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Wealth Without Borders

Your Cross Border Newsletter

The purpose of this newsletter is to share cross-border wealth management news and insights with our cross border clients and colleagues.

TAX EMIGRATION CHECKLIST FOR CANADIANS MOVING TO THE UNITED STATES

This edition of WWB is a checklist of recommended actions to be undertaken when our Canadian clients are considering a permanent move to the USA. The checklist is comprehensive and deals with issues that could be disastrous if overlooked.

Steele Wealth Management Can Help

Our team can help with issues and transitions when moving. We understand the challenges involved in managing wealth in both countries and our experience with complicated situations has provided us with the expertise to help integrate Canadian and American wealth. Steele Wealth Management is part of the Raymond James Financial family of companies. Raymond James (USA) Ltd. is a Canadian based US registered investment firm offering integrated cross-border wealth management solutions to Americans living in Canada and Canadians living in the US. Steele Wealth Management is licensed and regulated in both countries and is recognized in North America as being one of the leading cross-border wealth management specialists. We can offer a consolidated wealth management solution to coordinate a client's entire portfolio of assets to keep on track to achieving goals.

SUGGESTED TIMELINE	TAXPAYER ACTIONS
At least two years before moving to the USA	1. Determine the entry requirements to lawfully reside in the US and initiate any necessary visa and social security number applications if you are planning to work in the US. 2. Evaluate the requirements to maintain or abandon Canadian immigration status if not a Canadian citizen, e.g. visa expiry, permanent residence status, citizenship application in progress. 3. Discuss retaining or severing Canadian tax residency with a cross-border tax professional and options for tax residency in the US if not a US citizen, e.g. treaty tie-breaking US non-resident, dual-status part-year resident, or full-year resident US taxpayer. 4. Compare Canadian taxation to US taxation of your various income sources and assets, including state income tax, federal and state estate taxes, federal and state gift taxes, and property taxes. 5. Inventory your assets and expected income sources during US residency. 6. Understand the Canadian tax consequences of ceasing tax residency, e.g. deemed dispositions at fair market value and non-resident withholding tax rates on Canadian income and sales of real estate. 7. Understand the Canadian income tax, US estate tax, and provincial probate consequences of leaving assets in Canada. 8. Consider any applicable tax planning opportunities to implement before your departure: • Accelerate or defer income over tax years to allocate to low-income tax years and the low-tax rate country depending on income type.

Current Rates & Data

Govt of Canada

90 day	0.13%
1 year	0.24%
2 year	0.41%
5 year	0.82%
10 year	1.20%
30 year	1.76%

U.S. Treasury

90 day	0.05%
1 year	0.06%
2 year	0.19%
5 year	0.79%
10 year	1.32%
30 year	1.91%

Canada Prime Rate

2.45%

U.S. Prime Rate

3.25%

Exchange Rates

CAD/USD	0.791
USD/EUR	1.183
JPY/USD	109.9

	• Exercise Canadian tax-preferential stock options before establishing US residency. • Defer bonus and stock compensation receipts until after severing Canadian residency. • Maximize RRSP contributions and claim RRSP deductions in departure year if your departure triggers higher income and gains. • Repay outstanding amounts under a Home Buyers' Plan to avoid an income inclusion of the balance in the year of departure. • Convert RRSP accounts to RRIF accounts to allow for periodic RRIF withdrawals at 15% non-resident withholding tax following the year of conversion. Otherwise, 25% withholding appliesto RRSP withdrawals. • Manage and crystallize gains in RRSP/RRIF if state tax will apply. • Strategize RESP and RDSP contributions and withdrawals to maximize the grants and benefitsof those accounts. • Review portfolio holdings with Steele Wealth Management to identify securities that cannot transfer to a USfinancial institution, such as Canadian mutual funds, and plan for tax efficient disposal whileminimizing fees. • Plan to dispose of Canadian investments that may create punitive US tax consequences or tax filing complexities under the passive foreign investment company (PFIC) tax rules, such as Canadian ETFs. • Realize capital losses in the appropriate tax year to reduce departure capital gains. • Realize capital gains if higher tax rates will apply in the US, e.g. short-term capital gains or your US income is too high to be eligible for long-term capital gains rates. • Consider making gifts to children and other heirs before establishing US residence to avoid US gift tax and reduce estate subject to US estate tax. • Close the sale of your principal residence before ceasing residency to maximize your principal residence exemption and avoid non-resident withholding tax and CRA clearance procedures. • Sell other Canadian properties while still Canadian resident to avoid non-resident withholding tax and CRA clearance procedures if no intention to keep the properties while living in the US. • Discuss your long-term strategy and intentions for your Canadian private corporation shares or Canadian partnership interests with your cross-border tax professional. Valuations may be required for deemed disposition reporting. • Discuss with your tax professional any issues related to retaining your trustee duties for a Canadian trust or estate and consider resigning as trustee to simplify compliance. There are also US tax issues if you are a beneficiary of a Canadian trust that accumulates income.
Close to departure date	9. Ensure the US Immigration Services has finalized your documents to permit your US residence. 10. If your employer is relocating you, confirm if you will continue CPP contributions or contributeto US social security. 11. Obtain US individual taxpayer identification numbers (ITIN) for all family members, including minor children, to claim as dependents for US taxes. 12. Confirm your date of departure and entry with the cross-border tax professional who will be preparing your Canadian exit tax return and your US entry tax return. 13. Provide your departure date to Steele Wealth Management, other financial institutions, and pension administrators with your change of address notification and your new documentation/tax forms(IRS W9 and CRA NR301).

	14. Consider crystallizing capital gains in your RRSP/RRIF by selling and repurchasing gain securities on the same day to step up the cost basis if your accountant will treat as a taxable investment account for US federal and/or state tax purposes. 15. Withdraw or liquidate securities in your TFSA and close the account because US residents are unable to maintain TFSAs in Canada. Contributions to a TFSA while non-resident of Canada are subject to penalty tax. 16. Change the subscriber of your RESP to a trusted Canadian-only family member to prevent US tax on income and gains if you decided to keep your RESP intact. 17. Request a report from Steele Wealth Management with the fair market value (FMV) of the investment assets you owned on your departure date and provide to your accountant to report the departure gains on your final Canadian resident tax return. 18. Record the FMV of assets in US dollars using the foreign exchange rate on your departure date and provide to your accountant to elect a cost basis step up for US tax purposes. US citizens can also claim a foreign tax credit against the deemed gains for US tax purposes. 19. Set up a CRA non-resident withholding tax account if you are keeping a Canadian rental property while non-resident. 20. Elect to apply withholding tax on your net rental income, instead of gross rents, by filing CRA Form NR6 and filing a Section 216 tax return each year. 21. Arrange with CRA to post acceptable security if deciding to defer payment of departure tax in excess of $16,500. 22. Obtain a copy of your Canadian credit report as evidence of your credit history for US financial institutions. 23. Explore cross-border banking and investment options with Steele Wealth Management.
Arrival in the US	24. Obtain a US driver's licence to establish photo identification with your new address. 25. Open US bank accounts and apply for credit cards in the US. 26. Close unessential Canadian bank accounts and cancel Canadian credit cards. 27. Open US investment accounts with Raymond James (USA) Ltd. and transfer your investments to your new US accounts, then close your Canadian accounts (non-registered accounts). 28. Obtain US medical insurance. 29. Cancel your provincial health insurance within the allowable grace period for absence from the province. 30. Update your CRA MyAccount address and change your direct deposit instructions to your US bank if electing to receive your government benefits in US dollars. CPP and OAS are exempt from Canadian withholding tax and OAS is not subject to recovery "clawback" tax for US residents. 31. In consultation with a state attorney, create new wills and other legal documents to reflect US residence and an estate plan that is valid under the laws of your state.
In April following the year of departure	32. File your Canadian T1 tax return with departure date to report start of non-residency for income tax purposes and include all departure-related tax forms, including Forms T1161 and T1243. 33. File your first US 1040 tax return to establish US tax residency or normal return if US citizen. 34. Optimize your US tax filing position with your cross-border tax accountant based on actual income received for the calendar year and your entry date.

In April following the year of departure	35. Include any treaty elections with the US tax return such as cost basis step ups. 36. File FinCEN Form 114 annually to report foreign financial accounts (ownership and signing authority), including Canadian registered plans, to the US Treasury department. You may also have an annual Form 8938 requirement to report foreign financial assets to the IRS. 37. File CRA T1135 for foreign assets (non-Canadian assets) held during the year while Canadian resident.

Important Government References

CRA Income Tax Folio S5-F1-C1, Determining an Individual's Residence Status
CRA International and non-resident taxes main web page

CRA Rental income and non-resident tax

CRA Canadian residents going down south - for individuals retaining Canadian resident status

International Tax Convention between Canada and the United States

IRS International Individuals main web page

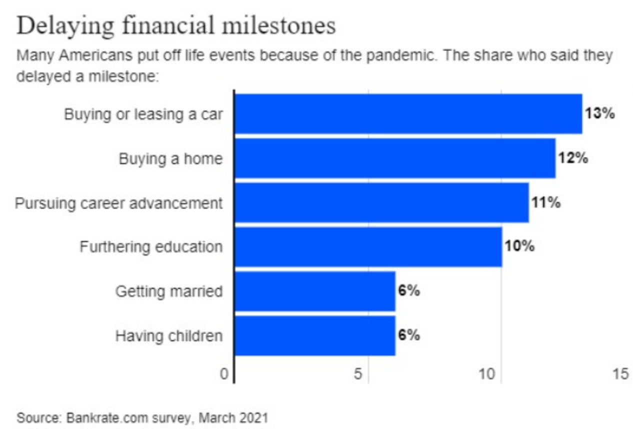
IRS Resident Aliens - for individuals establishing US residency

IRS Rev. Proc. 2014-55 - Election Procedures and Information Reporting with Respect to Interests in Certain Canadian Retirement Plans

CROSS BORDER TIDBITS

ONE OF THESE THINGS IS NOT LIKE THE OTHER

There are key differences between Canadian and US mortgages. In the US, there are usually no penalties to break a mortgage, whereas penalties in Canada can be quite steep. The Canadian fees are based on interest rate differences and remaining term, amongst other factors. Whereas the five year fixed rate mortgage with a 20 or 25-year amortization is the standard term in Canada, borrowers in the USA are able to secure a mortgage with up to a 30-year amortization term with most lenders. There are key differences in mortgage terms between Canada and the USA. Speak with us before you lock in on any cross border real estate transaction!



MORE BUYERS TO COME?!?!

During the pandemic, used vehicles and housing had the largest price increases. Many analysts predict that there will be a price correction for both these assets. However the contrarian would use a poll (such as this one), which shows that the demand for both will continue. Automobiles and housing are the two most common purchases delayed over the last year. Consequently, the cost of both used autos and real estate may continue to increase as pent up demand comes off the sidelines. Interestingly, marriage and children brought up the rear in the survey, which means we may be in for a mini baby boom because of the pandemic. It will be interesting to monitor birth rates in the coming year to see if the pandemic has a major impact on demographics.

This newsletter has been brought to you by Steele Wealth Management:

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