the U.S. and have to look to the Canada-U.S. Tax Treaty to avoid double taxation and to determine in which country you belong. All of this is explored in greater detail in Chapter 5, "Double the Taxes, Double the Trouble." As a side note, U.S. citizens, derivative citizens, and green card holders living in Canada must file U.S. income tax returns annually!

Social Security number/individual taxpayer identification number: (SSN/ITIN)to work or live in the U.S., everyone in your family must have an SSN (for those working) or an ITIN. The SSN will be required by your employer and is needed to file a tax return or open a bank account. The ITIN is required for those who are not eligible to work in the U.S. but allows you to reduce your taxes by claiming your spouse and children as dependents. See Chapter 5 for further details on obtaining an SSN or an ITIN.

Canada

Based on popular opinion, many people just stop filing Canadian tax returns when they leave Canada for the U.S. The rationale is usually "I don't live there anymore, so I don't have to file taxes there anymore." In fact, there are final filing requirements with CRA that could increase your tax bill significantly due to the "deemed disposition" tax when you leave Canada. In addition, if you don't sever your ties properly prior to and after your move, CRA could come back and "deem" you a resident of Canada, causing you a lot of inconvenience and the potential of additional income tax. Alternatively, the rules state that, if you are considered a treaty resident of the U.S., you are automatically deemed a non-resident of Canada and forced into the deemed disposition tax. You need to ensure you do the requisite planning before your departure to understand the deemed disposition tax, how to correctly sever your ties with Canada, and how to mitigate the taxes in your unique financial situation.

The bottom line: if you haven't done the prerequisite planning prior to your departure, many planning opportunities may be lost forever, and you will find yourself in a situation where

- Which alternatives exist for health-care coverage in the U.S. if you have a "preexisting" condition?
- You may have sufficient life insurance coverage in Canada, but if your death benefits pay in Canadian dollars what effect will the exchange rates have on how much benefit you receive in the U.S.? Are your life insurance needs higher or lower in the U.S. than in Canada?
- Have you considered the same issues with your disability insurance as well? Will your policy still pay in the U.S.?
- Will your Canadian auto and homeowner insurance cover you in the U.S.? What differences in homeowner and auto insurance need to be considered if you get U.S. policies?
- The U.S. is a more litigious society than Canada. How can you protect yourself in the event of a lawsuit?
- What do you do in the U.S. if you can no longer perform some of the activities of daily living and require skilled nursing care around the clock?

As these questions illustrate, there is the potential of creating new risk exposures when making the transition to the U.S. that were previously covered. The following attempts to establish the facts and dispel some of the myths surrounding the major risk exposures when moving to the U.S.

Medical Coverage in the U.S.

There are a number of rumors and opinions about the health-care systems in both Canada and the U.S. In our opinion, both health-care systems offer some of the best care in the world, but there is a greater availability of services in the U.S. There is more flexibility in scheduling various tests and in getting elective, non-emergency procedures, and there are more professionals available in a particular specialty. The main reason is the medical system in the U.S. is primarily "for profit." This means there is competition for patients and group health insurance contracts that leads to a clearer "customer/patient" service

typically have to continue filing U.S. tax returns even if you live in Canada because the IRS taxes its citizens and permanent resident green card holders on their worldwide income regardless of where they are living at the time (see Chapter 5). As examples in this chapter illustrate, a lack of sound planning in this area can lead to some unintended consequences.

U.S. Immigration Visas

Despite the close relationship between Canada and the U.S., anytime you cross the border you mustn't forget you are crossing into another country. Therefore, you must have the proper documentation to prove your origin and identity. Historically, a birth certificate or driver's license has sufficed, but recently the U.S. Citizenship and Immigration Services (CIS) has tried to implement a Western Hemisphere Travel Initiative. Initially, all travelers were required to have a passport by December 31, 2005, to enter the U.S. from Canada. The biometric identifiers in a passport and the documentation supporting it allow the U.S. CIS to better track and confirm whom they are allowing into the country. However, once the U.S. Department of State realized it couldn't process enough passports or alternative secure identification documents in time, along with the hindrance to U.S. international commerce, the plans were delayed to January 23, 2007 for travel by air and as early as January 1, 2008 for land and sea travel ports of entry. The plans have changed a few times already, and it is expected that they will change again.

There are two ways of obtaining legal status in the U.S.: through a business/professional relationship, or through a primary family member sponsoring you. The age of maturity to be considered for a visa based on a parent's status is 21; over that age, you must apply independently under a sponsoring parent, other qualifying relative, or business/professional relationship. Despite thoughts to the contrary, if you don't fit into one of the immigration categories outlined below and have not secured the appropriate visa, don't even think of moving to and remaining

name of the agent. Call three times for any question; then take the best answer and be prepared to defend it with the documentation you have. You may still endure some inconvenience at the border, but you should get some marks with the customs agent for your efforts. Here are a few other things to consider when moving your physical assets to the U.S.

Automobiles

For some reason, most Canadians insist on taking their automobiles to the U.S. when they move. However, moving your automobile to the U.S. is a tricky proposition and should be avoided if at all possible. Because of the reasons listed below, you will typically get a higher price in Canada when you sell than you would in the U.S., and trust us . . . it is a lot easier to move cash! You will have to fill out U.S. Department of Transportation Form HS-7 — Declaration and Environmental Protection Agency Form 3520-1 — Import Declaration. In addition, there are several other issues in trying to take your automobile to the U.S. that you should consider.

Kilometers versus Miles

The primary denomination of both the speedometer and the odometer are in kilometers, which means you have to pay to have them converted to miles, or your vehicle will be worth less when you sell the auto in the U.S. To convert your automobile from kilometers to miles in the U.S. costs approximately $800 provided the requisite parts for your make and model can be found.

Safety Standards

Your vehicle must pass the rigorous safety standards in the U.S., and it most likely will. These standards are enforced by the Department of Transportation, which has a say in whether your car meets the standards or not. If not, you could create some difficulties for yourself because you won’t be able to register the vehicle until a safety certificate is issued.

could be considered a tax residency factor by CRA.

T1 Non-Resident Return

Just when you think you have escaped the clutches of CRA and your need to file a T1 tax return, you realize to your chagrin that there are different types of income for which no withholding applies. As a result, you cannot file a Form NR7-R, and you are back to filing a T1 tax return. Canadian sources of income such as wages, exercise of vested stock options, and rents all must be filed on a T1 tax return. The problem is you don't get the personal amount or much of any deductions (see income-specific items below).

U.S.

Unlike Canada (which taxes its residents on worldwide income), the U.S. taxes its citizens, and residents (including green card holders), on their worldwide income. This approach leads to difficulties because, if you are a U.S. citizen or a green card holder living anywhere in the world, you have a tax filing obligation with the IRS. Specifically, when Canadians take up tax residency in the U.S., they must file a U.S. "start-up" tax return and report their worldwide income. Doing so can lead to double taxation because you have to file a Canadian exit return declaring your worldwide income and then pay the appropriate withholding on any Canadian source of income after you exit Canada. There are different ways of filing your U.S. returns to minimize your tax liability, and depending on your situation several tax and compliance elections may need to be taken as well. These are complex tax returns to complete. Unfortunately, most U.S. CPAS have no idea how to handle Canadian issues on the U.S. return, and usually you end up being out of compliance with the IRS and your local state government from the very first tax return you file in the U.S. It is in your best interest to get the assistance of a professional who works regularly and consistently in the Canada-U.S. tax preparation arena to ensure you remain in compliance with the IRS, file the

Currency Exchange Facts and Myths

Ask most Canadians, and they can tell you within a penny or two what the Canadian-U.S. exchange rate is. In our opinion, some Canadian's national pride rises and falls in relation to the exchange rate of the Canadian dollar to the U.S. dollar. In our experience, nowhere have we dealt with more confusion or deliberation of decisions than the area of currency exchange. It appears the record high closing rate for the Canadian dollar occurred on August 31, 1957, and again on October 31, 1959, at $1.05485, with the record low closing set on January 18, 2002, at $0.61989. This section aims to clear up some misconceptions and confusion so you can begin to move forward with confidence in this area.

Myth: You Lose Money When You Convert

One of the biggest misconceptions out there is you "lose money when you exchange Canadian loonies for U.S. dollars." Nothing could be further from the truth. The thinking goes, if you lose money during currency exchange, there must be ways of making money during it too! On one day in 2006, the following exchange rates were observed:

$1 Canadian

= $0.898 U.S.

= $6.99 Hong Kong

= $29.36 Taiwan

= $91,122 Zimbabwe.

The first thing to notice is that all of these countries use the "dollar" as the name for their currency, and therein lies the problem. Because the currency has the same name, people assume it should have the same value. It does not. This is because they are different currencies, from different countries, with a different value associated with each one. A Polish zloty is different from a U.S. dollar, which is different from the Euro,

his name only. Needless to say, it was a difficult situation at an already stressful time. In our opinion, estates comprise the most important area of planning you can do for yourself and your family, think about the following questions.

- Is your Canadian will valid in the U.S.?
- What would happen to your spouse and dependents if you died suddenly in the U.S.?
- Would your spouse be able to get access to any funds to meet the family obligations?
- What taxes would you pay in the U.S. and/or Canada in the event of your death?
- What would happen to your assets in Canada? Those in the U.S.?
- Can your heirs in Canada receive any of your assets?
- Who would care for your children if you and your spouse died simultaneously?
- Who would file your taxes, pay your bills, or care for your children in the event of your incapacity?
- In the event you end up in a coma, would you want the "plug pulled"? How would that be communicated?
- Would you want your body buried or cremated? In Canada or the U.S.?
- If you inherit assets from Canada, are they taxed? Where?

Estate planning is all about how much control you want in a variety of circumstances, including death and incapacity. A secondary consideration is saving every court cost, attorney's fee, and tax possible. Sometimes we hear "If I'm dead, I'm dead. What do I care?" If you do not want to determine the course of events in the situations listed above (don't want to spend the money to get an estate plan), your state of residence (or province where the asset is located) has default laws called intestate laws (*intestate* literally means to "die without a will") that will decide for you along with the attendant costs and delays

cost of funding, administering, and maintaining them. Further, many defined benefit plans had a cost of living allowance on the benefit that has all but been eliminated (it is seen more often in Canadian plans).

SEP-IRA, SIMPLE Plans

These plans are available for self-employed individuals who don't have the opportunity to shelter their net income with one of the other plans because of the expense to set up and administer them. These plans are easy to set up and inexpensive to administer and can be arranged at most discount brokerage firms.

Employee Benefit Plans

Several employee benefits may be available to you if you leave Canada to work with a larger employer in the U.S. Similar to Canada, the U.S. has stock option plans and deferred compensation arrangements. We provide a brief discussion below so you can familiarize yourself with them.

Stock Options

Stock options are a common form of compensation for employees in both Canada and the U.S. because they allow employees to participate in the movement of the employer's stock without having to commit any of their own funds. The taxation of these options is complex when crossing the border and beyond the scope of this book because each situation is unique. Following are a few general insights into stock options that may be helpful.

In Canada, stock options are allowed a 50% deduction of the amount between the exercise price and the fair market value of the stock at exercise. This means only half of the gain is taxed at the higher Canadian personal tax rates. In the U.S., there are two types of stock options, and the difference between them is related to how they are taxed in the U.S.

firm can provide assistance in determining the best means of achieving your education goals.

Key Differences

There are several key differences in the school systems between Canada and the U.S.

- In Canada, junior high runs from grades 7 to 9. In the U.S., it is just grades 7 and 8 and is called middle school.
- In the U.S., K-12 school generally starts in early-mid-August and runs through May, with longer breaks in between. In Canada, school generally starts in early September and runs through June, with shorter breaks.
- Based on our experience and feedback from others, U.S. undergraduate classes tend to be easier than Canadian undergraduate classes, but U.S. graduate classes tend to be more difficult than Canadian graduate classes.

There are some linguistic differences in education circles you should be aware of as well (see Table 9.1).

Table 9.1

Linguistic Differences in Education

Canada	U.S.
Grade 9 or first year of university	Freshman
Grade 10 or second year of university	Sophomore
Grade 11 or third year of university	Junior
Grade 12 or fourth year of university	Senior
Junior high	Middle school
University	College
Diploma	Associates degree
Marks	Grades

explain to the firm what the client was doing, and the standard answer was "We can't do that."

- The investment holdings were still reported on the monthly statement in U.S. dollars, so the client still had the "discomfort" of seeing the portfolio in U.S. dollars. It required a monthly call to tell the brokerage firm of the error and have it issue a new statement. By then, next month's statement was already received, and we had to start the process all over again.
- When interest or dividends were paid or a bond matured, the Canadian loonies were automatically converted to U.S. dollars at the prevailing rate plus whatever "shaded" amount the brokerage firm decided on, and everything was swept into a U.S. money market fund. To get this converted back to Canadian loonies required many calls and much paperwork.

The bottom line is that U.S. brokerage firms are just not capable of opening and managing Canadian loonie-denominated accounts effectively because there just isn't sufficient demand for them. With all of the factors listed above, why would you want to try this? It just ends up causing a lot of complexity and frustration in your life.

Moving Investments to the U.S.

Another confusing and potentially frustrating area often encountered is moving your Canadian investments to the U.S. Let's dispel a common myth right off — yes, it's possible to move Canadian investments to the U.S. without having to sell them first. However, as we have personally experienced, the simplest transfers can take months for the unwary. Following is some information to consider when moving your investments to the U.S.

Moving Your RRSP/RRIF

One of the most popular questions our firm fields are "How

in withholding in Canada, and recoup all of it on their U.S. tax returns before the foreign tax credits expired. This means they withdrew their entire RRSP tax free from Canada. Unfortunately, some firms use this tax-free RRSP withdrawal promise to promote their services, but it is definitely not the norm. We include it as an example to show you the power of proper foreign tax credit planning strategies. Considering your situation, wouldn't you rather pay 5 or 10% withholding on your RRSP rather than 25%? Our firm can analyze your situation and, if applicable, show you how.

The ideal investment to consume your passive foreign tax credits would produce a lot of foreign income annually and not have any foreign taxes withheld. There is a myriad of investments we can use, but which one to use depends on your individual situation and what you are trying to achieve. Don't forget that foreign tax credits have a defined "life" before they expire, so it's important to implement your foreign tax credit planning strategies as soon as your RRSPs are collapsed or at least in a balanced fashion to maximize your benefit (see Chapter 5 for more details).

Our Investment Philosophy

We believe in two simple principles when it comes to investing.

1. Grandma was always right, don't put all of your eggs in one basket. In other words, diversify, diversify, diversify. Why? Because of principle number two.
2. Nobody can predict the future!

Based on these principles, our firm doesn't try to outguess short-term market movements or pick hot managers, stocks, or sectors. We don't try to determine when to be in the market or when to be out because research has shown that accurate predictions can't be made on a consistent, long-term basis (for those who think they can, is it luck, or is it skill?). Instead, our

business to the mix, the complexity increases dramatically. It has been our experience that your current, trusted team of advisors whom you have worked with for many years are typically incapable of addressing the Canada-U.S. issues adequately when you move to the U.S. In fact, some clients have told us that their advisors said it simply couldn't be done because of the complexity and discouraged them from attempting a move to the U.S. altogether. They were told they should just stay in Canada because the taxes upon their exit would simply consume what has taken them a lifetime to accumulate. It can be done, though, and depending on your individual circumstances the savings in time, effort, and money can be significant. You just have to understand that your current advisors will need to join or be replaced by a new team led by a competent Canada-U.S. transition planner to coordinate all the activities of the team. In addition, the sooner you put this team in place in anticipation of your move, the more fruit the planning process can bear. Following are some of the issues to be aware of when moving to the U.S. when you own a business.

Canadian Tax Implications

When you leave Canada, the shares of your business are subject to the deemed disposition tax mentioned earlier in this book. There is typically very little, if any, "cost basis" (original capital contributions) in these shares, which means, in most cases, the fair market value of your business must be declared on your final Canadian exit return. This declaration can cause incredible hardship if the majority of your net worth is tied up in the business and there are no other liquid assets available to pay the tax upon your exit. One option is to file Form T1244 - Election, under Subsection 220(4.5) of the Income Tax Act, to Defer the Payment of Tax on Income Relating to the Deemed Disposition of Property with the Canada Revenue Agency. This option will allow you to defer the tax as long as you can provide acceptable security to the Minister of National Revenue to cover any

the right one for you. Whether they tell you or not, all transition planners get paid . . . nobody works for free. There are basically four methods of compensation.

- *Commission only:* the person gets paid commissions and trailers from financial products sold to you; this is the most common method of compensation in the industry and is evidenced by a focus on your investments and the disclaimer that the person can't offer tax advice.
- *Fee-offset:* advice is rendered for a fee, but if you purchase a financial product afterward the commissions or trailers are reduced by the fee you have paid up front.
- *Fee-based:* this is a combination of a fixed fee for advice rendered and then commissions and trailers for any products sold to you. In our opinion, it's really "double-dipping," and it's telling how the financial plan typically recommends products for which the person will earn a commission on as well.
- *Fee-only:* you pay a fee for advice rendered, and there is no other source of third-party compensation (no commissions, trailers, etc.), similar to how you work today with an accountant or an attorney.

Let us say upfront that our firm is a fee-only financial planning firm, and therefore we are disclosing our bias toward fee-only planning. We believe this method of compensation removes as many conflicts of interest as possible from the relationship with you and puts any firm more firmly on your side in rendering advice in your best interests (upholding the fiduciary responsibility to you). When compensation comes from the sale of financial products to you, it creates an inherent conflict of interest because there is generally a quota to meet or a contest to win. Unfortunately, this is perfectly legal in our society because of two very different standards for financial product salespeople versus true financial advisors. In the case of financial product

while the U.S. is not.

- Unlike in Canada, U.S. health-care coverage (Medicare) does not start until age 65; for those under this age, it is available for the indigent through Medicaid. Many people receive health insurance as a benefit from their employers, but if you are self-employed or a part-time worker you have to "go bare" or obtain coverage on your own.
- There are 11 statutory holidays in both Canada and the U.S. In the U.S., Thanksgiving is on the last Thursday in November versus the second Monday in October in Canada; Memorial Day in the U.S. is the fourth Monday of May versus Remembrance Day in Canada on November 11th; Victoria Day in Canada is the third Monday of May; while Independence Day in the U.S. is July 4 versus Canada Day on July 1. There is no holiday for Good Friday or Boxing Day in the U.S.

Miscellaneous Trivia

- Both Saskatchewan and Arizona do not change their clocks for daylight savings time.
- U.S. banks typically do not offer currency exchange services, Canadian banks do.
- Canadian banks charge a fee for each check, while most U.S. banks offer free checking.
- Americans refer to grades 7 and 8 as middle school, while in Canada grades 7, 8, and 9 are known as junior high.
- American high school is grades 9, 10, 11, and 12; the grades are referred to in collegiate fashion as freshman, sophomore, junior, and senior.
- In NFL football, the field is 100 yards long, and the game has four downs, while the CFL field is 120 yards long, and the game has three downs.
- Winnie the Pooh and the telephone were both created in Canada.
- Basketball and hockey were both created in Canada