Bayshore Bank & Trust
(Barbados) Corporation

Leaving Canada Checklist

Canadians are resigned to tax rates that are amongst the highest in the world. This is often seen as the cost of living in a country with a high standard of living and social programs such as universal healthcare. However many Canadians continue to leave Canada for foreign postings or to retire abroad. There are several factors that compel Canadians to become expatriates – some are seeking a sunnier climate, a slower pace of life or the excitement of living in a different culture. However inevitably one of the main factors is the ability to pay less tax (or no tax) either on income while working abroad or on the nest egg that is funding retirement.

The following is a list of technical issues and lifestyle issues that should be considered when leaving Canada. If you have any questions please do not hesitate to call your Bayshore Bank & Trust representative.

Technical Issues

1. Ensure That You Have Terminated Canadian Residence.

Terminating Canadian residence is imperative because Canada taxes based on residency. Essentially if you are resident in Canada you pay tax. If you are not resident you do not pay tax. Ceasing residence in Canada is a matter of severing ties with one country (Canada) and becoming resident in another country. There is not one single factor that determines whether not you are a non-resident of Canada. Rather it is more of a cumulative effect where by the more you can do to sever ties with Canada the better off you will be. Also, the longer you are out of Canada the better off you will be. It may be possible to maintain some of these ties without putting your residency in jeopardy but for the most part it is recommended that as many ties be severed as possible. Also if you are moving to a country that has a tax treaty with Canada there are explicit details in the treaty that outlines which country gets to tax an individual.

The following list details what must be done in order to attain non-residence status with the most important at the top of the list. The items marked with an asterisk must be completed or you will be deemed to be a Canadian resident regardless of what other steps you have takes to sever ties:

- ☐ *Sell your home (or at least lease it on a long-term basis)
- ☐ *Obtain residence in another country or territory
- ☐ *Maintain residence in another country or territory for at least 24 months
- ☐ *Ensure that members of your immediate family who normally live in your home do not remain in Canada
- ☐ *Terminate bank accounts, safety deposit boxes and security accounts
- ☐ *Cancel credit cards and newspaper subscriptions

- Forward mail and change addresses of periodicals
- Obtain a new drivers licence in the foreign jurisdiction
- Where possible, move personal items to the new country or sell them
- Terminate Canadian registration of boats, cars and airplanes
- Keep subsequent visits to Canada to an absolute minimum, particularly during the first two years
- Terminate Canadian offices and directorships
- Destroy Canadian stationery and business cards
- Notify government bodies of your change of address, including Canada Post
- Ensure that personal and corporate tax returns have a non-Canadian mailing address (or at the very most, a care of address in Canada)
- Give consideration to revoking wills prepared in accordance with Canadian law and selling Canadian burial plots.
- Notify financial institutions and corporations of which you are a shareholder of your change of address.
- Terminate provincial health care coverage
- Terminate professional, social memberships in any Canadian based organization (or at least change to an international membership

2. Banking and Financial Services

In the midst of planning a move out of Canada it is also imperative that one make arrangements to move the majority of their financial affairs out of Canada as well. As part of the process of severing ties with Canada, banking accounts, credit cards and investment accounts should be moved abroad.

Moving investments out of Canada is also part of the tax planning process as any assets left in Canada that are generating interest or dividends will be subject to Canadian withholding tax.

For expatriates working abroad often the course of action is to open a bank account in an international financial centre for their salary to be deposited. In turn, once they arrive in their new home country they will set up a local bank account for monies to be transferred into for day-today expenses. Some expatriates will do the exact opposite. If their employer will not pay their salary to an international account, once their pay hits their local account they will transfer monies to their international account and hold back some for day-to-day expenses.

Obviously for some people moving to well developed countries with sophisticated financial services, such an arrangement would not be necessary but for individuals moving to third world countries or areas that have experienced political instability it is advisable to hold assets in a safe foreign jurisdiction.

Opening international accounts usually requires more documentation than domestic accounts so it is best to get started early on this process. Reference letters from an individual's current bank, from a professional advisor such as an accountant and a notarised copy of a passport are usually required.

It is also advisable to get extra reference letters for setting up accounts once you arrive in your new country.

3. Selling or Leasing Your Residence

You must not maintain a residence that you can return to in Canada. If you wish to maintain your residence you must lease it "long term" which is in effect for periods of at least one year. When selling home it is best if the transaction is completed before leaving the country. As the principle residence any gains on the sale of the home are not taxable in Canada. This may not be the case if you have already taken up residency elsewhere.

You should keep in mind that if you lease the home, when it becomes a rental property a deemed disposition occurs. While this has no tax consequences initially due to the principle residence exemption, it does create a tax liability if the house is sold at a later date or you return to Canada and take up residence in the house. The house's appreciation between the time it becomes a rental property and when it is sold or once again becomes the principal residence is the issue.

Also, renting the property will trigger Canadian withholding tax on the gross rental income. In order to avoid this a Canadian income tax return should be filed each year in order to account for expenses and to only pay tax on a net basis.

Generally speaking it can be a lot simpler to sell your home but several factors usually affect this decision. A cost/benefit analysis is usually beneficial to determine the best course of action.

4. The Departure Tax.

Canada has what amounts to one of the most onerous exit taxes in the world. However, with careful planning the tax bite can be at best managed and at worst tolerated. With the decreasing capital gains inclusion it is also becoming much more bearable.

Pretty much everything that you own is deemed to have been sold and reacquired on the day that you leave Canada. This brings about the spectre of capital gains. This is not an issue for such things as your RRSP or for your personal residence but it does impact investment portfolios and other assets such as the family cottage.

The main point of the departure tax is to ensure that the Canada Customs and Revenue Agency (CCRA formerly Revenue Canada) can collect on items where there is tax owing. Tax is generally not payable on items that are physically situate in Canada and thus easily collected upon by the CCRA.

In the past the list of items not included in the deemed disposition (known collectively as Taxable Canadian Property or TCP) was much more extensive. However due to some abuse of the system the rules were overhauled in 1996 to be much more stringent.

If tax is owing it is possible to defer it until a later date (presumably until the time when the asset is actually sold and cash is thus available to pay the tax liability). Security must be posted to obtain the deferral. However one must be careful as this route can lead to double taxation depending on the country where one is taking up residency.

One should check with their tax advisor to get an assessment of the departure tax implications applicable to them.

5. Corporations and Partnerships

One issue that is often not a focus when considering non-residency is the effect it may have on business arrangements. By leaving Canada your business or partnership could be affected which would be negative for your self and for others who are remaining in Canada. Canadian-controlled Private Corporation (CCPC) status can be jeopardized by one of the principles leaving Canada. This would negate the low rate of tax for Canadian active business income.

If a company is no longer CCPC it also no longer qualifies for the $500,000 capital gains exemption. There are other considerations as well that should be addressed if CCPC status is in jeopardy such as share purchase agreements.

One should also be wary of any corporate directorships. Often it is required that one be a resident of Canada in order to maintain a directorship.

Partnerships may require Canadian residency. If this is not the case a partnership could face negative tax consequences if it is no longer considered a partnership under the Income Tax Act. Partnership agreements may indicate that partners must be resident in Canada for this reason. Planning may involve transferring an interest in a partnership to another Canadian entity such as a corporation.

6. Registered Assets

Leaving RRSPs, RRIFs and LIRAs and pension assets in Canada is usually not a problem. They do not affect residency status and quite often are more tax efficient if they are left in Canada. One should check the tax treatment of these accounts in their new country as they may not be treated the same tax deferred manner as in Canada. It may be a good strategy to crystallize the capital gains in the registered account before leaving Canada. (This is an especially important consideration for people moving to the United States as registered accounts are technically viewed as trusts, taxable in the U.S.).

While it fine to leave them in Canada, continuing to contribute does not necessarily have benefits. For one thing if you are a non-resident you are not paying income tax in Canada and as such will not be able to use any deduction for making a contribution to an RRSP.

For some people however, it may make sense to withdraw the funds in these accounts either entirely or in regular payments. Generally withdrawals are subject to Canadian withholding tax, which is much lower than the tax one would pay to withdraw funds from these accounts as a Canadian resident. The withholding is 25% in countries that do not have an income tax treaty with Canada. It can be as low as nil for some countries if there is a tax treaty.

For example the Ireland/Canada tax treaty allows “periodic pension payments” to be subject to nil withholding tax in Canada. A periodic pension payment would include a withdrawal from an RRIF as long as it does not exceed 10% of the assets in the account or twice the annual minimum required to be withdrawn. If the entire account is deregistered it would be subject to 15% withholding. Other tax treaties have similar provisions that require one rate of withholding for regular pension payments and another rate for lump sum withdrawals.

For Canadians retiring abroad this is usually a very important part of the financial planning process. However, for Canadians working abroad (who are generally younger) the

cost benefit analysis usually indicates that the assets should be left in the registered accounts. This is due to the fact that upon returning to Canada the assets that were withdrawn from registered accounts cannot be rolled back in. They will be subject to tax on all future capital gains, interest and dividends.

7. Understand the Tax Opportunities in Your New Country

If you are not be moving to a country that is tax-free, you should still get advice on how the tax system in your new home operates. There may still be opportunities for considerable tax savings.

One particular example of this is the U.K. where tax is based on a remittance basis for individuals who are resident but not domiciled in the U.K. Domicile is a complex concept based on your family history, who you've married, if you plan on staying in the UK and various other issues. Generally if you are resident and domiciled in the UK you are taxed on world-wide income. If you are resident and non-domiciled you are only taxed on income earned in the UK or remitted to the UK

The ramifications of this are too complex to go into detail here. However, with proper planning and the right fact situation it is possible for Canadian non-resident living in the U.K. to avoid tax on investments held offshore for a certain period of time.

Lifestyle Issues

1. Health Care

This cannot be stressed enough. For Canadians who are used to having free, technologically advanced, relatively fast and easy to access medical care – moving anywhere in the world will be a change. In order to comply with non-residency one must give up provincial health coverage and opt for a private plan. Be sure to check out all possible service providers, as the cost and coverage will vary quite drastically form one to another. The region of the world you are moving to is also a factor. It is usually recommended that "evacuation" coverage be included in case you have to go to a larger medical center for treatment. When assessing plans you should pay close attention to items you think you will likely be using. For example maternity coverage is usually only provided after one year of continuous coverage.

2. Moving

Take your time and find the mover that suits you best. If you are moving most of your personal items you want to be sure that the mover has experience in shipping to the exact location you are moving to. You want to ensure they have contacts on the ground in your new country that can assist you with clearing items through customs and getting them shipped to your new home. You do not want to be anyone's guinea pig for this sort of move.

Before going you will likely have to go through all of your items and categorize as follows: Ship; Sell; Store; or throw away. This is often an excellent time to rationalize and make extra space after years of collecting various things in the basement or attic.

3. Family

You cannot ignore the impact of expatriation on family members. This includes the ones coming with you and the ones being left behind. If you are leaving Canada to work abroad you should try to negotiate at least one trip a year back to Canada as part of your compensation. If possible you should see if you can also fly in family members from Canada to your new home.

This is also a good time to become more technologically savvy in order to stay in touch with loved ones back home. Today expatriates can stay in touch via e-mail and even via voice and video over the internet. This does of course mean that you have to make sure your family members are "online" as well.

Contact Bayshore Bank & Trust about expatriate planning. Our professionals have personal knowledge on the process of expatriation and have access to a network of tax and legal advisors in Canada and around the world.

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