



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

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Dear _____ :

This letter responds to your request for information dated October 24, 2005. You have requested general information regarding the new 15% Canadian withholding tax on Canadian trust distributions to U.S. Individual Retirement Accounts ("IRAs"). In response to your inquiry, we are providing the following general information. This letter is advisory only, and has no effect on the Internal Revenue Service.

Under U.S. law, it is not possible for the owner of an IRA to receive a foreign tax credit or deduction for foreign taxes paid by the IRA. When the owner receives distributions from the IRA, the income on which the foreign taxes were paid will generally be subject to U.S. tax. Thus, as you point out in your letter, there will be some double taxation with respect to the Canadian trust distributions.

The U.S. and Canadian tax authorities have had discussions about this issue, but have been unable to reach a resolution under the current income tax treaty. Unless Canada changes its law, resolution would require renegotiation of the treaty.

We hope this information will be helpful to you. If you should have any further questions in this matter, please contact _____ at _____ (not a toll free number).

Sincerely,

Grace Fleeman
Senior Counsel, Branch 1
Office of Associate Chief Counsel (INTL)