

## Purchasing a U.S. vacation property? Consider taxation

Can you imagine a better time to purchase a vacation home in the States? Real estate prices are low in many idyllic destinations, including Florida, California, Texas, and Arizona. Add the stronger buying power of the Canadian dollar, and owning a winter retirement home in the sunny south is closer than ever.

Or is it? Ownership of U.S. property comes with tax and estate planning consequences. You could be taking on an endeavour that's more costly than you imagined — in terms of both money and time.

### Tax implications

For one thing, you must file a U.S. tax return if you spend a specified amount of time in the U.S. per year, whether or not you owe taxes. Here's how it works: Add up the number of days spent in the U.S. in the current year, plus one-third of the days the previous year and one-sixth of the days the year before that. If the total is 183 days or more, you are considered a U.S. resident for tax purposes.

You can apply for a filing exemption, but the tax rules are time-driven and, in some cases, complex. It is wise to consult a cross-border tax expert.

Things get more complicated if you want to rent out your winter home in the summer. You are required to pay a withholding tax of 30% on the gross rent you receive. There is, however, a way to pay tax on the net rental income. But then you must file a U.S. tax return, enabling you to deduct such expenses as mortgage interest, maintenance, insurance, and property taxes.

### Estate planning

You also need to consider whether the property will ultimately become part of your estate or whether you'll sell it. This aspect of ownership involves an understanding of U.S. federal and state income tax, U.S. federal estate tax, U.S. federal gift tax, and U.S. state probate rules, which are different than in Canada.

If you decide to proceed, you must determine the most advantageous ownership option — owning the property personally or holding it in a Canadian holding company, partnership, or discretionary trust.

Before you make a commitment to purchase U.S. property, think about the tax and estate planning issues. Consult with a cross-border tax and estate planning expert, then talk to us to help you weigh the benefits of ownership against the costs and administration involved. Owning a dream home in the sun can be a wonderful part of your life, and may be worth the planning involved.

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