Tax Considerations for Canadians Moving to the U.S.

If you're a Canadian resident considering moving to the U.S., there are some important tax considerations associated with this decision, including steps you can take to become a non-resident for Canadian income tax purposes. While cross-border taxation for Canadians who leave Canada is a complex issue, this article highlights some of the considerations. Please note that this article should not be construed as tax advice and individuals should consult with a cross-border tax advisor regarding their personal situation.

Determining residency

In most cases, an individual leaving Canada on a permanent basis would want to be considered a non-resident of Canada. From a Canadian income tax perspective, an individual's residency will be dependent on their particular facts and circumstances. Generally, you are an emigrant for income tax purposes if you leave Canada to settle in another country and you sever your residential ties with Canada. Severing residential ties may include:

- disposing of, or giving up, a home in Canada and establishing a permanent home in another country;
- having your spouse or common-law partner, or dependants leave Canada; or
- disposing of personal property and breaking social ties in Canada, and acquiring or establishing them in another country.

Your residency status can also be affected by the severing, or not severing, of other ties, such as:

- a Canadian driver's license;
- Canadian bank accounts or credit cards; and
- health insurance with a Canadian province or territory.

Deemed disposition of non-registered assets

When you cease to be a resident of Canada, you are considered to have disposed of many of your non-registered assets, from a Canadian income tax perspective. This is referred to as a "deemed disposition," and this event will result in triggering all gains and losses associated with the disposition of these assets. If this disposition results in net gains, you may be liable for paying Canadian income tax on these gains. When there is a net gain as a result of the "deemed disposition," the U.S. tax law will allow you to elect to treat those same assets as having been disposed and reacquired at the same time for U.S. income tax purposes. This means that the capital gain that was subject to Canadian income tax when you left Canada – because you were deemed to have sold those assets – will not be subject to U.S. income tax when you sell those assets as a U.S. resident.

It is important to be aware that among other exceptions, assets such as your principal residence and other real property located in Canada, or registered plans such as your RRSP, RESP and TFSA, will not have the same tax implications because they are not subject to a "deemed disposition" for Canadian income tax purposes. Many individuals consider keeping their RRSP, RESP and TFSA as U.S. residents. However, as a U.S. resident, you need to be mindful that income earned in the TFSA will be taxable for U.S. income tax purposes. Similarly, income earned in an RESP may also be taxable for U.S. income tax purposes. On the other hand, income earned in an RRSP is generally deferred for U.S. federal income tax purposes, but may be taxable for State income tax purposes depending on the state in which you are a resident.

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Other considerations

Finally, as a resident of the U.S., there are other tax considerations you should be aware of, such as U.S. estate tax which may be imposed when you pass away, and U.S. gift tax which may be applicable when you give assets away.

Consult a cross-border tax planner

While this article has touched on just a few of the many tax considerations for Canadians planning a move to the U.S., as you can see there are many complexities involved with this decision. If you're thinking of moving to the U.S., it's important that you consult with a cross-border tax advisor before making a move.

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ID0654 (08/16)