

(see our companion book *The American in Canada*). Under American rules, individuals who are not U.S. citizens are referred to as “aliens.” How a snowbird is taxed in the United States is determined by your status as either a *resident alien* or a *non-resident alien*.

This is an important distinction. A resident alien is taxed on worldwide income in much the same manner as an American citizen. Such individuals are required to file U.S. income tax returns and pay U.S. tax on their worldwide income (from all sources, from all locations). When computing taxable income, a resident alien is generally entitled to the same deductions and personal exemptions available to an American citizen. Non-resident aliens, on the other hand, are generally taxed on their income from U.S. sources only, with some exceptions. Deductions and exemptions available to non-resident aliens are limited.

A snowbird will be treated as a resident for tax purposes if he or she meets either of two tests: the lawful permanent resident (or green card) test, or the substantial presence test.

The Green Card Test

Under this test, a Canadian citizen who is a lawful permanent resident of the United States — a green card holder — is considered a resident for U.S. income tax purposes. A green card holder is treated as an American resident whether or not the individual is physically present in the United States, until such time as permanent resident alien status under American immigration law is officially revoked or abandoned. This means that, if you are an American green card holder living in Canada most of the time but snowbirding in the United States, you must file U.S. income tax returns every year and declare and be taxed on your worldwide income.

For further information related to the taxation of Canadians who are also green card holders or American citizens who live in Canada, see our companion books *The Canadian in America* and *The American in Canada*.

income tax purposes upon the sale of the American property. Be wary of mortgage companies that announce they have “no fees, no closing costs,” on their mortgages. These folks are not in the mortgage business because they want to lose money or break even. They make money and just hide the costs in a higher interest rate, so be sure to shop around and get a few “good faith estimates” from those financial institutions you are considering.

Impound (Escrow) Accounts

Impound accounts are another item seen only in the United States. The mortgage lender will automatically roll your homeowner insurance and property taxes into your monthly payment so they can be “precollected.” The insurance company or local municipality sends the bill directly to the mortgage company, which pays the money out of your “escrow/impound account.” The rationale behind these accounts is that, since the mortgage company owns 80% or more of the U.S. home, it can legally ensure that the property taxes are paid and the home is protected in the event of fire or some other catastrophe. The company collects the money for these items in advance as part of your monthly mortgage payment and earns interest on it until the money is due. Overall, if you have more than 20% equity in your home, these accounts are generally a bad deal for you because it’s like making an interest-free loan to your mortgage company. Interestingly enough, in most cases, the mortgage company doesn’t discuss this with you or give you the option beforehand, so ask some questions and be wary before accepting these impositions.

Obtaining a U.S. Mortgage

In qualifying for a mortgage in the United States, things can get a little tricky given that you don’t have a credit rating there. Regardless of what your financial position or credit worthiness back in Canada is, most U.S. banks and mortgage companies might not be in a position to assist you. Banks often “pass” on

GameStop	Tractor Supply
GNC (General Nutrition Center)	U.S. Postal Service
Guitar Center	Verizon Wireless
Hancock Fabric	
Transportation	
Amtrak	Metrorail (DC)
Long Island Railroad	NJ Transit
Metro North Railroad (New York)	SEPTA (Pennsylvania)
MTA NYC Transit	
(*Denotes retailers that may not offer the use of PIN-based ATM/debit cards.)	

Further information on NYCE, including available ATM machines, U.S. retailers, and participating financial institutions and related fees can be found at www.nyce.net/index.jsp.

Opening a U.S. Bank Account

Consider opening a U.S. bank account for your American banking needs. In most cases, nothing should prevent you from opening a U.S. account. However, because of American and Canadian securities regulations, opening an investment account in the United States in most cases won't be possible for snowbirds.

When you open a U.S. bank account, you need to fill out IRS Form W-8BEN — *Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding* (reproduced below), which needs to be on file with the bank to confirm your non-resident status. (Recall our comments in Chapter 2 on the U.S. tax scam directed at unsuspecting snowbirds related to this form.)

Interest earned within an American bank account is exempt from U.S. taxation, which is the opposite from Americans generating interest in a Canadian bank account, which is subject to a 10% withholding tax. There is a current proposal to eliminate the withholding tax on interest in the next Canada–U.S. Tax Treaty amendments.

- Will any family members be involved in owning or using the U.S. property?
- Do you want to keep the property in the family? What do your heirs want?
- Are your family members competent? Does everyone get along? How old are your family members?
- Will you be using the U.S. property personally? Will you rent it out?
- What kind of annual expenses (property taxes, utilities, and other costs) are involved with maintaining the property?
- Will the property have a mortgage?
- How long do you anticipate holding the property? Will it be held after the death of the first owner?
- What is the value of your worldwide estate in U.S. dollars?
- What is the value of other American situs assets that you hold, such as U.S. shares?
- Are you contemplating moving permanently to the United States?
- Would the income tax at death in Canada be sufficient as a foreign tax credit against any U.S. estate tax?

With these questions in mind, the following strategies should be undertaken only with the help of competent professionals who are knowledgeable in Canada-U.S. tax and estate planning matters. These strategies can reduce your U.S. estate tax exposure while minimizing or eliminating the U.S. gift tax. Other strategies could be used to coordinate foreign tax credits in order to minimize tax payable at death in Canada and the United States. The following strategies are applicable to non-residents and non-citizens of the United States; American residents and citizens cannot avail themselves of these strategies. (If you require additional information related to U.S. estate tax planning for American citizens or residents, consult our companion books *The Canadian in America* and *The American in Canada*.)

look for the Registered Financial Planner designation in Canada and the Certified Financial Planner™ designation in Canada and/or the United States. The license to use the RFP® designation is issued by the Institute of Advanced Financial Planners in Canada. The CFP® designation is issued annually by the Certified Financial Planner Board of Standards in the United States and the Financial Planners Standards Council in Canada. To hold these designations, one must complete course requirements and a comprehensive exam. In addition, there are work experience requirements (three years) that must be obtained in the financial services industry before use of the designation will be granted. Maintaining these designations requires meeting ongoing continuing education standards to ensure the licensee is current with the changing rules and regulations. Most important, however, is the requirement to abide by a strict code of ethics. An undergraduate degree and a graduate degree (preferably on both sides of the border) should be considered an asset as well as the Tax and Estate Practitioner (TEP) designation given by the Society of Trust and Estate Practitioners (STEP).

If possible, seek an advisor who is qualified to assist you with your U.S. income tax issues before the U.S. Internal Revenue Service. Such an individual is referred to as an Enrolled Agent (EA). The EA designation is only granted to tax experts directly by the IRS. An individual must complete a rigorous background check and four grueling examinations over a two-day period — the same as a CPA in the United States — to obtain the EA designation. Fewer than a third pass the exams in any year, which cover taxation of individuals, trusts and estates, corporations and partnerships, and ethics. An EA is a representative of the taxpayer — not of the IRS. EAs are allowed to practice before the IRS with the same authority and client privilege as any attorney or CPA. They are the only tax experts granted this authority under U.S. federal law and number fewer than 35,000 in the United States.

The next thing to look at is the experience of the Canada-U.S. advisor you are considering. You need to ask potential