Moving from Canada to the U.S.?
A Guide to U.S. Tax Residency and Worldwide Income

Moving from Canada to the United States is a major life event. While you focus on finding a home and moving your belongings, it is easy to overlook how your taxes will change. When you move to the U.S., you become a tax resident. This change brings new rules and paperwork that you must handle correctly to avoid losing money.

Understanding Worldwide Income

Once you become a U.S. tax resident, the Internal Revenue Service (IRS) requires you to report every dollar you earn, no matter where it comes from. This is called reporting "worldwide income". You will file this on Form 1040.

This means you must report:

- Money earned in the U.S.
- Money earned in Canada
- Income from any other country

You might worry that you will pay tax twice on the same money. However, the U.S. usually provides a tax credit for taxes you already paid to Canada. For example, if you take money out of a Canadian RRSP or RRIF, Canada will keep some tax. The U.S. also taxes that money, but they let you use the Canadian tax as a credit. If the Canadian tax is higher than the U.S. tax, you may not owe the IRS any extra money for that income.

The "Exit Tax" and Asset Values

When you leave Canada, the Canadian government treats you as if you sold many of your assets on your last day in the country. This is called a "deemed disposition". You must pay Canadian tax on any gains from these assets.

This creates a potential problem when you eventually sell those assets while living in the U.S. To fix this, you can make a special election under the U.S.-Canada tax treaty. This election tells the IRS to treat your assets as if you bought them at their "fair market value" on the day you moved. This "steps up" your tax basis, which can prevent you from being taxed twice on the same growth when you eventually sell.

Pensions and Retirement

The tax treaty also helps with government payments. There are specific rules for how the U.S. taxes:

- Old Age Security (OAS)
- Canada Pension Plan (CPP)
- Quebec Pension Plan (QPP)

Because these rules are unique to the treaty, they do not follow standard U.S. tax law.

Required Disclosures and Paperwork

The IRS requires several forms to track foreign assets. Some result in tax, while others are informational in nature. If you forget these forms, the penalties can be high. Forms can carry penalties of $10,000 or more.

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Common forms include:

- Form 8833: To claim benefits from the U.S.-Canada tax treaty.
- Form 8938: To report specific foreign financial assets.
- Form FinCEN 114 (FBAR): To report Canadian bank and financial accounts.
- Form 3520/3520-A: For transactions with foreign trusts or receiving foreign gifts.
- Forms 5471/8865: For interests in foreign corporations or partnerships.

Key **Takeaways**

- Expect Different Rules: U.S. and Canadian tax laws are not the same; never assume they work the same way.
- Report Everything: You must tell the IRS about your income from all over the world.
- Use the Treaty: The tax treaty can prevent you from paying tax twice on the same income.
- File Every Form: Missing information forms can lead to heavy fines, even if you don't owe extra tax.

Conclusion

Moving across the border requires more than just a moving truck. It requires a plan for your finances. Because the tax systems are so different, it is vital to get proactive advice. Proper planning helps you transition smoothly and keeps your money safe from unnecessary taxes and penalties.

Author’s Notes:

This article is not intended to be tax advice. Each situation is unique.

It is important to consult with tax professionals who regularly handle taxpayers with cross border issues or fact patterns that are more complex. The expertise of the professional is more important than where they are physically located. Professionals that have expertise in these matters can help ensure you understand your specific obligations and explore available options. Consulting with tax professionals who regularly handle international property transactions can help you maximize your profits and minimize your U.S. taxes.

I am happy to consult with you on planning and the effects of becoming a U.S. tax resident.

This information covers U.S. tax rules and regulations only. Your home country may have its own tax requirements that differ from U.S. tax law. These may result in different tax treatment than U.S. rules. Consult with a tax advisor in your country familiar with cross border activity before finalizing your plans or handling reporting of activity.

About the author:

David A Cumberland, CPA CGMA has presented at the local, state, and national level as well as authored articles intended for both the taxpayer and tax professional. He primarily practices in the area of inbound international tax work covering both individual and business tax preparation and consulting. Fluent in Spanish, his emphasis is working with international clients or clients with international considerations.

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