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Critical tax issues for Americans in Canada

There are nearly 200 countries in the world and almost all of them implement a residency-based tax system. Put simply, this means that you're only obligated to file a tax return where you live. There are, however, a small handful of countries that tax individuals not only on their residency, but also on their *citizenship*.

The most well-known of these nations is the United States of America. Citizens of the United States (or Green Card holders) who have expatriated will need to file two sets of tax returns; one to the Internal Revenue Agency (IRS) due to their American citizenship, and a second to the country where they reside.

As such, Americans living in Canada need to be aware of two sets of tax rules and how they interrelate. The traditional advice for a Canadian will not always apply to American-Canadians, and the tax rules that Americans may be accustomed to in the U.S. may not hold true in Canada.

Let's take a closer look at a few of these issues.

Triggering capital gains

While it's always difficult to determine the right time to sell an investment, in Canada it's generally quite simple to estimate your tax payable on the sale of your shares. The difference between your purchase price and sale price is called a capital gain, and only half your capital gain is subject to tax. Therefore, if your marginal tax rate is 50%, you would expect to pay 25% tax on your capital gain.

As a U.S. citizen in Canada, you have additional factors that need to be considered.

First, exchange rates are significant. On your U.S. tax return, you have to report gains and losses in U.S. dollars. Just because you have a loss in one currency does not mean that will be the case in another currency. This mismatch could result in an unexpected tax bill. For example, consider a property that someone may have bought for $500,000 USD in 2011 when the USD and CAD were at par. Now, let's assume that you sold that same property in early 2017 for $450,000 USD when the Canadian dollar was worth $0.65 USD. In the U.S. you have a loss, but on the Canadian return you have a gain of $192,000 ($450,000/0.65 = $692,308 – $500,000). In another scenario the reverse could also be true, where there is a loss in Canadian

INSIDE

currency and a gain in U.S. currency.

Second, the U.S. classifies capital gains as either short term or long term. If the holding period was one year or less, it's considered short term and is taxed as ordinary income. Conversely, if the holding period was greater than a year, the capital gain is subject to lower tax rates that would more closely resemble the tax-favoured capital gains treatment in Canada. Care must be taken and attention paid when triggering gains for this reason.

Lifetime capital gains exemption

Canadians who dispose of qualified small business shares can take advantage of a lifetime capital gains exemption. As of 2018, the exemption amount is $848,252 and it's increased annually. Similarly, there is a $1,000,000 exemption on dispositions of qualified farming and fishing property. This is a great tax reward for many Canadians who sell their business.

> **"Exchange rates need to be considered to make sure you're not accidentally creating a gain in U.S. dollars."**

Unfortunately, the IRS does not have the same exemptions. Therefore, the entire gain from the sale of small business shares, farm property, or fishing property, would be subject to U.S. tax for American citizens.

Tax-loss selling

A fairly common year-end tax planning strategy is tax-loss selling. The concept is that you sell the investments you've lost money on to offset the gains that you've realized on your winners. You only pay tax on the net amount of gain. In Canada, if you have net losses you are allowed to carry them back to be applied against gains in any of the three previous tax years, or forward them indefinitely.

For U.S. citizens, exchange rates again need to be considered to make sure you're not accidentally creating a gain in U.S. dollars. When creating capital losses, there are further intricacies to be considered from a U.S. perspective, with respect to short and long-term holding periods.

Short-term capital losses will offset short-term capital gains, and long-term capital losses will offset long-term capital gains. Short-term capital losses will only be applied against long-term capital gains once there are no remaining short-term gains to apply them against. Similarly, long-term capital losses will only be applied against short-term capital gains once there are no remaining long-term capital gains to apply them against. If you have a net capital loss, then the first $1,500 can be applied against ordinary income and the excess can be carried forward. For married filers submitting joint returns, the amount is doubled to $3,000. You are not allowed to carry back capital losses in the U.S.

Selling your home?

In Canada, you can sell your principal residence and the entire gain is tax free. It doesn't matter if the gain is $5,000 or $5,000,000.

Americans need to be aware that the IRS only allows for a tax-free exemption of the first $250,000 USD in gain on your principal residence, and only if you have actually lived in that home for at least two of the past five years. If you're married, this exemption can be doubled to $500,000 USD. This can create a significant and unexpected tax bill if you've remained in the same house for decades and your home has dramatically increased in value since your original purchase.

And with what has happened to real estate valuations over the last few years in markets such as Toronto and Vancouver, you may see a significant gain in a much shorter amount of time. For homes located outside of the U.S., currency fluctuations will again play a role in determining the $250,000/$500,000 exemption as the gain will be calculated in USD.

TFSA and RESP accounts

TFSA accounts are phenomenal savings vehicles for Canadians. Investment income within TFSA accounts is not taxable when earned, nor when eventually withdrawn and spent.

The IRS, however, does not allow any special tax-sheltering privileges for TFSA accounts, so this income is subject to taxation for Americans. Worse still, TFSA accounts may be considered a foreign trust, which means filing the onerous 3520 tax compliance forms. I say "may" because, to the frustration of many U.S. citizens in Canada, there has been no specific communication or guidance from the IRS on this matter, and different tax practitioners have different opinions on the status of a TFSA as a foreign trust.

> **"RESP accounts fall victim to the same traps as TFSA accounts for U.S. citizens."**

Similarly, RESP accounts, while excellent education savings vehicles for Canadians, fall victim to the same traps as TFSA accounts for U.S. citizens. Worse still, the CESG grants that are received into the plan are considered income and, therefore, subject to taxation. If you have a Canadian spouse who has no ties to the U.S., you can still take full advantage of the benefits of an RESP account by ensuring that the Canadian-only spouse is the sole subscriber.

Canadian-domiciled mutual funds

Canadian-domiciled mutual funds can be fine investments for most Canadians, but for U.S. citizens the tax treatment can be very punitive when held within non-registered accounts, TFSAs, or RESPs. The U.S. considers several Canadian-based mutual funds to be Passive Foreign Investment Companies (PFICs). PFIC rules are quite complex and are outside of the scope of this article. If you are a U.S. citizen and are not aware of what a PFIC is or how they are taxed, I suggest you contact your advisory team to learn more.

From a year-end tax planning perspective, you would be wise to extricate yourself from your PFIC holdings in the above mentioned accounts prior to the end of the year. Not only to avoid any further punitive tax treatment, but also to avoid having to make the onerous tax filings next year. If, for whatever reason, you still want to hold a PFIC you should talk to your mutual fund provider to determine if they can provide you with a PFIC Annual Information Statement (or QEF statement). This will allow you to treat the PFIC as a Qualified Electing Fund (QEF), which is taxed more favourably.

Unfortunately, many fund providers do not provide such statements, which means that you would have to take the default PFIC tax treatment or make a Mark-to-Market (MTM) election. The MTM election is preferred to the default method. Taking the MTM election means you will be taxed as though you hypothetically sold your fund holdings at the end of each election year.

The gain on the deemed disposition is taxed at ordinary rates instead of capital gains rates. The deemed disposition is, of course, fictional and there will be no corresponding income or tax payable to Canada. With income in the U.S. but not in Canada there would be no chance to claim a foreign tax credit, resulting in double taxation when the fund is eventually sold (for real) in Canada.

A reasonable solution to this problem would be to actually realize the gain each year in Canada by selling the fund on December 31, and then rebuying it. At least then your income in Canada and the U.S. will match and you'll have a basis for claiming a foreign tax credit, but then, you would lose all the deferral inherent in an unrealized gain. Therefore, you may be better off just avoiding PFICs.

If you have a non-U.S. spouse, they could own the PFIC in an account that is in their name only. However, if all of the investments are currently in your name, you need to be careful about tax attribution rules in Canada. A family income-splitting loan could be combined with this strategy. Your spouse can take the loaned funds and invest in the desired PFIC in an account registered to them solely. Assuming your U.S. filing status is Married Filing Separately, all that you would need to report on your U.S. tax return would be the interest paid to you by your spouse on the loaned funds.

Large RRSP contributions

As a Canadian, a great option to invest tax-efficiently is within an RRSP. When you contribute, you get a deduction on your tax return which reduces your taxable income for the year by an amount equal to your contribution. For as long as the investment remains within the RRSP, all growth is tax free. When a withdrawal is eventually made from the RRSP, it is taxed as ordinary income.

The idea is that when you start to make withdrawals it will be after you have retired, when it is likely that you are in a lower tax bracket than you were in when you made the original RRSP contribution. If you do not make your maximum RRSP contribution in any given year, the ability to do so will be carried forward indefinitely. This carry-forward mechanism results in many Canadians accumulating very large RRSP deduction limits. In the event of a financial windfall (severance, stock option exercise, sale of property, inheritance), you may be inclined to make a lump-sum RRSP contribution to reduce your taxable income dramatically in that year.

This large RRSP contribution can cause issues if you are a U.S. citizen. While there are some exceptions, by default, the IRS does not recognize the RRSP contribution for deduction purposes on your U.S. tax return. This can result in a mismatch of taxable income in the two countries, and depending on the size of the RRSP deduction, you may find yourself with an unexpected amount owing to the IRS.

Other than the concern over deductions being matched, RRSPs generally work well for U.S. citizens in Canada. The income is tax deferred on both sides of the border, and there is no cause for concern with holding PFIC investments within RRSPs.

Conclusion

It's easy to get frustrated by the complexities and seemingly unfair rules that apply to Americans living in Canada. What I try to remember (as an American citizen in Canada myself) is that there are many advantages that come with U.S. citizenship as well.

You can work, vote, and enjoy unrestricted travel in the States. On the contrary, Canadian snowbirds are restricted as to the number of days that they can spend stateside. Furthermore, the ability to retire in the U.S. after working in Canada could have lucrative tax advantages for individuals who have amassed large RRSPs or Canadian pensions.

In the meantime, paying attention to tax planning strategies – on both sides of the border – is important to consider so you don't fall victim to double taxation. Layering multiple tax regimes with differing rules can become much more complex than dealing with a single tax jurisdiction. As such, it is recommended that you consult your team of trusted advisors as necessary.

Aaron Hector, Vice President & Consultant
Doherty & Bryant Financial Strategists
A division of T.E. Financial Consultants Ltd.

The financial impact of cutting your ties with Canada and moving abroad

People move from one country to another for many different reasons. Job changes, secondments, the pursuit of education, retirement, or repatriation to one's home country are but a few examples of the reasons people might move to, or from, Canada. This article will summarize things for Canadians to consider before making an international move.

Working abroad

Assuming you have landed your dream job abroad, one of the most important things to consider is your destination country's immigration or visa requirements. For countries with close ties to Canada, such as the United States, there are all sorts of outfits and consultancy firms that can walk you through not only the types of work visas available to departing Canadians, but also the application process. Some employers even offer support in terms of the planning, education, and cost. Making sure you are legally eligible to work in your host country is paramount.

Retiring abroad

Weather and lifestyle are obviously important things to consider (perhaps the most important things to consider), but a strict financial consideration would be your destination country's cost of living. Not only is it important to familiarize yourself with the exchange rate between Canadian dollars and your host country's currency, but also to consider the exchange-adjusted cost of living in your destination country and neighbourhood. In other words, it's important to know how much things cost where you expect to spend your money. Not everyone spends money on the same things, so it's important to calculate what your budget looks like in your host country currency, and to compare that with your budget in adjusted Canadian dollars. If you have worked the majority of your career in Canada and are retiring elsewhere, then it is likely that your retirement income will continue to be denominated in Canadian currency.

Pre-departure planning (banking, emergency fund)

In this day and age, setting up bank and financial accounts might seem easy, what with the availability of online financial services. That said, one thing some people fail to consider when planning an international move is their credit. If you have never borrowed money in a foreign country, then you won't have a credit rating there, and your host country may not accept the credit that you've accumulated in your home country as a means to, say, apply for a U.S. dollar or euro-denominated credit card. It's important to have a plan in place that will facilitate your spending in the early days. This allows you some time to build up a credit rating in your destination country. Your strategy should include a budget for the first few months, a plan to establish financial accounts including credit, and an emergency fund to accommodate for unforeseen expenses.

Fiscal / tax residency

Becoming a non-resident for tax purposes is not the same as giving up your citizenship. Most countries tax their residents on their worldwide income. In other words, Canadian tax residents will pay income tax on their worldwide income at the CRA's rates (Canadian tax less applicable credits for foreign withholding), U.S. residents will pay income tax on their worldwide income at IRS rates, and so on. If you are moving from a high-tax country to a low-tax country, this could be a win as you may be able to break ties with a high-tax-rate country like Canada, and establish ties in a lower-tax-rate country. A preliminary income tax consultation with a tax specialist, from both your home and destination country, is highly recommended.

Canadian tax residency can be maintained in two ways – if you 'sojourn' here in Canada (i.e., if you spend more than 183 days here in a given calendar year), or if you have sufficient 'factual ties' here in Canada. Factual ties can include a house, spouse, children, etc. Careful consideration needs to be given to your Canadian factual ties, as the CRA might not agree with the position you have taken. Again, consultation with an expert is recommended.

Another thing to consider if you plan to break Canadian tax residency is the Canadian departure tax. Leaving Canada entails a deemed sale of all your non-registered investment assets. This deemed sale occurs at fair market value as of the date you break residency, which means that if your non-registered investment assets have appreciated in value, you will have to pay tax to the CRA on the appreciation, whether you actually sell the securities or not. There are elections available to defer departure tax if you post security with the CRA, but consultation with a Canadian tax specialist is advised so that you understand and quantify your departure tax exposure prior to making your move.

> **"If you move from Canada to the United States, the annual income earned within your TFSA becomes taxable by the IRS."**

RRSPs, TFSAs, RESPs and your principal residence are not subject to this deemed sale, but all those things can be taxed very differently by your destination country. The Canadian side of things might be straightforward, but consultation with a cross-border specialist is, again, highly recommended. As an example, most people don't realize that if they move from Canada to the United States, the annual income earned within their TFSA becomes taxable – not by the CRA, but rather, the IRS.

Departing Canadian tax residents must file a tax return in the year of departure, reporting worldwide income up to the date that you 'break' Canadian tax residency.

Non-resident withholding tax

After an individual breaks Canadian tax residency, they are still subject to Canadian tax on any Canadian-source income they earn (including Canadian pensions and dividends from Canadian corporations). Standard withholding rates apply, and you will typically get a credit in your new country of residence for any Canadian tax withheld. One other thing to note is that if you leave Canada for another country with which Canada shares a tax treaty, the Canadian withholding rates on your Canadian-source income are typically reduced.

Dual citizenship

As noted above, most countries administer income tax based on residency. One glaring exception to that is the United States. U.S. taxes are based on both residency *and* citizenship. That means U.S. citizens must file annual tax returns every year regardless of where they reside, and yes, their worldwide income needs to be reported on their annual U.S. tax return. Now, that doesn't necessarily mean that annual U.S. tax filers are going to have to pay any U.S. tax, as they typically receive a credit for a source country's income tax. For example, if you pay Canadian tax on a Canadian pension plan, you'll get a credit for the Canadian tax that you've paid on that pension income, which can be applied against the U.S. tax calculated on your U.S. tax return.

Moving investments

Some investments can and should remain in Canada, particularly Canadian RRSPs if you are moving to a country like the United States. Canadian RRSPs work beautifully on both sides of Canada's southern border. Other investments, such as TFSAs, RESPs, and non-registered accounts can pose problems if you move abroad. Contact us if you require assistance ascertaining which accounts can continue to serve you if you move abroad.

> **"Your hobbies and lifestyle should dictate what to look for in a destination."**

Where to settle

There are several things to consider depending on what stage of life you're in. If you have kids, the school district, neighbourhood, and availability of amenities become important. If you're approaching retirement, the cost of health insurance and standard of care in your destination country become important. If you don't drive, public transportation becomes important. Basically, your hobbies and lifestyle should dictate what to look for in a destination.

As a proud Canadian, I feel spoiled by the services we have. Don't get me wrong, I like warm weather and dislike paying excessive income tax as much as anybody, but there's something to be said for high-quality healthcare, safe neighbourhoods, and a solid education system. If in spite of all that you decide that the grass is greener elsewhere and would like to begin planning your international move, we can help you through it.

Brent Soucie, Vice President & Consultant
T.E. Wealth, Toronto

Retirement planning for immigrants

Whether you have an employer-sponsored pension plan or not, like most Canadians you will also rely on government pension plans and personal savings when you retire. If you're an immigrant, you need to be aware that the number of years you spend living in Canada will have an impact on the amount of retirement income you can reasonably expect to receive.

Meet Charlie and Carlos. Both men were born on the same day in 1980. As it happens, they are both software engineers working for the same company. They hold exactly the same position, have identical salaries and benefits, and they started working for the company on the same day in 2015. For the sake of argument, we'll assume that both men entered the workforce at the same time, and that they had parallel careers and comparable incomes in the years before they started in their current position in 2015. Their level of saving and spending is also similar throughout the years.

All those things being equal, you would assume that Charlie's and Carlos' retirement incomes from government plans and personal savings would be the same, wouldn't you? Well, they're not.

Saving for retirement

Charlie was born in Big Beaver, Saskatchewan and is a life-long resident of Canada. Carlos, on the other hand, was born in Chihuahua, Mexico. He immigrated to Canada in 2015. The following table shows how their retirement income will differ when they retire in 2045, aged 65.

	Charlie	Carlos
Old Age Security (OAS)*	OAS benefits are not based on your employment history, but rather on the number of years you spent as a resident of Canada. If between the ages of 18 and 65 you spent 40 years living in Canada, you will be eligible to receive the full benefit amount. If you've lived here less than 40 years, the amount will be prorated.	
	Charlie is eligible to receive the maximum OAS amount of $7,039 per year.	Carlos will have been a resident for 30 years, which will entitle him to 75% of the annual maximum OAS amount: $5,279
Canada Pension Plan (CPP)†*	CPP benefits are based on how much you and your employer have contributed to the plan and how long you have been making contributions at the time you become eligible. We'll assume that both men made more than the maximum earnings limit for every year of their working life.	
	Charlie will receive CPP benefits of $13,610 per year, based on the contributions he made.	Carlos started working in Canada and contributing to the CPP ten years later. His annual benefit amount will be $10,208.
Registered Retirement Savings Plan (RRSP)	RRSPs allow you to defer tax on the income earned in the plan. Contributions may be deducted from your taxable income, and withdrawals will be included in your income and be taxed. You can contribute up to 18% of your earned income every year, up to a maximum (the limit for 2018 earned income is $26,500). For the sake of argument, we'll say that both men contributed on average 10% of their income annually ($10,000), and assume a steady compounded return of 4% to calculate the income earned in the plan. No early withdrawals are made.	
	Charlie started contributing to his RRSP in 2005, as soon as he entered the workforce at age 25. By the time he turns 65, he will potentially have accumulated over $988,000 in taxable savings.	Carlos started contributing to his RRSP ten years later than Charlie, as soon as he had Canadian income and was able to open an RRSP account. Between ages 35 and 65, he will potentially accumulate over $583,000 in taxable savings.
Tax-Free Savings Account (TFSA)	Since 2009, Canadians can contribute to a TFSA and grow their savings in a tax-sheltered account. Annual contributions are currently capped at $5,500. In our example, both men contribute this amount annually, and we'll assume a steady compounded return of 5%. No withdrawals are made.	
	Charlie opened a TFSA in 2009, the year the program was launched. By the time he turns 65, he will potentially have accumulated over $553,000 in tax-free savings.	Carlos opened a TFSA account in 2015, as soon as he obtained a Canadian social insurance number and was able to. Between ages 35 and 65, he will potentially accumulate over $383,000 in tax-free savings.

† If you've worked in Quebec, you have contributed to the Quebec Pension Plan (QPP). The case illustrated here would produce similar results using QPP numbers.

* For OAS and CPP, we've used the January 2018 amounts. These amounts will increase due to inflationary adjustments between now and 2045, therefore the actual benefit amounts will be higher for both. OAS and CPP benefits were calculated using the Retirement Income Calculator available on this Service Canada web page: https://goo.gl/vF8wjf. The disclaimer displayed on that page applies. A similar tool is available on the Retraite Québec website if you've paid into the QPP (https://goo.gl/QPMU7U).

To keep this example simple, we did not take into account inflation, salary increases or the planned CPP enhancement that will take effect in 2019. The CPP amount also has an impact on the amount of any CPP-related benefits, such as disability or survivor benefits.

Generating income in retirement

Fast forward to 2045, and both Charlie and Carlos are retiring. With the omnipotence of a writer, we'll give them another 20 years to live, to age 85, which is a little higher than the average life expectancy that Statistics Canada has laid out for our guidance. Here is the money Charlie and Carlos will have at their disposal during retirement:

	Charlie		Carlos	
OAS*	$140,780	($7,039 x 20)	$105,580	($5,279 x 20)
CPP*	$272,200	($13,610 x 20)	$204,160	($10,208 x 20)
RRSP	$988,317		$583,283	
TFSA	$553,455		$383,684	
TOTAL	**$1,954,752**		**$1,276,708**	

* OAS and CPP amounts are not paid as lump sums but rather as a monthly benefit that's paid from the day you retire until the day you die. The amounts shown above represent the equivalent of 20 years' worth of benefit payments at the January 2018 rate. As both OAS and CPP are lifetime benefits, the payments would go on for longer if the beneficiary were to live beyond the 20 years projected here, or would stop sooner if the beneficiary should die before that. The OAS pension recovery tax ("OAS clawback") was not included in this example but may apply.

Charlie's guaranteed income from Canadian government plans (OAS and CPP) is higher than that of Carlos by about 25%, or $430 per month (2018 amounts). His Canadian personal retirement savings are nearly 40% higher than those of Carlos – a difference of almost $600,000 worth of income-producing capital. That amounts to a considerable income gap for every year spent in retirement. You'll have noticed that the biggest difference lies in the amounts accumulated in the personal retirement savings plans (RRSP and TFSA), not the government plans. Now that's something to think about.

The bright side

The case of Charlie and Carlos described above has been simplified to make our point more clearly: if you've spent time abroad, you will need to look at your retirement plan differently, as you may have some catching up to do. For immigrants like Carlos, the situation is not all that grim, as they're likely to have other sources of retirement income that Charlie doesn't have:

- Many immigrants may qualify for private and government pension plans in their home country, based on their career prior to moving to Canada. In the case of some countries, this can be a big plus: U.S. Social Security, for instance, provides generally larger benefits than CPP or QPP, at least for those with good incomes.
- Immigrants may also have had access to personal retirement savings plans in their home country, similar to our RRSP and TFSA accounts, as well as non-registered savings.
- Pension payments in a currency stronger than the Canadian dollar have the added benefit of an advantageous exchange rate (think of the euro or the U.S. dollar in recent years).

"The biggest difference lies in the amounts accumulated in the personal retirement savings plans, not the government plans."

> "Regardless of the non-resident tax charged by the foreign government, you must report your worldwide income on your Canadian tax return."

Lived or living outside Canada?

You'll want to find out whether there's a social security agreement between Canada and your country of origin, and the terms of that agreement.† Social security agreements can help you qualify for government benefits in both countries, which means contributions to foreign plans could be deemed to be contributions made to the CPP. You may be able to count years of residency in another country as years of residency in Canada to qualify for minimum OAS benefits, and vice versa.

Some of these agreements provide tax relief for foreign pensions received by residents of Canada. Under a certain threshold, those pensions may also be tax exempt in your country of origin, or subject to a lower rate based on the applicable tax treaty with Canada.

Regardless of the non-resident tax charged by the foreign government, it is important to remember that you must report your worldwide income on your Canadian tax return. To avoid double taxation you would claim a foreign tax credit for any taxes paid to foreign tax jurisdictions.

Retirement planning is complex – and any international components that are thrown into the mix add extra layers of complexity. If you spent part of your working life in another country, you need to do the math to see if you have some catching up to do. Your financial planner will be happy to explore possible strategies with you.

Willem Lebegge, Contributing Editor
T.E. Wealth, Montreal

†The province of Quebec has its own social security agreements with countries around the world.

Hold on to the paperwork!

A word of caution: there have been horror stories of retirees being refused OAS for not being able to produce documentation that shows when they arrived in Canada. Such paper proof matters, as OAS benefits are based on the number of years you live here. Don't assume that the OAS folks will automatically equate 40 years of Canadian tax returns with 40 years of residency in Canada. You may not have kept your airline ticket from 1982, but we recommend you hold on to your Record of Landing, your old passport containing your immigrant visa, and any other proof of becoming a permanent resident or citizen. Keep those documents in a safety deposit box, and keep a scanned copy in the cloud.

Staying onside when you're stateside: regulatory reminders for Canadian snowbirds

This winter's extreme cold has undoubtedly led some Canadians to consider spending more time in the southern parts of the United States. If you're spending the winter months down south, you'll need to be mindful of a few things to ensure you're onside with regulatory requirements and avoid paying any unnecessary fees. Here are a few reminders.

Health insurance

While in the U.S., there is always the possibility that you may end up needing to avail yourself of its medical services, so it's advisable to purchase travel medical insurance before you go. Your provincial or territorial healthcare plan can cover some of the costs associated with medical procedures but does have its limits. In Ontario, for instance, it will only cover out-of-country medical expenses if you have lived in the province for more than six months and are away for less than 212 days in any 12-month period.

Income tax

If you're spending more and more time south of the border, you could be obligated to file a U.S. income tax return. However, if you can prove that you have a closer connection to Canada than the U.S., you can avoid this filing obligation. The Substantial Presence Test that is applied by the IRS determines whether a person who is not a citizen or permanent resident still qualifies as a "resident for tax purposes" or a "non-resident" for tax purposes.

You will be considered a resident for tax purposes if you have spent 31 days in the United States in the current year, and if the following formula adds up to 183 days.

- All the days you were present in the current year, and
- 1/3 of the days you were present in the first year before the current year, and
- 1/6 of the days you were present in the second year before the current year.

For example, if you spent 100 days in 2017, 180 days in 2016 and 180 days in 2015, you would calculate the number of days as follows: 100+1/3*180+1/6*180=190. If this number were less than 183 days, there would be no reason to file a U.S. tax return. In this case, where the number of days is more than 183, you can avoid filing a U.S. tax return, so long as you can prove that you have a stronger connection to Canada than to the United States. Form 8840 - Closer Connection Exception Statement for Aliens must be filled out and sent to the IRS by the due date for form 1040NR (typically, June 15).

U.S. real estate

If you spend your time in the U.S. staying in a property that you've purchased, your estate may have to pay U.S. estate tax when you die even if you are not an American citizen. Your estate could be liable for U.S. estate taxes if it contains U.S. situs assets, such as property or U.S. stocks or bonds. If the value of these assets is less than $60,000 USD, your estate will not be liable for the tax regardless of the value of your worldwide holdings. As of January 1, 2018, if you do have U.S. situs assets with a value of $60,000 or more but your worldwide estate is less than $10 million, your estate will not have any U.S. estate tax exposure.

Wills and powers of attorney

If you spend a substantial amount of time in the U.S. and own significant property there, you should consider having dual wills. A will created in Canada which distributes assets in the U.S. may or may not be valid there, depending on whether the will is accepted pursuant to the laws of the state where your property is located. Your U.S. will should be prepared so that it does not conflict with your Canadian will.

In addition, you should have U.S. Powers of Attorney for Healthcare and Property drawn up in case you are incapacitated while you are down south. Consult a lawyer who has expertise in both Canadian and U.S. estate law when having your dual wills and Power of Attorney documents prepared. They should be well versed in the latest changes to any legislation that could affect you.

If any of these reminders have prompted you to wonder whether you're fully onside with these issues, ask your financial planner or advisor. They can help put your mind at ease so you can relax and enjoy your little winter nest wherever your wings take you.

Marcy Ages, Vice President & Consultant
T.E. Wealth, Toronto

Coping with culture shock

The Starbucks Café near the Red Square in Moscow is full of North-Americans, behaving in exactly the same way as they would in a branch of that chain in, say, Philadelphia or Vancouver: they sip coffee-flavoured drinks, stare at their laptops, or use their smartphones to FaceTime with friends or family back home.

They are expats going through stage two of the process known as culture shock. Once the excitement and novelty of exploring a new host culture wears off, expats enter a phase during which any differences between "home back home" and their new home become annoyances. Stereotypes and prejudices about the locals are reinforced at every turn. Miscommunication is frequent, and they miss their support system of family and friends. You could call it being homesick. An instant fix is spending time in an environment that's familiar, and interacting with people back home. Hence, the Starbucks.

La vida loca: the upside of living abroad

Living abroad for an extended period of time as, say, a student, an expatriate worker, or the spouse of either can be an enriching and life-changing experience. The same applies to immigrating. Both experiences give you a new outlook and plenty of learning opportunities. Dare we say they make you a more complete human being?

If you're a Canadian starting your first expat assignment or studying abroad for the first time, you'll have a once-in-a-lifetime chance to discover new people, traditions and ways of working. Your kids will quickly become familiar with a new language and culture, expanding their minds. You'll acquire intercultural competencies and become more adept at negotiating cultural differences – all valuable skills. And don't forget the potential financial pros: better compensation, attractive perks and benefits for the whole family, and possibly a fast track to a promotion when you return.

> **"Culture shock works both ways – on arrival in a new country as well as on returning home."**

If you're an immigrant settling in Canada, part of your culture shock experience may be the realisation that people here talk about hockey quite a lot. And that it gets cold in winter; really cold. Don't worry, you'll get used to it. In return, and once you get over the culture shock, you will have peace, order and an approximation of good government in a country where life is, on the whole, not bad. Where good jobs can be had and the future holds near-unlimited potential.

The stages of culture shock

But let's look at that downside of moving abroad: culture shock. You could define it as a pervasive feeling of disorientation when faced with a new and unfamiliar way of life. It's generally understood to consist of four different stages.

1. Expats first go through the **honeymoon** stage: everything is great. They love the newness of their new life, and find the unfamiliar exciting. Their involvement is superficial; somewhat like that of a tourist.
2. This is followed by a period of anxiety and **frustration** as the newness wears off, and the initial excitement is replaced by confusion and feelings of isolation

and inadequacy. In this phase, expats now focus primarily on the differences between the new culture and their home culture. They miss the support of the folks back home.

3. During the **adjustment** stage, expats start to feel more comfortable and cultural cues become easier to read. They stop focussing on small details that are beyond their control, get their sense of humour back, and begin to learn about and enjoy the less superficial aspects of their new life.
4. The final stage is **acceptance** and feeling at home. Expats who arrive at this stage take a balanced view of the foreign culture. They are able to be appreciative of some of its aspects and critical of others.

But what happens when your employer is transferring you back home after a couple of years abroad? Or, if you decide that the expat life is not for you after all? You should be aware that culture shock works both ways – on arrival in a new country as well as on returning home. More often than not, the reverse culture shock can be even more powerful. When you decide to go back to your country of origin, you will find that the society you left years ago will have evolved, and will sometimes have changed drastically. You may find yourself going through the four stages of culture shock all over again.

Don't forget the impact on your finances

In this issue of *Strategies*, you'll find helpful information about the financial aspects of a lifestyle that has an international component, whether it be working abroad as a Canadian, saving for retirement as an immigrant, minding critical tax issues as an American citizen living in Canada, and staying onside with regulatory requirements as a snowbird. Getting your new international life in order financially will help shorten the culture shock curve, and make it easier for you to start enjoying your life in a new country.

Willem Lebegge, Contributing Editor
T.E. Wealth, Montreal

How to minimize the effects of culture shock

Matthew MacLachlan of Communicaid, a consultancy specializing in cross-cultural communication, lists seven strategies to minimize the effects of culture shock:

1. Avoid constant comparisons with home. It won't help you to settle in.
2. Make friends with positive-minded people. Avoid people who are critical of your new home country.
3. Start a new hobby or pastime which isn't possible back home.
4. Keep in regular contact with home, family and friends.
5. Share your own culture with your new friends and neighbours.
6. Communicate your feelings. Tell friends, colleagues and loved ones how you feel.
7. Travel and see new places that will make you appreciate your new home country. This is a once-in-a-lifetime experience – enjoy it!

Building hope

Last fall, T.E. Wealth Consultant Valerie Pippy celebrated the end of her 30-year career in our Toronto office. She will continue to work out of our Newfoundland office for a few more years as she transitions to full-time retirement. In true Valerie fashion, even this was an occasion to be of service to others.

A farewell reception in appreciation of Val's dedication was attended by several of her Toronto-area clients, many of whom had been with Val through most of her career. The event was also an occasion for Val to raise awareness about the life-changing work of the Live Different builds program – a cause that is very close to Val's heart.

In 2016, Val and various T.E. staff joined Live Different in the Dominican Republic to build a home for a family in need. Deeply affected by this experience, Val made it her mission to return in two years and build not one, but two homes.

Due to the generosity of Val's clients, family and friends – and Val herself – $140,250 was raised! She will be returning to the Dominican Republic in March 2018, joined by various family members, friends, as well as some staff from T.E. Wealth and their sister company, Leon Frazer.

This build is dedicated to the memory of her mother, Eileen Jackson, who is the reason that Val is the courageous, passionate and generous person we know her to be today.

Val has plans to return to the Dominican Republic in 2019 to build two more homes. Perhaps you'll consider joining her and be part of a life-changing experience.

Lucy Conte, Editor-in-chief
T.E. Wealth, Toronto

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1-888-505-8608 www.tewealth.com info@tewealth.com Twitter : @TE_Wealth