The Navigator

RBC WEALTH MANAGEMENT SERVICES

Amanda Knapp, B.A. (Econ.), CIM, FCSI, CH.P, CFP

95 King St. South - 3rd Floor
Waterloo, ON
N2J 5A2

Amanda Knapp
Investment Advisor & Financial Planner
(519) 747 - 7769
amanda.knapp@rbc.com

Christine Priebe
Associate
(519) 747 - 1613
christine.priebe@rbc.com

Moving to Canada from another country

Consider the tax and estate planning strategies

According to an international survey released in 2010, more than half of the people around the world said they would move to Canada if they could. The survey, commissioned by the Historica-Dominion Institute in partnership with the Munk School of Global Affairs and the Aurea Foundation, indicates that 53% of adults in the world's 24 leading economies said they would immigrate to Canada.

There are many reasons why individuals around the world move to Canada — people feel rights and freedoms are respected in Canada; immigrants are welcomed; there is more tolerance of people from different racial and cultural backgrounds; and Canadians have one of the best qualities of life. Many individuals also move to Canada as a result of a temporary or permanent employment transfer or to join other family members who have already settled and established a life in Canada.

This article will provide you with a basic understanding of Canada's tax system and a review of some of the most common tax and estate planning opportunities you may consider implementing. Whether your move is permanent or temporary, an understanding of Canada's tax system may help you implement tax and estate planning strategies.

Since the U.S. is one of the few countries in the world that taxes its citizens and green-card holders based on worldwide income, no matter where in the world they reside, many of the general tax rules and strategies discussed in this article may also include specific examples addressing moves by U.S. individuals to Canada. If you are a U.S. citizen who moved to Canada, for more information, ask your RBC advisor for our articles on tax and estate planning for U.S. citizen's resident in Canada.

It is important that you and your family consult your own lawyer, accountant or other professional advisor when planning to implement any strategy or idea discussed in this article. In many cases, this will mean consulting one or more professional advisors with cross-border planning experience, who can properly advise you on planning issues in Canada and the country you left. If your move to Canada is due to an international assignment, you should also consider any **tax equalization** or **tax protection** agreements you have with your employer.

Canadian tax system

Your liability for Canadian tax depends on your residency status in Canada. If you are considered a resident of Canada, you will be taxed on your worldwide income, regardless of whether your income was earned in another country or you remitted that income in Canada. Depending on the type of income earned, some of your income tax liability may be withheld at source or collected through required tax instalment remittance requests issued by the Canada Revenue Agency (CRA). Any balance still outstanding must be remitted when you file your Canadian personal income tax return.

Residents of Canada are subject to both federal and provincial income tax. The Canadian Income Tax Act (the Act) is a codification of Canadian federal tax laws and regulations. Each province also has its own income tax legislation specific to residents in that province. Federal and provincial personal income tax — except personal income tax for the province of Quebec — is collected by the CRA. Personal income tax for the province of Quebec is collected by Revenue Quebec.

If you are considered a non-resident of Canada, you are subject to income tax on Canadian-source income only. The income tax may be collected through non-resident withholding tax that is withheld at source or the requirement to file Canadian non-resident tax returns. A non-resident of Canada may achieve complete tax relief or a reduced Canadian tax liability as a result of provisions contained in a tax treaty that exists between Canada and their country of residence.

Note that your citizenship generally has no bearing on your liability for Canadian income tax.

How did you establish residency in Canada for tax purposes

Under Canadian domestic tax laws, you may have established residency in Canada for tax purposes in two ways: as a "factual resident" or a "deemed resident." You are a factual resident as a result of establishing substantial residential ties in Canada; whereas, you are a deemed resident simply based on the length of time you are present in Canada.

Factual resident

You may be a factual resident of Canada as a result of moving to Canada and establishing substantial ties in Canada. The term "resident" is not defined in the Act; instead, a factual resident status is determined based on assessing practices of the CRA and common-law rules and court cases that have evolved over the years. Therefore, one's residency status is based on facts and circumstances that must be reviewed on a case-by-case basis to assess whether an individual is a factual resident of Canada for tax purposes.

Ways to establish ties to Canada:

- Having a home in Canada
- Bringing your spouse or common-law partner and dependants to Canada to live with you
- Bringing personal property, such as a car or furniture, to Canada
- Having social and other ties in Canada

The CRA will consider whether you have a home in Canada, whether your spouse or dependants are in Canada, whether you transferred personal property to Canada or established other ties in Canada such as opening bank accounts, applying for credit cards, and purchasing automobiles and furniture. The CRA will also consider whether you have established social ties such as club memberships or applied for a driver's licence and Canadian hospitalization and medical coverage. No one tie established in Canada is used to determine factual residency, but rather the combination of all the facts and circumstances are taken into account.

The CRA will also consider whether ties in the foreign country have been severed. For example, the sale of a former residence in another country reinforces the presumption that Canadian residency has begun. The CRA has indicated that there must also be a degree of permanence to an individual's stay in Canada, and they will look at regularity and length of visits to Canada.

In practice, if you moved to Canada as a permanent resident, you are normally considered to have established residence in Canada from the date of arrival. If you are entering Canada on a work permit, the position may be less clear. You should consult with a qualified tax accountant if you are uncertain of your residency status in Canada or the date your residency status began.

Deemed resident

You may be a deemed resident of Canada as a result of temporary stays (i.e., sojourning in Canada) that total 183 days or longer in a calendar year. To "sojourn" means to make a temporary stay in the sense of establishing a temporary residence; although, the stay may be of a very short duration. As an example, you are sojourning when you vacation in Canada.

Note that you cannot be considered a deemed resident if you purposely come to Canada to set up residential ties instead of vacationing or simply being present in Canada. However, if you would otherwise be considered a non-resident because you are not considered a factual resident, you could still be considered a deemed resident if you were present in Canada for a total of 183 days or more in a calendar year.

The distinction between factual resident status and deemed resident status carries with it varying, but potentially significant, tax consequences. One of the most significant differences is that deemed residents are taxed on worldwide income for the entire calendar year, no matter which day in the year they met the condition for deemed residency; whereas, factual residents are taxed on worldwide income from the day they establish factual residency.

Deemed residents are generally not resident in a particular province (except in certain cases under Quebec tax laws) and thus are subject to a federal surtax, unless they earn specific income that is subject to tax in a province. The surtax rate may be higher than the provincial tax rate.

Dual residency and income tax conventions

It is possible to be considered a factual resident of Canada under Canadian domestic tax laws and a tax resident of the country you relocated from under that country's domestic tax laws. However, under the provisions of a tax treaty between Canada and the other country, you may be considered a tax resident in one country and deemed a non-resident in the other. This may result from using what is referred to as "treaty tiebreaker rules," which are contained in many tax treaties that Canada has with other countries. Basically, a tax treaty overrides the domestic tax rules of each country in the treaty. If you are considered a resident of Canada under domestic tax rules but under a tax treaty are deemed to be a non-resident of Canada, you will be subject to tax as a non-resident of Canada.

If you "tiebreak" to Canada and are deemed a non-resident of the country you left, you may be taxable in that country only on income earned in that country. However, this is not always the case. For example, even if a U.S. citizen tie-breaks to Canada under the Canada-U.S. tax treaty for residency purposes, they are still required to file a U.S. tax return and report their worldwide income in the U.S. If you are a U.S. green-card holder, you may consider using the tax treaty to be deemed a non-resident of the U.S. for tax purposes, whereby you would be subject to tax on U.S. source income only, but this could jeopardize your green-card status.

To deal with the taxation of income in both countries, there is a system of foreign tax credits. Some foreign countries may also have their own special tax rules. For example, in the U.S., you are permitted to exclude a certain amount of foreign earned income from working in other countries.

You should speak to your cross-border tax advisor to confirm your liability for tax in each country and the ability to use a tax treaty to determine residency status.

Part-year Canadian tax return versus full-year return

If you became a factual resident of Canada part way through the calendar year, you must file a resident Canadian tax return reporting your worldwide income for the portion of the year you were resident in Canada. This return is often referred to as a "part-year tax return." For example, if you became a resident of Canada on July 1, you will be required to file a part-year Canadian tax return to report your worldwide income from July 1 to December 31 of that calendar year. Alternatively, if you are considered a deemed resident of Canada, you need to report your worldwide income for the entire calendar year on your tax return.

For a part-year resident return, certain non-refundable personal tax credits that are available on a Canadian resident return, such as the basic personal amount and spousal amount, may be pro-rated based on the number of days that you were a resident of Canada. However, if most of your worldwide income is taxed in Canada, you may qualify to use the full amount of these credits. For deemed residents of Canada who are required to file a tax return for the entire year, these non-refundable tax credits are not pro-rated and the full credit can be used.

The deadline to file your part-year or full-year Canadian tax return and pay your tax liability due is April 30 of the following year. If you or your spouse were self-employed, the filing deadline is June 15 of the following year; however, the tax liability will still be due by April 30 of the following year.

Disclosing information on foreign assets or financial accounts

Canada imposes certain requirements to disclose information on foreign assets. For example, a Canadian tax resident who at any time in the calendar year owned or held a beneficial interest in certain foreign property with the total cost of more than $100,000 is required to file form T1135 — Foreign Income Verification Statement every year, except the first year they became a Canadian tax resident.

The following is a link to the CRA website, which contains the form and more details regarding which types of foreign properties qualify and how to complete the form: **http://www.cra-arc.gc.ca/**

The country from which you relocated may also have foreign reporting requirements that may apply to you. For example, the U.S. imposes foreign reporting requirements for U.S. citizens, green-card holders and other persons, with respect to certain foreign accounts or assets held in Canada or any other foreign country (i.e. IRS Form TD F 90-22.1 — Report of Foreign Bank and Financial Accounts and Form 8938 — Statement of Foreign Financial Assets must be filed annually). For more information on these reporting requirements, ask your RBC advisor for a copy of our article on tax planning for U.S. citizens resident in Canada.

If you own assets in Canada or any other foreign country, ask your tax advisor to discuss any foreign reporting requirements you may have.

Foreign tax credits

It is possible for income received from another country to be taxable in both Canada and the other country. For example, a resident of Canada who owns a rental property in a foreign country must report the net rental income on their Canadian tax return and may be subject to tax in the foreign country as well. When income is taxed in both Canada and another country, there is a system of foreign tax credits that can be used to eliminate or minimize the potential for double tax. A detailed discussion of the complex nature of foreign tax credits is beyond the scope of this document; however, here are some general comments.

All income and expenses are sourced to a particular country, and this sourcing determines which country has the right to tax the income first. This sourcing is generally determined by the country in which the services were performed (based on a workdays allocation) in the case of employment income, the payor in the case of interest or dividends or the location of the property in the case of rental income. When one country has the right to tax the income first, the other country generally allows you to claim a foreign tax credit for the foreign taxes paid. It is important to ensure there is proper sourcing of the net income on the tax returns in each country so double tax is eliminated or minimized.

You should contact your professional tax advisor regarding your exposure to double tax and your ability to use foreign tax credits to minimize or eliminate it.

Social security taxes and benefits

Individuals employed in Canada and their employer must contribute to the Canada Pension Plan (CPP) (or the Quebec Pension Plan (QPP) for employees stationed in Quebec) as well as Employment Insurance (EI). Your Canadian employer will deduct these contributions at source from your wages.

If you are an employee of a company that transferred you to Canada to work for a limited period and you continue to be covered by a comparable plan in your home country, you may be able to waive your requirement to contribute to CPP if you qualify under a social security agreement (or totalization agreement). Canada has entered into a number of these agreements with various countries. Quebec has entered into similar agreements regarding QPP. Speak to your employer or professional tax accountant about whether you may qualify under a social security agreement to get relief from double social security taxation.

If you lived or worked in another country, or you are the surviving spouse or common-law partner of someone who lived or worked in another country, you may be eligible for benefits from Canada or the other country under a social security agreement. For example, if you do not otherwise qualify for CPP benefits, Canada may consider periods of contribution to the pension program of the other country. Also, if you do not qualify for the Canadian Old Age Security (OAS) pension because you have not lived in Canada for the minimum number of years, Canada may consider periods of contribution to the pension program of the other country as periods of residence in Canada. The other country may also consider periods of contribution in Canada to determine eligibility for benefits in that country.

You should confirm whether there is a social security agreement in place with the country you are moving from and determine if this agreement will help you qualify for benefits. You may qualify for a benefit from Canada or the other country, or both. The social security legislation and these agreements are complex. For information regarding applying for benefits from Canada or the other country, please call Service Canada at 1-800-454-8731 (if you live in Canada or the U.S.) or 1-613-957-1954 (if you live outside Canada; collect calls accepted) or visit their website: **www.servicecanada.gc.ca/eng/isp/ibfa/intlben.shtml**

Participation in foreign pension plans

If you participate in a foreign pension plan while a resident of Canada, you should contact your tax advisor to discuss the possible tax implications.

If you were a member of a foreign pension plan before your Canadian residency and continue to participate in the plan, the plan will generally be treated as an Employee Benefit Plan (EBP) for Canadian tax purposes during the first 60 months you are resident in Canada. Canadian tax will arise only if there are any distributions made from the plan while you are a resident of Canada. If you remain in Canada beyond 60 months and continue to make contributions, the plan will then be treated as a Retirement Compensation Arrangement (RCA), unless your employer qualifies and makes an election with the CRA within a specified period requesting the plan continue to be treated as an EBP.

Employer contributions to an EBP or an RCA are not included in your income at the time of the contribution but will be taxable to you upon withdrawal. In addition, earnings in the plan will in general not be taxable to you until received.

If you are a resident of Canada at the time of receipt, any amounts received from an EBP, including any allocation of income earned by the plan, will be treated as employment income, taxable in the year received, with the exception of amounts deemed to be a death benefit or a return of capital contribution made by the employee.

With an EBP, a pension adjustment may result related to the contributions made during the year by your employer on your behalf. A pension adjustment will reduce your RRSP contribution room in the following year.

If you have transferred from the U.S. and you plan to continue to contribute to a 401(k) plan, you should discuss the matter with your tax advisor since the tax implications may be different than those noted above.

Deemed acquisition

When you become a resident of Canada, you are deemed to have immediately disposed of and acquired any capital property you owned at that particular time at a cost equal to its fair market value. Usually, the fair market value is the highest dollar value you can get for your property in a normal business transaction.

You should keep a record of the fair market value (FMV) of your properties on the date you arrive in Canada. The fair market value will be your starting point for calculating the adjusted cost base of your property for tax purposes. The adjusted cost base of your property is used to calculate the capital gain or loss on the eventual sale of the property for Canadian tax purposes. Only increases or decreases in value arising since your residency start date will be reported on your Canadian tax return.

The deemed acquisition rule ensures that any gains accrued during the period of non-residency will not be subject to tax in Canada. It also ensures that any loss accrued during this same period will not be used to reduce future gains incurred on property disposed of since you became a resident of Canada.

If you own property with an accrued gain or loss, you should consider the Canadian and the other country's tax rules to determine whether it makes sense to keep or dispose of the property now that you have established Canadian residency.

Canadian income attribution rules

Married individuals in Canada are taxed independently and must file their own individual tax return. Therefore, it is important to track each spouse's capital contribution to investment accounts owned jointly since investment income must be allocated based on each spouse's percentage of capital contribution to the account.

Each tax filer is entitled to personal tax credits, and each person's net taxable income is subject to tax at graduated tax rates. As a result of this system of taxation, the shifting of income from a family member in a high tax bracket to one in a lower tax bracket will result in greater after-tax income for the family. The shifting of income is referred to as "income splitting" and is recognized as an acceptable tax planning strategy, although the use of this strategy is restricted by the income attribution rules.

In certain cases the Canadian income attribution rules prevent you from splitting income with your spouse. These rules apply to transfers of property by way of a gift from one individual to a spouse, or a person who becomes a spouse, or to a related person under the age of 18. The income attribution rules may also apply to property that is loaned to family members with no interest.

These provisions are intended to eliminate the tax benefit that results from income splitting when certain gifts or loans of property with no- or low-interest rates are made. This is accomplished by requiring the individual who transferred or loaned the property to be subject to taxation on the income and losses generated from such property.

A strategy using a prescribed rate loan can be used to effectively split income with your spouse and children. *Ask your RBC advisor for more information.*

Are you the sole trustee or a beneficiary of a trust that was created outside Canada?

If you are the sole trustee of a trust that was created outside of Canada and you have moved to Canada and become a resident, you may have created Canadian tax implications for the trust. It is possible that the trust may now be considered resident in Canada as a result of your move. If this happens, the trustee is required to file trust information and income tax returns in Canada. In addition to the administrative burden, this may also result in additional tax in Canada.

There may also be punitive tax consequences in a foreign country for the beneficiaries of a trust that has become a resident in Canada. For example, if you are a U.S. citizen and you are or will be a beneficiary of a trust set up in the U.S. that is now resident in Canada, as discussed above, there are some potentially punitive U.S. tax rules ("throwback rules") for the income paid to you from this trust. Although the rules are complex, in general, income and capital gains that have accumulated in a non-U.S. trust and are then paid out to U.S. beneficiaries in the subsequent tax year are taxed at a higher U.S. tax rate than income and capital gains paid out to the U.S. beneficiary in the same year it is earned. If the throwback rules apply, then accumulated income paid out in a future year will lose its character and be taxed as ordinary income. Furthermore, an interest charge will be applied to the tax owing since U.S. tax was not paid during the time the income was accumulating in the foreign trust.

You should review the structure of any trust that was created outside Canada or will be created through your Will to determine whether it is necessary to take steps to ensure the trust does not become resident in Canada. For example, if you are the sole trustee of a U.S. trust with U.S. beneficiaries, you may want to ensure the trust remains resident in the U.S. by adding additional trustees who are not moving to Canada. You will also want to ensure that a majority of control of the trust does not change and reside in Canada; otherwise, the trust may become resident in Canada.

On the other hand if you wish to create a trust resident in Canada, you may need to review your Will to determine whether you need to change trustees to ensure they are residents of Canada and the majority of the control of the trust will reside in Canada.

Estate and gift tax

Canada does not impose gift taxes; however, if you gift appreciated assets to someone other than your spouse, you may trigger a capital gain or loss on the disposition under capital gains rules contained in the Act.

Under current legislation there is no estate or inheritance tax in Canada, but there may be provincial probate tax due. Canada's death tax system is an extension of its income tax system. On death, Canadian residents (subject to certain tax-free rollover provisions) are deemed to have disposed of all of the property they owned at the date of death at FMV.

Some countries may continue to impose a gift or estate tax, even after an individual moves to another country. For example, U.S. citizens, even after they move to Canada, will continue to be subject to U.S. gift, estate and generation-skipping transfer tax laws.

It is important to determine whether the country you have left will continue to impose an estate and gift tax system on you or your beneficiaries even after your move to Canada. You should discuss with your cross-border tax professional your exposure to these taxes and appropriate strategies that can be implemented to minimize or avoid them.

Wills and power of attorney

Moving to Canada presents an excellent opportunity to review and update your estate planning arrangements such as your Will and power of attorney.

Will

You should review your current choice of executors and trustees as they may no longer be recommended for tax and other reasons. It is important to ensure that you have a valid Will after your move to Canada that properly addresses your wishes. If the provisions of your foreign Will are unclear, missing, or if they violate Canadian law, even if the Will is valid, the provisions may not be executable in Canada. If you have assets located in different parts of the world, such as real property, you should review the laws in each country to determine whether it makes sense to have a separate Will in each country, or whether an international Will is more appropriate.

An international Will is recognized by the Succession Law Reform Act and is valid between countries that are signatories to the Convention (such as Canada). If a country is a signatory to the Convention, it means an international Will drafted and signed in that country will be accepted when disposing of property located in any Convention member countries.

Contact your legal advisor to discuss whether your current Will should be updated.

Power of attorney

It is important to ensure you have a valid power of attorney after your move to Canada that properly outlines your wishes in managing your financial affairs. With power of attorney documents being unique from country to country, you may need to replace your foreign power of attorney with properly drafted documents in the province of your residence. If you own property in other countries, such as real estate, it may be prudent to have a separate power of attorney to help you manage these properties.

Tax planning points that may apply to you

The following are several tax planning points that you should consider and review with your tax advisor together with your RBC advisor. Since each individual circumstance may vary, you should seek professional tax advice before implementing any of the points discussed below.

Take advantage of the deemed acquisition rule

If you own a property with an accrued gain or loss and you did not dispose of it prior to leaving the other country, you may be in for a windfall. For example, if you own securities with an accrued gain and the tax laws in your present country did not require you to report a deemed disposition when you left and no further taxation results now that you are gone, you may trigger a non-taxable gain as a result of holding on to this security and waiting to dispose of it after you become a resident of Canada. Since Canadian tax laws will deem you to have sold and acquired the property at its FMV on the date of entry to Canada, if you sell these securities on the day you establish Canadian tax residency, the proceeds of disposition and the ACB will be the same and you will therefore have no capital gain to report. With the Canadian deemed acquisition rule, the accrued gain prior to establishing residency in Canada is not taxed, and if you do not dispose of the security before you leave the other country, you may also escape taxation in that country.

This strategy does not apply to U.S. citizens and green-card holders because they continue to be taxed on their worldwide income. This strategy may not apply to real property located in another country since the sale of real property may be subject to taxation in that country even if you are not a resident of that county when you dispose of it. Speak to your qualified tax advisor for assistance in evaluating whether this strategy may benefit you.

Unwinding a deemed disposition for returning Canadian residents

If you are a returning Canadian resident, you continue to hold certain properties you owned when you first left Canada and these properties were subject to a deemed disposition (departure tax), you may, by means of a tax election, undo some or all of the tax liability with the CRA that resulted when you left Canada. For more details regarding this strategy, ask your RBC advisor for our article discussing the unwinding of the deemed disposition for returning Canadian residents.

Immigration trust planning

One of the most common planning techniques used by high net worth individuals who move to Canada to shelter tax is the formation of an immigrant trust in a tax-haven jurisdiction. An immigration trust is simply a non-resident trust, established in a foreign tax jurisdiction, which holds investment assets. Generally, where the value of the trust property exceeds $1 million, the tax savings can be expected to exceed the costs of setting up and maintaining the offshore structure.

If properly structured, this trust will allow investment income and capital gains you earned during the first 60 months of your Canadian residency to be exempt from Canadian taxation for you and family members who moved to Canada and are beneficiaries of the trust.

The trust can be established before or after you become a resident of Canada; however, if established after becoming a resident, the 60-month exemption period is reduced by the number of months of Canadian residency. Also, if the property has appreciated in value since the date residency is established in Canada, there will be a deemed disposition for Canadian tax purposes of the property transferred to the trust and a capital gain may be triggered.

In addition to the tax savings, immigration trusts can provide other benefits, including creditor protection for trust assets, reduction of taxes and probate fees on death, and privacy and confidentiality of personal financial information.

You should consult with your tax advisor regarding the merits of using an immigration trust.

Moving your property to Canada

Many individuals who move to Canada consider consolidating their assets to take advantage of many benefits such as reduced costs, simplified administration, consolidated reporting, efficient retirement planning capabilities and an easier estate settlement process.

The ability to transfer assets in-kind, such as investments held in foreign financial institutions, may depend on the nature of the investment. Cash and most stocks and bonds (especially those issued by a government) that are traded on an exchange in the U.S., or in certain other foreign countries, may be transferred to an account in Canada without your having to dispose of them first. However, there are certain investments such as foreign mutual funds and partnership units/trusts that may be difficult to move in-kind.

In-kind asset transfers generally result in no immediate Canadian tax implications and likely no deferred sales charges; however, as we discussed earlier, the deemed acquisition rules will modify your adjusted cost basis for Canadian tax purposes.

Many foreign countries contain tax provisions that may permit you to purchase tax-deferred investments or investments earning income on a tax-free basis. In the U.S., examples of these types of investments include U.S. tax-exempt municipal bonds and bond funds. Once you become a resident of Canada, you may receive a lower rate of return since the income earned by these securities will be subject to tax in Canada. You should consider whether holding these types of investments makes sense when the tax advantages no longer exist.

Contact your RBC advisor to discuss the assets you have in another country and your ability to move them in-kind to an account in Canada. In some cases, you may need to dispose of your investment and transfer the cash instead.

Taxation of investment income in Canada

Ask your RBC advisor for our publication titled “Tax Planning for the Private Investor,” which includes a discussion of the taxation of different types of income earned in Canada, such as interest, Canadian dividend and capital gains, as well as tax planning strategies that may reduce your overall tax burden.

If you are subject to tax in another country, you should always consider what the tax implications will be for certain investments. For example, if you are a U.S. citizen or green-card holder, you should make note there are onerous U.S. tax rules (passive foreign investment company — PFIC and controlled foreign corporation — CFC) when you invest in certain foreign corporations such as Canadian mutual funds.

You should also contact a qualified tax accountant to discuss taxation of investment income and strategies to reduce your tax.

Employee stock options

Stock option benefits are considered employment income for Canadian tax purposes. Stock options exercised by a Canadian resident are taxable in Canada, regardless of the fact that the option may have been granted prior to establishing residency in Canada. The ability to claim a foreign tax credit with respect to foreign tax paid may reduce or eliminate double taxation; however, sometimes double taxation occurs, so it may have been more prudent from a tax perspective to have exercised your options before you came to Canada.

For example, if you paid taxes in the other country with regard to the granting of the options prior to your arrival in Canada, double taxation could arise since these taxes that were paid in a previous year will not qualify for a foreign tax credit in Canada when you exercise the options in a subsequent year.

Sometimes the tax reporting rules in Canada and the other country do not coincide, which could also lead to double taxation. Due to the complex nature of this area of taxation, you should consult with your qualified tax advisor regarding the exercise of your stock options and the resulting tax implications.

Timing of income earned in your previous country of residence

Since Canadian taxation requires residents to include their worldwide income, if you earn income (such as a bonus) prior to becoming a resident of Canada and you receive it after you commence Canadian residency, that income will be subject to Canadian tax. The income may also be taxable in the country where it was earned.

To avoid or minimize double taxation, there is a system of foreign tax credits; however, if the tax rate in Canada is higher than the other country, the foreign tax credit relief will be limited only to the foreign tax paid, and it may not completely offset your Canadian tax on the income. If the tax rate in the other country is lower than Canada's tax rate, proper planning before your move to Canada would have entailed ensuring you receive such a bonus payment prior to moving to Canada.

Establish a Registered Retirement Savings Plan (RRSP)

An RRSP is a tax-sheltered investment account that provides tax benefits for saving for retirement. Contributions to an RRSP result in a tax deduction up to certain limits, and the income earned on these contributions compounds on a tax-deferred basis until withdrawals from the RRSP are made. Contributions to an RRSP are generally only permitted after you create RRSP contribution room. RRSP contribution room is created in the year following the year certain types of income (e.g., employment income) are earned. Contributions to an RRSP are permitted up to the end of the year you turn 71.

RRSP contribution room in the year of arrival in Canada is typically nil, unless you were previously a resident of Canada or you were subject to tax in Canada as a result of earning Canadian source income. Generally, it is not until January 1 of the following year that you can make RRSP contributions related to income earned in the previous year. However, the CRA does not provide you with an RRSP statement until after you file your tax return; therefore, in many cases, you may need to calculate your RRSP contribution room to take advantage of the ability to make contributions early and enjoy the tax-free compounding of income sooner.

If you continue to be subject to taxation in the country you left even though you established residency in Canada, you must consider how that country will treat your RRSP. If that country does not allow the same tax deferral, you will be subject to double tax. There may be relief if a tax treaty exists between Canada and the other country, or the other country may provide tax relief under its own domestic tax rules. For example, if you are a U.S. citizen who has become a resident of Canada, you will be considered a resident of the U.S. for tax purposes and must report your worldwide income. The U.S. tax rules do not automatically allow for the deferral of the taxation of income earned in an RRSP. However, under U.S. federal tax laws, the U.S. will allow a tax deferral if a taxpayer files an election form (i.e. Form 8891 — U.S. Information Return for Beneficiaries of Certain Canadian Registered Retirement Plans) annually to request it.

Even if you do not intend on retiring in Canada, opening an RRSP can still be beneficial. Should you leave Canada and become a non-resident, it is possible to maintain your RRSP intact in Canada and continue to enjoy a tax deferral for Canadian tax purposes until funds are withdrawn. A Canadian non-resident withholding tax may apply when withdrawals are made by a non-resident of Canada. If there is a tax treaty with the country you move to, the amount of withholding tax may be reduced if the RRSP is converted to a product that provides for periodic pension payments. You would also need to confirm whether a tax deferral of an RRSP is permitted in the country you move to.

Speak to your RBC advisor for more information regarding RRSPs. Ask for a copy of the guidebook "Registered Retirement Savings Plans." Your tax advisor can assist you in determining your RRSP contribution room so you may start *making contributions as early as January.*

Open a Tax-Free Savings Account (TFSA)

A TFSA is an account that provides tax benefits for saving in Canada. It is similar to an RRSP because the funds within the TFSA can grow sheltered from tax; however, contributions to a TFSA are not tax-deductible for income tax purposes. All investment income, including capital gains, earned in a TFSA is tax-free for Canadian tax purposes, even when withdrawn.

Although the investment income earned in a TFSA is tax-free for Canadian tax purposes, it may be taxable in a foreign country if you are subject to taxation in that country. For example, investment income earned in a TFSA for U.S. citizens and green-card holders is taxable in the U.S. In certain circumstances, provided you have sufficient available U.S. foreign tax credits resulting from the reporting of passive foreign income such as Canadian interest and dividend income, the U.S. income tax on a TFSA may be offset with foreign tax credits. However, the additional reporting requirements may result in additional tax preparation fees.

Ask your RBC advisor for more information on TFSAs.

Transferring your foreign pension plan to an RRSP in Canada

If you were employed in another country before coming to Canada or you left Canada on an international work assignment and then returned to Canada, you may have accumulated funds in a foreign retirement plan that was designed to provide you with retirement income. These accounts may remain tax-deferred in Canada and the other country until withdrawals are made, or it may be possible for you to withdraw part or all of your funds from this foreign retirement plan and contribute them to an RRSP in Canada without any net tax implication. There are special tax provisions in Canadian tax law that enable you to transfer certain foreign pension amounts to your RRSP even if you do not have RRSP contribution room.

For example, earnings in U.S.-based retirement plans, such as a 401(k) plan or a traditional Individual Retirement Account (IRA), remain tax deferred for U.S. and Canadian tax purposes. There is a strategy using Canadian tax rules and foreign tax credits that may allow you to transfer these plans to an RRSP in Canada without incurring any tax. Ask your RBC advisor for a copy of our article that discusses the strategy of transferring a U.S. based retirement plan to an RRSP in Canada.

In certain cases it may also be possible to transfer foreign retirement plans from countries other than the U.S. The process and tax considerations, including your ability to claim a foreign tax credit as discussed in the article, may be different, but the strategy outlined in the article (or some variation of it) may be similar.

Your ability to transfer foreign pension funds to your RRSP without using RRSP contribution room does not create an obligation for a foreign plan administrator to release the funds to you. In many cases, the foreign plan administrator may restrict your access to such funds or may implement certain conditions with respect to the type of retirement product that can be used. This may prevent you from implementing the strategy.

It is therefore very important that you contact your plan administrator to determine the ability to make the transfer and your qualified tax advisor regarding whether making the transfer makes sense for you.

Pension income splitting

If you receive a foreign pension after establishing residency in Canada, you may be subject to Canadian tax on that pension and tax imposed by the country from which it originated. You may be able to claim a foreign tax credit in Canada to minimize or eliminate the double tax.

Another way to reduce your Canadian tax burden is to take advantage of the pension income splitting rules. These rules allow you to make an election on your tax return to split up to 50% of qualified pension income with your spouse for tax reporting purposes, which may reduce your overall family tax burden by taking advantage of the graduated tax rate system and pension income tax credits. Ask your RBC advisor for our article discussing pension income splitting to learn more about this tax saving strategy. You should also consult your professional tax accountant regarding whether your foreign pension income qualifies for pension income splitting.

Establish a Registered Education Savings Plan (RESP)

An RESP is a plan used to encourage the accumulation of savings toward the cost of post-secondary education for named beneficiaries such as your children or grandchildren. You can make a lifetime contribution of $50,000 per child in one lump sum payment or through smaller annual contributions that add up to this maximum. The Canadian federal government supplements RESP contributions for each child under the age of 18 with Canada Educations Savings Grants (CESGs). This grant is equal to 20% of the first $2,500 per year contributed for each child under the age of 18 to a maximum of $7,200 in lifetime CESG. However, if you choose to make a one-time $50,000 lifetime contribution, your CESG will be limited to the maximum CESG for that year, which would be $500 for the current year plus another $500 if you created an RESP grant pool by not contributing to the RESP in previous years after becoming a resident of Canada.

Earnings on contributions and CESGs in the RESP grow on a tax-deferred basis until the money is withdrawn for post-secondary education or the plan is closed. The student will pay tax on the income accrued and CESG in the RESP when it is withdrawn. Students with low or no income at the time of withdrawal may pay a low tax on the withdrawal or no tax at all. Unlike RRSPs, contributions to an RESP are not tax-deductible; however, contribution amounts can be withdrawn tax-free.

An RESP may not be desirable if you and your beneficiaries are moving to Canada on a temporary basis or if you maintain residency in another country after you move to Canada. Some countries do not permit the same tax-deferred status that is available in Canada. In the U.S., for example, the possible adverse tax and reporting requirements make RESPs undesirable.

For additional information regarding RESPs and the rules, please consult with your RBC advisor.

Immigrant Investor Program

If you are an immigrant who wants to gain permanent residence in Canada, the federal government offers an Immigrant Investor Program. Under the current program, immigrant investors with $1.6 million in personal net worth can gain permanent residence in Canada by making a five-year investment to the government of $800,000. The investment principal will be repaid to the immigrant investor after approximately five-years and two months from the initial investment. The investments to the government can only be executed through select financial institutions. Royal Bank of Canada is one of the financial institutions that can be a conduit for immigrants wanting to participate in this program.

Speak to your advisor about how our partners at RBC can help or visit the following site for more information: ***www.rbcwminternational.com/immigrating-to-canada.html***

Conclusion

If you moved to Canada, an important step is to review possible tax and estate planning strategies with your tax, legal and RBC advisor to minimize your tax burden and ensure your estate planning wishes will still be executed now that you are a resident of Canada.

› Please contact us for more information.