%	25%	Lump sum — full NR rate

U.S. Taxation of RRSP Withdrawals

In the U.S., RRSP withdrawals are treated as ordinary income. You report the gross withdrawal on your Form 1040, then claim a foreign tax credit for the Canadian withholding tax paid. Properly structured, this eliminates most double taxation — but the mechanics must be done correctly.

The Strategic Window: Withdrawing Before U.S. Residency

One of the most powerful and underused strategies for Canadians who know they are moving to the U.S. is to withdraw from their RRSP before establishing U.S. residency. While still a Canadian resident, RRSP withdrawals are taxed only in Canada — at rates that may be significantly lower than future U.S. rates, particularly if you time the withdrawals in a low-income year.

STRATEGIC OPPORTUNITY

Example: A Canadian planning to retire in Arizona takes two years of strategic RRSP withdrawals before their U.S. start date. By filling the lower Canadian tax brackets, they reduce their RRSP balance — and future U.S. tax exposure — at a Canadian marginal rate of 20-33%, rather than a potential U.S. rate of 32-37% once they are in the U.S. and drawing CPP, OAS, and Social Security simultaneously.

The Roth IRA Conversion Opportunity

Once you are a U.S. resident, RRSP withdrawals are taxable U.S. ordinary income. If your marginal rate is lower in your early U.S. years (pre-Social Security, pre-RMDs, pre-CPP/OAS), you may be able to withdraw from your RRSP and simultaneously convert those funds into a Roth IRA — paying tax once at a lower rate and creating a permanently tax-free U.S. account. This is a cross-border planning opportunity that most domestic advisors completely miss.

SECTION 5

The TFSA Problem — Why It Is Worse Than the RRSP

Most Canadians are surprised — and frustrated — to learn that their Tax-Free Savings Account offers zero protection from the IRS. While the RRSP at least has a Treaty mechanism, the TFSA has no corresponding U.S. recognition at all.

How the IRS Treats Your TFSA

The IRS does not recognize the TFSA as a tax-exempt account. Every dollar of income earned inside your TFSA — dividends, interest, capital gains — is fully taxable in the U.S. each year, even though it is tax-free in Canada. There is no treaty protection. There is no deferral election. The income is simply taxable.

This means a U.S. resident holding a TFSA with $100,000 earning 5% annually is paying U.S. income tax on $5,000 every year — while paying zero in Canada. The "tax-free" in TFSA only applies to Canadian tax.

	RRSP	TFSA
Treaty Protection Available?	Yes — Article XVIII(7)	No
U.S. Tax on Annual Growth?	Deferred via treaty election	Yes — fully taxable annually
U.S. Tax on Withdrawals?	Yes — ordinary income	Yes — ordinary income
FBAR Reporting Required?	Yes	Yes
FATCA (Form 8938) Required?	Yes	Yes
PFIC Risk?	Yes — if holding Canadian funds	Yes — same issue
Recommendation for U.S. Persons?	Manage with treaty election	Consider collapsing before move

Should You Collapse Your TFSA Before Moving?

For most Canadians moving to the U.S., the answer is yes — collapse your TFSA before you establish U.S. residency. A TFSA withdrawal while you are still a Canadian resident is tax-free in Canada and creates no U.S. tax event (since you are not yet a U.S. person). Once in the U.S., every dollar it earns creates ongoing U.S. tax obligations with no offsetting benefit.

CROSS-BORDER OPTIMIZATION

The TFSA vs. Roth IRA: If you collapse your TFSA before moving to the U.S. and then fund a Roth IRA in your early U.S. years, you effectively replicate the TFSA's tax-free growth — but in a U.S.-recognized structure. This is a common cross-border optimization that pairs well with the RRSP withdrawal strategy described in Section 4.

SECTION 6

State-by-State — Where Your RRSP Is and Is Not Protected

Federal treaty protection is only part of the picture. U.S. states set their own income tax rules and are not required to follow the federal Canada-U.S. Tax Treaty. This matters enormously depending on where you live in the U.S.

State	State Income Tax?	Follows Treaty?	RRSP Treatment	Snowbird Risk
Florida	No	N/A	No state tax on RRSP income or withdrawals	**Low**
Arizona	Yes (2.5% flat)	Generally yes	RRSP growth deferred; withdrawals taxed	**Moderate**
Nevada	No	N/A	No state tax on RRSP income or withdrawals	**Low**
Texas	No	N/A	No state tax on RRSP income or withdrawals	**Low**
Washington	Limited (capital gains only)	Partial	Capital gains on RRSP may be taxable	**Moderate**
California	Yes (up to 13.3%)	No	RRSP growth taxed annually as ordinary income	**HIGH**
New York	Yes (up to 10.9%)	Partial	RRSP treatment uncertain; seek advice	**Moderate-High**
Oregon	Yes (up to 9.9%)	Uncertain	Seek state-specific advice	**Moderate**

CALIFORNIA — CRITICAL NOTE

California Warning: California is the most hostile U.S. state for Canadian RRSP holders. It does not follow the Canada-U.S. Tax Treaty, meaning your RRSP growth is taxed annually at ordinary state income tax rates — up to 13.3%. If you are planning to retire in California, your RRSP strategy must account for this from day one. Many cross-border Canadians specifically choose Nevada, Arizona, or Florida partly for this reason.

SECTION 7

Decision Framework — Three Paths Forward

There is no single right answer for every Canadian moving to the U.S. The correct strategy depends on your age, income, the size of your RRSP, your destination state, your other retirement income sources, and your timeline. Here are the three broad paths, with their trade-offs clearly laid out.

Path 1: Withdraw Before You Move

Collapse or significantly draw down your RRSP before establishing U.S. residency.

Advantages

- Taxed only in Canada — no U.S. involvement
- Eliminates all U.S. RRSP complexity permanently
- Freed capital can fund Roth IRA or U.S. accounts
- Avoids PFIC restructuring entirely

Considerations

- May trigger large Canadian tax bill in one or two years
- Loses future RRSP tax-sheltered growth
- Must have room in lower Canadian tax brackets
- Not suitable for very large RRSPs

Best for: Younger movers with smaller RRSPs; those in a low-income transition year; those moving to California.

Path 2: Keep the RRSP and Manage It as a U.S. Person

Maintain the RRSP, restructure investments to eliminate PFICs, and file all required U.S. forms.

Advantages

- Preserves tax-deferred growth for potentially decades
- Flexible — withdraw strategically at lower tax rates
- Enables Roth conversion ladder in early U.S. years
- Retains CAD-denominated assets as currency hedge

Considerations

- Requires annual Form 8833 election and FBAR/FATCA reporting
- Must restructure investments to eliminate PFICs
- Ongoing compliance costs
- State tax exposure if moving to California or similar

Best for: Canadians with large RRSPs; those moving to no-income-tax states; those with low-income early U.S. years for strategic withdrawal.

Path 3: Convert RRSP to RRIF and Take Periodic Payments

Convert your RRSP to an RRIF and take minimum periodic payments, benefiting from the 15% treaty withholding rate.

Advantages

- 15% treaty withholding rate (vs. 25% for lump sums)
- Predictable income stream
- Spreads income over many years — potentially lower brackets
- U.S. foreign tax credit offsets most Canadian withholding

Considerations

- Mandatory minimum withdrawals deplete RRIF over time
- Cannot time large withdrawals in low-income years as easily
- Still requires PFIC restructuring inside RRIF
- Annual reporting obligations continue

Best for: Retirees already converting to income phase; those who want simplicity and predictability.

Conclusion: Five Actions for U.S.-Bound Canadians

Your RRSP is one of your most valuable financial assets. With the right cross-border planning, it can remain that way throughout your U.S. life. Without it, it can become a source of ongoing tax complexity, unexpected bills, and compliance risk. Here is what to do right now:

1. **Make the Treaty Election on Your Next U.S. Return:** File Form 8833 with your U.S. return to elect treaty deferral for your RRSP. If you have never done this and have been filing U.S. returns, consult a cross-border advisor about catching up through amended returns or the IRS streamlined procedures.

2. **Audit the Investments Inside Your RRSP for PFICs:** Review every holding in your RRSP. Identify any Canadian mutual funds, balanced funds, or Canadian-domiciled ETFs. Work with a cross-border advisor to restructure these into PFIC-safe alternatives — individual stocks, U.S.-listed ETFs, or GICs.

3. **Collapse or Manage Your TFSA Before You Move:** If you have not yet established U.S. residency, collapse your TFSA now. The withdrawal is tax-free in Canada and creates no U.S. tax event. After the move, every dollar of TFSA growth is fully taxable in the U.S. annually with no treaty protection.

4. **Model the Three Withdrawal Paths With a Cross-Border Advisor:** Get a personalized analysis of whether to withdraw before your move, keep the RRSP and manage it, or convert to an RRIF. The right choice depends on your specific RRSP size, marginal rates, destination state, and other income sources.

5. **Ensure Your RRSP Is Reported on FBAR and Form 8938:** If you are already a U.S. person and have not been reporting your RRSP on FinCEN 114 and Form 8938, address this immediately. The IRS has significantly increased enforcement of foreign account reporting. Penalty abatement programs exist but require proactive action.

Ready to Protect Your RRSP?

Book a free 30-minute consultation with Lucas Wennersten, CFA, CFP® — one of the only advisors in North America dually licensed in both the U.S. and Canada. Author of *Crossing the 49th Parallel* and founder of 49th Parallel Wealth Management.

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Appendix

KEY FORMS REFERENCE

Form	Purpose	Filed With	Deadline
Form 8833	Treaty-Based Return Position — elects RRSP treaty deferral	IRS with Form 1040	Annual, with tax return
FinCEN 114 (FBAR)	Report foreign financial accounts (incl. RRSP) >USD $10k aggregate	FinCEN (BSA e-file)	April 15 (auto-ext Oct 15)
Form 8938 (FATCA)	Statement of specified foreign financial assets	IRS with Form 1040	With annual tax return
Form 8621	Information Return by Shareholder of PFIC — one per PFIC holding	IRS with Form 1040	With annual tax return
Form 3520	Annual return re: transactions with foreign trusts (if TFSA treated as trust)	IRS	April 15 (ext to Oct 15)
Form 1040-NR	U.S. nonresident income tax return (if not yet a U.S. person)	IRS	June 15 (with extension)
T1161	Canadian departure return — list of property owned at departure	CRA	April 30 of departure year

ACCOUNT COMPARISON TABLE

Account	Country	Tax Treatment (Home)	U.S. Treatment	Treaty Protection?
RRSP	Canada	Contributions deductible; growth tax-deferred	Taxable foreign trust — treaty deferral available	Yes — Art. XVIII(7)
RRIF	Canada	Minimum withdrawals taxed as income	Periodic payments — 15% withholding treaty rate	Yes — Art. XVIII
TFSA	Canada	Contributions after-tax; growth and withdrawals tax-free	No recognition — growth taxable annually	No
LIRA/LRSP	Canada	Locked-in retirement; similar to RRSP	Similar to RRSP; treaty election applies	Generally yes

Traditional IRA	U.S.	Contributions may be deductible; growth deferred	Standard U.S. treatment	N/A (domestic)
Roth IRA	U.S.	After-tax contributions; growth and withdrawals tax-free	Standard U.S. treatment	N/A (domestic)
401(k)	U.S.	Pre-tax contributions; growth deferred	Standard U.S. treatment	N/A (domestic)

GLOSSARY

FBAR: Foreign Bank Account Report (FinCEN Form 114). Required annually of U.S. persons whose aggregate foreign financial account balances exceed USD $10,000 at any point during the year.

FATCA: Foreign Account Tax Compliance Act. U.S. law requiring foreign financial institutions and U.S. persons to report foreign financial assets. U.S. persons file Form 8938.

Foreign Tax Credit: A U.S. tax credit for taxes paid to a foreign government on foreign-source income. Used to offset U.S. tax on RRSP withdrawals by the Canadian withholding tax paid.

LIRA / LRSP: Locked-In Retirement Account / Locked-In Retirement Savings Plan. Canadian accounts holding pension commuted values. Similar U.S. tax treatment to RRSP.

PFIC: Passive Foreign Investment Company. Foreign corporation deriving most income/assets passively. Nearly all Canadian mutual funds and ETFs are PFICs. Requires Form 8621 per holding.

QEF Election: Qualified Electing Fund election. A more favorable PFIC method requiring annual information statements from the fund. Allows capital gains treatment for gains.

RRIF: Registered Retirement Income Fund. A Canadian registered account funded by converting an RRSP. Requires minimum annual withdrawals beginning at age 71 (or earlier by choice).

RRSP: Registered Retirement Savings Plan. The primary Canadian tax-deferred retirement savings account. Contributions are deductible; growth is tax-deferred until withdrawal.

TFSA: Tax-Free Savings Account. A Canadian registered account where growth and withdrawals are tax-free in Canada. Not recognized as tax-free under U.S. tax law.

Treaty Election: The formal election under Article XVIII(7) of the Canada-U.S. Tax Treaty that defers U.S. taxation of RRSP/RRIF income until distribution. Made annually via Form 8833.

Withholding Tax: Tax withheld at source on payments to non-residents. Canada withholds 25% on RRSP withdrawals by non-residents; the Treaty reduces this to 15% for periodic (RRIF) payments.