BMO Nesbitt Burns

February 2023

Financial Insights

from Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

Flying South to Escape the Canadian Winter?

For the past two winters, many snowbirds were forced to hibernate at home. With travel more accessible, many have resumed their migration southward. If this is within your plan, consider the potential implications.

If you are leaving Canada for extended periods, a significant consideration may be the potential tax implications, both in Canada and your chosen destination. Canadian income tax obligations are determined by your residency status, which is determined on a case-by-case basis. This can be affected by factors such as the amount of time spent in Canada, the residential ties to Canada (i.e., property owned), the purpose of your time abroad and your ties abroad. Being a Canadian non-resident for tax purposes may still require you to file a Canadian income tax return and pay taxes. A non-resident withholding tax of 25 percent may also be applied to certain income received, such as dividends or pension payments.

If you are deemed to be a resident of a foreign country, you may be subject to that country's tax rules. For example, the U.S. Internal Revenue Service (IRS) uses the "substantial presence test" to determine whether an individual is considered a U.S. resident for tax purposes, a formula using the days spent in the U.S. in the current and prior two years. Qualifying as a U.S. resident for tax purposes can have tax consequences, such as subjecting worldwide income to U.S. taxation or exposing Canadians to the U.S. estate tax at death.

Other Potential Financial Implications

Beyond the potential tax implications, there may be other financial implications to consider. This includes potential healthcare costs, changes to certain government benefits and even estate planning implications.

Although the rules vary by province, provincial medical coverage may become invalid as a result of extended periods spent out of province. Even if coverage remains valid, certain services received abroad may not be covered by provincial healthcare plans, so having adequate private coverage should be a consideration.

Your government benefits may be affected by your residency status.

For example, Old Age Security (OAS) and Canada/Quebec Pension Plan (CPP/QPP) benefits may be subject to a non-resident tax of 25 percent (unless reduced/exempted by a tax treaty between Canada and the country of residence). The value of OAS payments is impacted by how long you have lived in Canada after age 18, so a non-residency status may reduce payment amounts. For Tax-Free Savings Accounts, you cannot accumulate contribution room for any year that you are a non-resident of Canada throughout the entire year. Contributions made as a non-resident will be subject to a penalty tax of one percent per month.

Consider that the laws of the jurisdiction of residence at the time of death may govern how an estate will be taxed. Even if you remain a Canadian resident, if you have appointed a non-resident to administer your estate, your estate may be considered a non-resident estate and may not receive preferential tax treatment (i.e., on Canadian dividends/capital gains) or it may be subject to the tax laws of the country where the trustee resides. Power of Attorney (POA) documents may also become complicated by a non-residency status. If you are appointed as POA for property but are no longer a Canadian resident, you may be limited in your actions, such as potentially not being able to give trading instructions on an account.

There may be other potential implications resulting from a change in residency status due to extended periods spent outside of Canada. This discussion isn't meant to be comprehensive, so please seek advice from cross-border tax and legal advisors who can assist with your particular situation.

Quinn+Cardy Wealth Management
of BMO Nesbitt Burns

1 First Canadian Place
38th Floor, P.O. Box 150
Toronto, Ontario M5X 1H3

Toll Free: 1-800-263-2286
Fax: 416-359-5346
www.quinncardy.com

BMO Private Wealth

Quinn+Cardy Wealth Management
BMO Nesbitt Burns

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. BMO Bank of Montreal are Members of CDIC. ® Registered trademark of Bank of Montreal, used under license.

This publication is for informational purposes only and is not and should not be construed as professional advice to any individual. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. This newsletter was produced by J. Hirasawa & Associates, an independent third party for the individual Investment Advisor noted. The calculation of performance data set forth herein has been prepared by the author as of the date hereof and is subject to change without notice. The author makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions, which are accurate and complete. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Private Wealth. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. Please note that past performance is not necessarily an indicator of future performance. All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth. BMO Nesbitt Burns Inc. is a wholly owned subsidiary of Bank of Montreal. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information.