

Snowbirds following the sun

FINANCIAL TIPS FOR SNOWBIRDS PLANNING THE GREAT ESCAPE

When our forbearers decided to settle in Canada, chances are their reasons for doing so had little to do with the weather. After all, for many Canadians, the notion of spending the winter months at home is something to be endured, not embraced. So it's no wonder then that when Canadians discuss their dreams for retirement, it often takes place within the context of a warmer climate. If the idea of heading south every winter sounds appealing to you, you'll need to become familiar with various financial issues that can impact your plans for your great escape.

FOLLOWING YOUR DREAMS

There are many reasons why you would decide to spend a portion of your retirement abroad that go beyond Canada's inclement climate. Whether it's reuniting with extended family or broadening your cultural experience, if you are contemplating retirement

then the idea of spending at least part of your free time in another country has likely crossed your mind.

For many Canadians, the southern United States is a popular destination. Florida and Arizona, for example, have substantial winter populations of Canadians due to their warm weather and familiar culture. For other Canadians, countries like Greece, Spain, Italy, Portugal and other Mediterranean destinations have strong appeal. For those Canadians who can afford the higher cost of living, Caribbean countries like Bermuda and Barbados are popular locations due to their stunning scenery and near-perfect climate. Today, Canadians are also choosing Mexico, Costa Rica and Chile due to their affordable cost of living and rich cultural heritage that provides an appealing contrast to our North American way of life.

No matter where you decide to spend your winter months, there are some important considerations you'll need to work through before you go.



YOUR STATUS AND PAYING TAX

Under the Canadian income tax system, a person's tax liability is based on their status as a resident or non-resident. Anyone who is "ordinarily resident" in Canada (the place where an individual, in the settled routine of their life, regularly or normally lives) is considered to be a factual resident. A factual resident cannot simply terminate their Canadian residency by living in another country; rather they must permanently sever residential ties with Canada and establish residential ties in the country they are moving to. If you are a factual resident, your income will be taxed as if you never left the country. Consequently, you will continue to:

- Report all income you receive from sources inside and outside Canada
- Pay federal and provincial tax in relation to the area in which you reside when in Canada
- Be eligible to apply for tax credits that are appropriate to you including the GST/HST tax credits

If you would like to apply to become a resident of another country, you can do so without affecting your status as a Canadian resident. This should be a consideration if you are planning to purchase property in another country, or are planning to visit for an extended period of time.

RRSPS AND RRIFs

From Canada's perspective, if you are a resident of Canada, the rules for contributing to a registered retirement savings plan (RRSP) or withdrawing income from a registered retirement income fund (RRIF) remain the same. Contributions made from Canadian-source income to your RRSP will continue to be deductible. Withdrawals from a RRIF will also be subject to the same minimum amounts and you will pay tax on all withdrawals at your marginal tax rate. However, careful consideration must be made to ensure that the country in which you are going to visit has a formal tax treaty with the Canadian government. If no such agreement exists, the income you receive may be subject to double taxation.

MANAGING OTHER INVESTMENTS

Similar rules apply to snowbirds when it comes to managing investments. As long as you are considered a factual resident of Canada, you may continue to manage your registered and non-registered investments in the same manner as you always have. However, if your investments are securities, and you are residing in the States – even for a short time – the US Securities Commission prohibits cross border trading of securities. It is recommended that you consult with an advisor prior to your departure to ensure your portfolio is organized appropriately.





PENSION INCOME

For snowbirds planning to reside outside of Canada, public pension plan benefits such as the Canadian Pension Plan (CPP) or the Quebec Pension Plan (QPP) remain available to you. Old Age Security (OAS) benefits are also available, subject to certain conditions. You will be eligible to receive OAS while residing outside of Canada as long as you lived in Canada for at least 20 years after the age of 18. Generally, you must file an annual tax return reporting your worldwide income in order to remain eligible. Guaranteed Income Supplement (GIS) and Spouse's Allowance (SPA) benefits are paid for six months, plus the month of departure. If you stay outside of Canada for more than six months, you can always re-apply when you return to live in Canada.

BEWARE OF DOUBLE TAXATION

When it comes to paying taxes, it is important to do your research on your destination country before you go. Even though Canada currently has tax treaties with over 75 countries, many developing countries lack the resources to collect or harmonize taxes on income that enters from Canada. To compensate for this, they may impose high consumption taxes or import duties. If you are spending part of each year in a non-treaty country, you will need to do your own research to find out how that country's tax system will apply to you.

If you are planning to spend your winters in a country that has a tax treaty with Canada such as the United States and Mexico, you'll be pleased to learn that you are protected from the threat of double taxation. You may still have to file tax returns in both countries.

PURCHASING REAL ESTATE ABROAD

If you are planning to purchase property abroad, you may be required to report your foreign assets to the Canada Revenue Agency. This law is designed to ensure that all residents of Canada declare capital gains and interest on their foreign assets. If your foreign property is valued at more than \$100,000, you are required to report your holdings, and you could face substantial penalties if you fail to do so.

SNOWBIRDS VISITING THE U.S.

Canadian residents who spend part of the year in the United States may have to file a U.S. tax return. People who are not U.S. citizens are classified as aliens. As an alien, you may be considered either resident or non-resident. In general, non-resident aliens are required to pay tax only on certain U.S.-source income. Resident aliens are liable for tax on their worldwide income.

Knowing whether you are considered to be a resident or non-resident alien is an important determination to make. To find out which designation applies, you will need to complete the “substantial presence test,” which is based on a weighted average of the number of days you spend in the U.S. over a three-year period. For further information about the substantial presence test, you should contact the Internal Revenue Service of the U.S. Department of the Treasury. (www.irs.gov).

If you are a non-resident alien, you may have to file a tax return if you owe taxes on income you earned from a U.S. source, or if you have engaged in a business activity within the United States. However, you may be eligible for relief under the Canada-U.S. tax treaty. It is probably in your best interest to consult a tax professional to see how these rules could affect you.

ARE YOU PLANNING TO BECOME A U.S. RESIDENT?

If you are planning to become a resident of the U.S. (a resident alien), you must file a U.S. tax return based on your worldwide income. For Canadians funding their retirement through registered savings and income plans held within Canada, there are some investment strategies you can follow to help minimize the amount of tax you pay.

For U.S. tax purposes, only the income portion of withdrawals from an RRSP is taxable – the capital portion is tax-exempt. The capital portion is deemed to be the “original contributions” to the plan. By transferring assets to a new RRSP before leaving Canada to increase this amount, you can reduce the taxable portion of your withdrawals and enjoy significant tax savings.

Taxable trust income (interest, dividends and foreign income) from mutual funds and segregated funds is reported to non-residents each year as it occurs. Tax withholding on interest and dividend income in the amount of 15 per cent is generally paid by surrendering units from the funds. Taxes are not withheld on capital gains. However, there is a deemed disposition on these types of investments upon leaving Canada, making any gains or losses subject to Canadian tax laws.

Interest from guaranteed interest certificates (GICs) is reported annually and subject to a 10 per cent withholding tax. However, unlike interest income from a traditional bank GIC, interest from GICs issued by insurance companies (considered annuity income) is not reported to a non-resident. Because of the tax-deferred growth while outside Canada, it may be advantageous to transfer existing GICs to an insurance company issued contract before leaving Canada.





As a resident of the U.S., you will also face limitations on how you can manage investments that remain within Canada. Due to securities regulations, U.S. residents are generally limited to redemptions and otherwise prohibited from managing their Canadian investments from U.S. soil. Certain states allow brokers or dealers to apply for exemptions on registered accounts but no exemptions exist for non-registered accounts. Therefore, it is important that individuals realign their portfolios for the long term unless they plan to return to Canada on a regular basis.

HEALTH CARE

Provincial health care programs do provide limited coverage during temporary periods of absence from Canada. Typically the period extends for up to three months. It is important to know that the amount of benefits that you receive may not be adequate to cover the costs. It is therefore very important that you arrange for private health care insurance when you are either traveling or residing outside of Canada.

Eligibility for provincial health care programs generally terminate after a consecutive absence of six months. In most cases you must be physically present in your Canadian province of residence for 183 days of each calendar year to maintain coverage. In addition, if you

lose your provincial health care coverage after a prolonged absence, there may be a waiting period before it is reinstated when you return to Canada following an extended stay abroad.

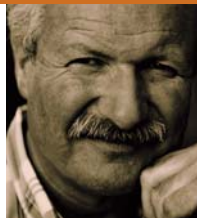
FOR MORE INFORMATION

As you can see, there are a number of issues you'll need to address if you are planning to retire abroad. If you are looking for more information on issues that may affect you, the Canada Revenue Agency's website at www.cra-arc.gc.ca is a useful resource.

In particular, look for a special publication entitled *Canadian Residents Going Down South* (Publication # p151(E)).

Additional information can be found on the government of Canada's Consular Affairs' website. For a comprehensive overview of issues facing Canadian snowbirds, look for *Retirement Abroad: Seeing the Sunsets*, which can be found by clicking on the publications link on the home page at www.voyage.gc.ca.

Your financial advisor can recommend options that will benefit you the most.



QUICK TIPS FOR SNOWBIRDS

- If you would like to apply to become a resident of another country, you can do so without affecting your status as a Canadian resident
- Becoming a resident of a country is an important consideration if you are planning to purchase property. It may be difficult to guarantee your property rights if you are considered a tourist
- If you own foreign property worth more than \$100,000, you must report this to the Canada Revenue Agency. You could face substantial penalties if you fail to do so
- It is important to determine whether the country you are planning to visit has a tax treaty with Canada. If there is no formal tax treaty, you may be subject to double taxation
- If you are planning on spending substantial time within the U.S., you will need to know if you are “resident alien” or a “non-resident alien” – a determination made by the IRS. Your status as a U.S. resident will affect the way you pay tax
- Be aware that the majority of provincial health care programs may terminate your benefits if you are out of Canada for more than six months

IF YOU ARE PLANNING TO TAKE UP RESIDENCE IN THE U.S. AND HOLD THE FOLLOWING INVESTMENTS:

- RRSPs or locked-in RRSPs
- Non-registered GICs not issued from an insurance company
- Non-registered mutual funds or segregated funds

THE FOLLOWING STEPS MAY HELP YOU PAY LESS TAX:

- Transfer your RRSP assets into a new plan to increase the amount considered the capital portion
- Ensure your non-registered GICs are held with an insurance company
- Align your mutual fund portfolio and segregated funds in a manner that you are comfortable with over the long term

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