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Market Overview - U.S. Vacation Properties and the Tax Man

The strong Canadian dollar and the soft U.S. housing market are enticing a growing number of Canadians to purchase newly affordable vacation property. But you need to give that “great deal” careful consideration.

It’s essential for a buyer of U.S. property to get good advice before signing a purchase contract. If an individual goes ahead and enters into a binding contract, it may no longer be possible to implement many tax planning strategies. What works for property in Canada won’t work necessarily for property in the U.S?

An example of this would be a common estate planning technique in Canada to avoid probate taxes. In Canada it is advisable to structure ownership of property as joint tenants, which includes the right of survivorship. This means that each spouse has an undivided one half interest in the property. If one dies before the other, the interest of the deceased spouse passes directly to the surviving spouse without incurring taxes.

But in the U.S. this can result in double taxation. The U.S. government wants proof as to whose money went into buying the property. If the wife contributed all the money to buy the property, her estate will have to pay the estate taxes based upon 100% of the value of the property upon her death and the husbands’ estate will be taxed again upon his death, hence double taxation.

There are a number of additional rules and issues that you may not be aware of such as:

1. The U.S. withholding taxes of 10% on sales of properties over \$300,000
2. The reporting sales to Canada Revenue Agency resulting in capital gains
3. The non resident aliens who have either collected rent or sold their properties may have to file a U.S. tax return
4. The U.S. has an estate death tax on the full market value of U.S. assets on the date of death. U.S. estate taxes range from 18% up to 45% depending on the assets value

And the list goes on and on.

The bottom line is that before you invest hundreds of thousands of dollars in U.S. vacation properties, it may make sense to invest a few hundred dollars in some competent U.S. tax advice. We can help you in this area should you see fit.

