



This month in our commentary we include an article on U.S. taxes for Canadian snowbirds and also our thoughts on the markets.

### **Canadian Snowbirds and U.S. Income Tax**

If you plan to spend your winters in the U.S., you should be concerned with more than just ensuring your passport is up-to-date and that your bags are packed. Snowbirds – Canadian residents who spend part of each year in the United States – need to be aware of the potential liability to pay U.S. income tax on the same basis as a permanent U.S. resident. Please see attached for the full article.

### **Portfolio Strategy**

As we enter the peak holiday season, the stock market has not given us much holiday cheer, with most major North American indices squarely in “bear” territory and now down over 10% from earlier peaks. Such losses are always painful, but we strongly believe that we are not headed toward a repeat of the 2008/2009 financial crisis declines, and that we are more than halfway through the current correction.

Since the start of the year, we have seen a slowdown in economic momentum (importantly, the economy is still growing but at a slower rate) and this has spooked markets, with reaction being to punish cyclical stocks in the Technology, Industrials, Financials, Consumer Discretionary, Basic Materials and Energy sectors, which follows along with historical trends.

However, the latest data from most regions, including the U.S. has been more encouraging with an unexpected economic uptick, which lowers the odds that the economy will experience a recession in the next year. This aligns with our outlook which shows a very low probability for such an outcome in the U.S. and Canada in 2019. This matters greatly in trying to gauge the risk of further declines since virtually all major market corrections of more than 20% over the last 20 years have preceded recessions. The bottom line is that the global economy remains on solid footing, with very strong corporate profitability and cash flow generation.

It is also important to remember that the market never goes up in a straight line and that pullbacks tend to be more violent than upward moves. The old adage is that the market “grinds up and gaps down”. Market action in 2018 has seen a reversion to the mean after 2017’s quiet

action, as volatility has moved back into its normal historical range.

As a reminder to our clients, we continue to follow our risk management approach to portfolio management. We have been proactive in the management of your portfolios, reducing equity exposure, particularly in the cyclical sectors mentioned above, in late summer and holding an elevated cash position, while also increasing exposure to more defensive sectors such as healthcare and consumer staples. Additionally, we increased our exposure to US dollars in anticipation of weakness in the Canadian dollar. These actions above have contributed to the outperformance our portfolios have experienced.

Looking ahead to 2019, we will continue to follow our rules based approach to portfolio management and asset allocation. We will continue to protect capital when required to do so and grow it when opportunity presents itself.

We wish you and your families the very best this holiday season, and health and success in 2019.

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# Canadian Snowbirds and U.S. Income Tax

If you plan to spend your winters in the U.S., you should be concerned with more than just ensuring your passport is up-to-date and that your bags are packed. Snowbirds – Canadian residents who spend part of each year in the United States – need to be aware of the potential liability to pay U.S. income tax on the same basis as a permanent U.S. resident.

U.S. citizens and Green Card holders must pay U.S. taxes on their worldwide income, regardless of their country of residence. Even though snowbirds only visit the U.S. for the winter months, there is the potential that they can be considered U.S. residents for income tax purposes, and, in certain circumstances, they may be taxed in the U.S. on their worldwide income.

### Counting days in the U.S.

If you are not a Green Card holder or a U.S. citizen, you may still be considered to be a resident for U.S. tax purposes if you were present in the U.S. for more than 30 days in the current year and meet the Substantial Presence Test outlined below.

 <b>Substantial Presence Test</b>		
Number of days spent in the U.S. in the current year	_____ x 1 =	_____
Number of days spent in the U.S. in the year before the current year	_____ x 1/3 =	_____
Number of days spent in the U.S. two years prior to the current year	_____ x 1/6 =	_____
<b>Total</b>		
When counting your days for the formula, partial days spent in the U.S. are counted as full days.		

If the total number of days spent in the U.S. from the test exceeds 182 days, you have met the Substantial Presence Test

and you may be subject to U.S. tax on your worldwide income. However, if you were present in the U.S. for less than 183 days in the current year, you may be eligible to claim the Closer Connection Exception (explained below) and avoid being considered a U.S. resident for U.S. tax purposes.

Since the Substantial Presence Test calculation considers days (including partial days) of presence in the U.S. during the current and the two preceding years, it is important that you keep a record of the number of these days you were physically present in the U.S. during each calendar year.

### Closer Connection Exception

If you have met the Substantial Presence Test, you are considered to be a U.S. resident alien and be required to file a U.S. individual income tax return (Form 1040) to report your worldwide income. However, if you were present in the U.S. for less than 183 days during the current year and can demonstrate that you have a closer connection to Canada than the U.S., you may be able to claim a Closer Connection Exception and be treated as a non-resident of the U.S. The Internal Revenue Service (“IRS”) will consider the following factors in their determination of a Close Connection Exemption:

- location of permanent home;
- location of family;
- location of personal belongings;
- country where your driver’s licence was issued;
- country of residence listed on official documents; and
- country where you are deriving the majority of your income in the current year.

To claim the Closer Connection Exception, you must file Form 8840, with the IRS by the June 15 filing deadline (assuming you did not earn wages as a U.S. employee).

### Canada-U.S. Income Tax Treaty Tie-Breaker Rules

If you are present in the U.S. more than 182 days in the current year, you will not be eligible for the Closer Connection Exception and are considered to be a U.S. resident for tax purposes under U.S. tax law. However, if you are also considered to be a tax resident of Canada, you may be able to claim that you are a non-resident of the U.S. by applying the Canada U.S. Income Tax Treaty Tie-Breaker Rules (“Tie-Breaker Rules”). If you maintain a permanent home in Canada and your personal and economic ties are closer to Canada than the U.S., you would likely be considered to be a non-resident of the U.S. under the treaty Tie-Breaker Rules.

### Consult a tax professional before you fly south

As the tax filing requirements and residency determination can be complex, it is important that you consult with a professional tax advisor experienced in cross-border taxation to ensure that you are complying with all your tax obligations south of the border.



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