

IT 26-0003-GIL 04/01/2026 SUBTRACTION MODIFICATION

Canada Pension Payment/Canadian Old Age Supplement and private pension treatment under U.S.-Canada treaty, federal law and Illinois tax law including 35 ILCS § 203(a)(2)(F). Treatment of Canada Pension Payment/Canadian Old Age Supplement may be analogous to treatment of U.S. Social Security. (This is a GIL).

April 1, 2026

NAME
ADDRESS
EMAIL

RE: Tax Deduction for Canadian sourced pension

Dear NAME:

This letter is in response to your letter dated September 5, 2025, in which you requested information. The Department issues two types of letter rulings. Private Letter Rulings (“PLRs”) are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department’s regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter (“GIL”) is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL.

INQUIRY:

We filed our joint 2024 Illinois tax return and claimed a deduction of Canadian sourced pension income from our total income. The deduction was denied since the source of this income did not appear on lines 4B, 5B or 6B of our federal 1040.

The Canadian sourced income was recorded on Schedule 116 of our federal return and reported on Schedule 1 of that return. The income is comprised of six (6) separate items; Canada Pension income for myself and my wife (2), Canadian Old Age Supplement for myself and my wife (2) and finally pension income from my Canadian employer (COMPANY) broken up into two separate items. I submitted

documentation (Canadian NR4 forms) for each item to the Illinois Department of Revenue to confirm their authenticity.

Please provide a Letter of Ruling to clarify which of these Canadian sourced items are eligible as 'Qualified Pension Income' and thus allowable as deductions from our State of Illinois income. I appreciate your attention to this matter.

DEPARTMENT'S RESPONSE:

35 ILCS § 203(a)(2)(F) provides a subtraction modification for retirement income as follows:

(F) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the Internal Revenue Code or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self-employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;

26 USC §§401-408 address various concerns connected with taxation of employee trusts, exemptions, annuities, employee benefit plans for the benefit of overseas employees of affiliates of the employer who created that plan, and individual retirement accounts.

None of these provisions appear to apply to a retirement plan of a private employer in Canada, and the pension income would therefore not qualify for subtraction under IITA Section 203(a)(2)(F).

The Convention between the United States of America and Canada with Respect to Taxes on Income and Capital, signed at Washington on September 26, 1980 (including subsequent protocols), appears to be the relevant treaty between Canada and the United States.

Article XVIII, Pensions and Annuities, as amended, provides as follows:

* * *

- (3) For the purposes of this Convention, the term 'pensions' includes any payment under a superannuation, pension or other retirement arrangement, Armed Forces retirement pay, war veterans pensions and allowances and amounts paid under a sickness, accident or disability plan but does not include payments under an income-averaging annuity contract or, except for the purposes of Article XIX (Government Service), any benefit referred to in paragraph 5.

* * *

- (5) Benefits under the social security legislation in a Contracting State (including tier 1 railroad retirement benefits but not including unemployment benefits) paid to a resident of the other Contracting State shall be taxable only in that other State, subject to the following conditions:
- (a) a benefit under the social security legislation in the United States paid to a resident of Canada shall be taxable in Canada as though it were a benefit under the Canada Pension Plan, except that 15 per cent of the amount of the benefit shall be exempt from Canadian tax; and
 - (b) a benefit under the social security legislation in Canada paid to a resident of the United States shall be taxable in the United States as though it were a benefit under the Social Security Act, except that a type of benefit that is not subject to Canadian tax when paid to the residents of Canada shall be exempt from United States tax.

Article XVIII, Paragraph 3, of the Treaty defines the term “pension.” The definition is broad and includes “...includes any payment under a superannuation, pension or other retirement arrangement, Armed Forces retirement pay, war veterans pensions and allowances and amounts paid under a sickness, accident or disability plan but does not include payments under an income-averaging annuity contract or, except for the purposes of Article XIX (Government Service), any benefit referred to in paragraph 5” Article XVIII, Paragraph 5, appears to cover Social Security and OAS.

The Treasury Department Technical Explanation of the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital Signed at Washington, D.C. on September 26, 1980, as Amended by the Protocol Signed at Ottawa on June 14, 1983 and the Protocol Signed at Washington on March 28, 1984. General Effective Date Under Article XXX: 1 January 1985, in discussing Section XVIII of the Treaty, provides that:

Paragraph 5, as amended by the 1984 Protocol, provides that benefits under social security legislation in Canada or the United States paid to a resident of the other Contracting State are taxable only in the State in which the recipient is resident.... If a U.S. citizen and resident receives Canadian social security benefits, Canada will not tax such benefits and the United States will exempt from tax one-half of the total amount of such benefits.... Paragraph 5 encompasses benefits paid under social security legislation of a political subdivision, such as a province of Canada.

Your letter indicates that you are a permanent resident of the State of Illinois. You noted in that letter that you filed a joint return in 2024 and reported Canadian sourced income on Schedule 1116 and Schedule 1 including Canadian pensions income for yourself and your wife, Canadian Old Age Supplement for yourself and your wife, and private pension income from your previous employment with COMPANY.

The determination as to whether or not the various pension payments are subtracted from AGI in the computation of Illinois base income depends upon how the benefits are treated federally which in turn depends upon how the benefits are categorized under US-Canadian treaty and federal tax law. Whether or not a particular pension is subject to international treaty, or how that payment is to be treated under federal tax law, is not a determination made by the Illinois Department of Revenue.

Canadian Old Age Security (OAS)(R.S.C. 1985 ch. O-9)/Canadian Pension Plan (CPP)(R.S.C. 1985 ch. C-8):

Illinois law provides a subtraction modification for Social Security benefits. Federal AGI is the starting point for Illinois tax calculation, which is then adjusted for subtractions modifications or additions.

Canadian Old Age Security pension (OAS) appears to be created and governed by the Old Age Security Act, R.S.C. 1985, Ch. 0-9. This is a benefit payment provided to persons who meet the criteria provided in the Act. Canadian Pension Plan appears to be created and governed by R.S.C. 1985 C-8. This is a benefit payment managed by the Canadian government and funded at least in part by payroll deductions from salary. It appears that the treaty may apply to these payments and as such they could qualify to be treated as analogous to U. S. Social Security payments under IRC Section 86.

COMPANY Pension

As for the COMPANY pension, it does not appear that there is a relevant treaty portion that would apply. This pension would not fit within the framework of code sections 402-408 and therefore is not eligible for the subtraction modification under IITA section 203(a)(2)(F).

I hope this information is helpful. If you require additional information, please visit our website at <https://tax.illinois.gov/> or contact the Department's Taxpayer Information Division at 800-732-8866.

Very truly yours,

Javonna Ackerman
Associate Counsel

JA:sc