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TAX PERSPECTIVES
A QUARTERLY PUBLICATION OF THE TAX SPECIALIST GROUP (TSG)

Introduction

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It has been a long time since we produced an edition of Tax Perspectives – so long that we were getting calls from people checking that they were still on our mailing list. In our defence, we have been busy. We have been busy servicing our clients, discovering new tax planning opportunities, and strengthening the TSG network.

The TSG 2004 Conference, held in Toronto in February, drew 45 of our tax professionals from 12 cities. We also held a seminar on Doing Business in China. In the next 12 months, we will have correspondents in major cities in China, as well as in Hong Kong and Macau, to service this growing area.

We are intending to establish a transfer pricing group, headed up by Dr. Elizabeth King, an economist with 20 years of experience in the area. All TSG member firms will have access to this service group. A profile of Dr. King is included inside this issue of Tax Perspectives.

On the domestic front, there has been no shortage of topics to write about. The difficulty is in selecting which topics to address. We hope you will like our choice.

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Rules for Capital Losses

by Maureen Cush, CA, TEP
Daye & Company (Edmonton)

Stock markets performed well in 2003. Many clients may have realized capital gains. Now the market has softened. You may want to trigger unrealized capital losses to recover capital gains taxes paid in 2003. This article provides a review of the rules for doing so.

General

A capital loss occurs on a sale of capital property when the cost exceeds the proceeds and selling expenses. Allowable capital losses (being one-half of the capital losses) can be offset against taxable capital gains in the year. Subject to certain exceptions, an allowable capital loss cannot be applied against other income. If the allowable capital losses exceed the taxable capital gains in the year, the difference becomes a net capital loss, which may be carried back three years and forward indefinitely to be deducted against taxable capital gains.

Carry Back to Prior Year

Most people with capital losses in the current year will first carry them back against previous capital gains. Where capital gains were realized in any of the three previous years, this strategy would normally be used. However, there will be at least two exceptions.

If an individual were in a low tax bracket in the previous year, or had little or no tax to pay, then it may be better to carry the loss forward.

For Canadian-controlled private corporations, where dividends have been paid triggering a "dividend refund", a net capital loss carryback may undo the dividend refund. This will negate most of the benefit of the carryback at the federal level. If so, consider a carryback claim for provincial purposes only, and carry the loss forward for federal purposes.

Foreign Currency

For persons with U.S. investments, the rise in the Canadian dollar will have caused a decline in the value of such investments as measured in Canadian currency. This can result in capital

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Rules for Capital Losses

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losses on realization. The losses may be very sizeable and are often overlooked on such assets as U.S. bonds, T-bills, and bank accounts. This potential source of capital losses should be carefully examined.

Superficial Loss Rules

Persons with capital gains will be concerned about realizing losses to offset the gains, but care must be taken in how the loss is realized.

If you sell property to trigger a capital loss, and you or an "affiliated person" buy identical property within 30 days before or after the sale, the capital loss will be a "superficial loss" and denied for tax purposes.

The denied loss is added to the adjusted cost base of the property. An affiliated person includes yourself, your spouse, any company that you or your spouse control, any partnership in which you are a majority interest partner, and due to recent amendments, certain family trusts, but it does not include children, siblings or parents. Of course, if the property is sold outright in the market and not replaced, these rules are not a concern.

Special Use of the Superficial Loss Rules

The superficial loss rules can be used to one's advantage. Suppose one spouse, A, has realized capital gains and the other spouse, B, holds investments with unrealized capital losses.

The loss investments are transferred by B to A at fair market value. As transfers of property to a spouse are deemed to take place at cost, an election must be filed with B's return for the transfer to take place at fair market value. The superficial loss rules will deny the loss realized on the transfer, provided that A still owns the property 31 days after the transfer. The denied loss will be added to A's cost of the property. The investments can then be sold by A on the open market to realize the loss, and the loss can be used to offset A's capital gains.

CRA does not like this technique and could try to apply GAAR. However, see the comments under *In Brief* concerning GAAR and Foreseeable Loopholes.

No Capital Loss Allowed on a Transfer to an RRSP

A contribution of investments to an RRSP cannot trigger a capital loss. The loss is denied, with no adjustment to the cost base. As a result, a transfer to your RRSP of a property with an accrued capital loss is generally not advisable. Instead, you might consider selling the loss property outside of the RRSP and using the cash proceeds to make a contribution to the RRSP.

Trusts

Capital losses can be claimed by trusts in accordance with the normal rules for individuals. However, they cannot be allocated out of the trust to beneficiaries. We do, however, have some planning options to overcome this.

Allowable Business Investment Losses ("ABILs")

ABILs are a special type of capital loss that may be deducted from all sources of income for the year. ABILs arise when there is a capital loss on shares or debt of a corporation that, at any time in the 12 months preceding the loss, was a "small business corporation."

A "small business corporation" is a Canadian-controlled private corporation, where all or substantially all of the corporation's assets (90% by value) are used principally in an active business carried on primarily in Canada.

The loss must occur on a disposition to an arm's length person, unless the loss results from a "deemed disposition". A deemed disposition of a debt for nil proceeds will occur if it has become a bad debt during the year. A deemed disposition of a share for nil proceeds will occur at the end of a taxation year if the corporation is bankrupt, is being wound up or, subject to certain conditions, is insolvent and no longer carries on business. The taxpayer must make an election in his or her tax return for the year in order to have the deemed disposition apply. Non-arm's length inter-corporate debt cannot be used for ABIL treatment.

If an ABIL is not utilized in the year in which it arises, it can be carried back three years or forward seven years as a non-capital loss to offset all sources of income in those years. If the ABIL is not deducted at the end of the seven-year carryforward period, it becomes a net capital loss, which can be carried forward indefinitely to offset taxable capital gains in future years.

The amount of the ABIL that can be deducted against other income must be reduced by any capital gains exemption claimed in prior years. The amount of this reduction becomes a capital loss. In addition, if an ABIL is deducted against other income, an equal amount of taxable capital gains must be realized in later years before the capital gains exemption can be used again. These nuances can catch people unaware.

Capital Losses on Death

Any net capital losses carried forward at the time of death can be applied against all other income for the year of death and for the immediately preceding year, except to the extent the capital gains exemption has been claimed.

Personal Use Property

No capital losses are available on personal-use property, except for "listed personal property" losses, which can be used only against listed personal property gains. Listed personal property is generally property such as art, jewellery, rare books, stamps and coins used primarily for personal enjoyment or investment.

Summary

With proper planning before the end of the year, you may be able to minimize your tax on current year capital gains or recover taxes paid in a previous year. The record keeping for foreign currency accounting should not be underestimated, and realizing losses on currency conversion is not always easy. Early Fall is an excellent time for individuals to see where they stand on capital gains and losses, and to plan accordingly.

Macau Offshore Company Regime

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The Caribbean, the Mediterranean, and the Indian Ocean all have something in common. They each have a multitude of jurisdictions where one can establish either a tax-exempt company, or a company that pays tax at relatively nominal tax rates. But the South China Seas do not. One generally had to go quite far afield, to places like Labuan in Malaysia, or Samoa, before finding such jurisdictions, at least until recently.

Until 1999, Macau was a tiny Portuguese colony, located where the Pearl River meets the sea, about one hour by high-speed ferry from Hong Kong. It was known more for its casinos than its business environment. But that is changing.

In a surprise move, the government of Macau announced an offshore company regime, shortly after China took back its sovereignty. The Chinese government must have realized that the prime target of the Macau offshore company regime would be investment within China itself. So why allow it, beyond the obvious reasons of promoting business and employment in Macau - nobody knows. But under the overall custody of the Chinese government, such bodies as the OECD and the European Union are unlikely to have a long enough reach to be of influence. OECD conducted a review of the offshore regimes over the last 6 years and has put pressure on tax havens. China, with its tax system full of exemptions for foreign business, was never accused of promoting harmful tax competition, and Macau is not on any black lists.

A Macau offshore company is an entity, which is licensed by the Macau government to carry on business within Macau, but may derive income only from sources outside of Macau. For example, a Macau offshore company may buy and sell goods from an office based in Macau, purchasing them in China, and selling them worldwide, provided it does not sell the goods in Macau itself. While it is common for the Macau company to be a Macau incorporated entity, it can also be a branch of a foreign corporation or a limited liability company.

Once approved, the entity is not subject to any taxes in Macau, and may freely repatriate its earnings without withholding taxes or foreign currency control restrictions. As such, it represents an ideal vehicle by which to administer a business in China.

Consider, for example, the following structure. A factory is established in China, to produce goods on behalf of a Macau offshore company. The Chinese manufacturer operates as a contract manufacturer on a cost plus basis, earning a modest, but reasonable, profit. The Macau company earns the greater part of the profit, on which no tax is paid.

Similarly, the Macau company could be used as a base for importing goods into China, or for licensing manufacturing activities in China.

In order to obtain approval to operate, the Macau offshore company must maintain an independent office of a reasonable size in Macau, employ at least one local person, and submit a business plan for approval. Of particular concern is whether the business will benefit Macau, in terms of economic development.

The Macau offshore company is certain to challenge the leading jurisdictions in the region, being Hong Kong and Singapore, whose tax rates are 17-1/2% and 20% respectively. A nil tax rate is an offer that some people will not be able to refuse.

Further information on Macau offshore companies is available through our website or upon request.

Through our associate, Thomas Lee and Partners, in Hong Kong, we can provide all necessary services to establish a Macau entity.

Profile

ELIZABETH KING, Ph.D

Based in Brookline Mass., Elizabeth King has performed transfer pricing and valuation studies on behalf of large and small companies in the United States, Canada, Europe and Asia for over 20 years. Elizabeth has completed studies for firms in a wide range of industries, including financial services, commodities trading, petrochemicals, steel, pharmaceuticals, pulp and paper, timber, medical devices, dairy products and consumer electronics. She has testified in the U.S. Federal courts, published extensively, and was listed in the 2004 Guide to the World's Leading Transfer Pricing Advisors (published by Euromoney Legal Media Group in conjunction with International Tax Review).

Elizabeth holds a Ph.D. in Economics from New York University and was a Post-Doctorate Research Fellow at Harvard Business School. She is a member of the American Economic Association (AEA) and the International Fiscal Association (IFA).

Where Do Your Taxes Go?

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A client of mine called recently to ask an intriguing question: “Do I have any say in where my taxes go?” I was tempted to simply say no, but then I thought about it for a while. The answer may surprise you.

Like many Ontario taxpayers, my client was upset over recent events in the province. Aside from the SARS crisis, which almost brought Toronto to a halt, there is the Ontario budget deficit, in excess of $5 billion dollars. He could not understand how the former Minister of Finance, Janet Ecker, presented a budget, in March 2003, which showed that the books were balanced. Even though the budget was presented in an unorthodox way, which may have contributed to Ms. Ecker losing her seat in the ensuing election, it is still incredible to think how budget projections could have been so wrong. And even if they were wrong, he wondered why the ballooning deficit was not brought to the attention of Ontario taxpayers at a far earlier stage.

On the heels of this came the announcement, by Premier Dalton McGuinty, that various campaign promises will not be kept. The cap on hydro rates, which was promised, will not be respected, and Mr. McGuinty blames, in part, the unexpected provincial deficit. Regardless of who or what is to blame, a promise is a promise, or is it? Then came the no-tax increase budget of May 2004, complete, of course, with its disguised tax increase.

At the other end of the scale, taxpayers are expected to conduct themselves according to a strict code of conduct. You self-assess your tax, file complete information returns to assist the government in verifying your tax, and pay your tax on a timely basis. Furthermore, you are required to make accurate estimates of your income for the purposes of paying tax installments. If you fail to do these things, my client noted, you will be charged interest and, depending on the circumstances, penalties as well. Furthermore, if you supply false information, you may be subject to criminal prosecution. You could even go to jail.

Now back to the original question, where do your taxes go? The answer is that it very much depends on the nature of your income.

Employment income is taxed where the person earning the income is resident. The federal government and your province of residence each get a share (roughly 2/3 to 1/3). If the employment is carried out in a foreign country, a credit is given in Canada for the foreign tax paid. The credit is first applied to federal tax, and then to provincial tax.

“Do I have any say in where my taxes go?”

If the income is business income, then it is sourced to the province or country where the income is earned. For example, if an Ontario resident earns business income in Alberta, tax will be paid federally and to the province of Alberta.

Most other types of income earned by individuals result in tax being paid to the province where the individual resides, with a credit for foreign taxes paid if applicable. For interest and dividend income, this foreign tax credit is limited to a maximum rate of 15%, coincident with the rate applicable in most of Canada’s international tax treaties.

But, what if you deliberately wanted to pay tax to a different country or province, could you do so? The easiest income to “shift” is investment income. To do this, normally one would use a trust. For example, if the income were earned by a trust resident in Alberta, and if the income were retained in this trust and taxed on this basis, then federal and Alberta tax would be paid on the income, rather than Ontario tax. In the past, people have used this strategy, since Alberta tax rates are lower than Ontario’s by about 7% at the top tax bracket.

If one wished to favour a foreign jurisdiction, then it is also possible to use certain techniques, such as establishing a trust in that jurisdiction, to pay tax on the investment income. Tax would also be paid in Canada, but a credit would be given for the foreign tax. However, this will not necessarily save you tax, and may in fact prove more expensive on dividend and interest income due to limitations in the foreign tax credit mechanism.

It is also possible to establish a trust in a tax haven jurisdiction, which will be free of foreign tax. In this situation, the investment income would be taxable by Canada, since the trust would be deemed a resident of Canada. However, rather than paying tax in a province, an additional level of federal tax would apply. Depending on the province of residence, a small tax savings might result. A large tax revenue shift will also occur, in favour of the federal government at the expense of your province of residence.

Lastly, in lieu of paying tax, you can always give money to charity.

In summary, it may come as a surprise to many people to learn that you do have some discretion as to where your taxes go, even though you may not be able to influence the total amount you pay.

Keep in mind that if you do redirect your taxes, it will have an impact, however modest, on the finances of the Canadian federal government and the province in which you live.

Planning for the Sale of a Proprietorship

Howard D. Kazdan, CA, CPA (Illinois)
Cadesky and Associates (Toronto)

Here are some key planning points that one should consider when a proprietor is selling an incorporated business.

Sale of Assets vs. Sale of Shares

If a proprietor were to simply sell the business assets and goodwill, then he would pay full personal tax on some of the sale proceeds and half of this on capital gains and goodwill.

If, however, it were possible to sell the business in corporate form, as shares of a qualifying small business corporation ("QSBC"), then the proprietor may be able to claim the capital gains exemption, and pay nothing. If the total capital gain earned on the sale is $500,000 or less, then the entire amount could be received tax-free.

In order to claim the $500,000 capital gains exemption, the proprietor would have to:

(a) Transfer all of the business assets to a corporation before completing the sale (this would be done on a tax-free rollover basis); then

(b) Sell the shares of the new corporation, which must qualify as QSBC shares.

QSBC shares

To qualify for the $500,000 capital gains exemption on the sale of QSBC shares, the following tests must be met:

- at the time of sale, substantially all of the business assets (90% or more) must be used for carrying on an active business in Canada;
- the individual or a related person must have held the shares throughout the two-year period before the sale ("Holding Period Test") and
- throughout the two-year period, more than 50% of the assets must have been used in an active business in Canada.

Holding Period Test

A new corporation formed for the sole purpose of selling the proprietor's business would not meet the Holding Period Test, thus disqualifying the shares from the capital gains exemption. However, there is a relieving rule that deems the Holding Period Test to be satisfied in these circumstances. In other words, the Holding Period Test is waived.

Shares held as Capital Property

The $500,000 capital gains exemption is only available where the shares are held on account of capital.

A transfer to a corporation followed immediately by a sale could be viewed as an adventure in the nature of trade. The shares were issued with the intent of immediately realizing a significant gain upon sale. If so, any gain could be taxed as business income. Again, however, there is a relieving rule.

Where an individual has disposed of all or substantially all of the assets used in an active business to a corporation, for consideration that included shares of the corporation, the shares are deemed to be capital property. Thus, any gain would be a capital gain.

After considering these special provisions of the Income Tax Act, it becomes evident that an individual may transfer the assets used in a proprietorship to a corporation, and then immediately claim the $500,000 capital gains exemption by selling the shares of that corporation. This is a significant benefit that should not be overlooked in sale negotiations.

For the purchaser, it is less advantageous to buy the shares, as there will be no step up in cost base of the assets involved (with minor exceptions). However, since the vendor will be receiving up to $500,000 tax-free, he should be more willing to negotiate a lower sales price.

Thus, it is possible for both parties to win from this kind of planning.

Retirement Compensation Arrangements

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A retirement compensation arrangement ("RCA") is a retirement plan structured as a trust arrangement between an employer and an employee. Contributions are made by the employer to the RCA trust, under which the employee is the beneficiary. The trust is required to make payments to the employee (or an employee's beneficiary) on, after or in contemplation of the employee's retirement, on death, or on a significant change in duties. The tax planning is based on the idea that the employee will be taxed at a lower tax rate at that time.

The RCA is subject to a 50% refundable tax on contributions made and any income earned by the RCA. While the RCA is subject to the 50% tax on contributions and income, the employee is not taxable until funds are distributed from the RCA. When distributions are made from the RCA to the employee, the 50% refundable tax is recovered at a rate of $1 for every $2 distributed. This means that all taxes will be refunded if everything in the RCA is distributed.

Employer contributions to an RCA do not affect the employee's contribution limit to an RRSP and the amount of the contribution is limited only by what is reasonable. The investment of funds in an RCA is not limited to prescribed investments, as is the case for RRSP's, and therefore RCA funds can be invested in active businesses, foreign stocks or life insurance, as well as traditional RRSP type investments.

The beneficiary of an RCA is not taxed until funds are withdrawn from the RCA. Accordingly, whether an RCA is right for you depends on when you expect to withdraw the funds and your expected tax rate at that time.

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U.S. Limited Liability Companies

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Until the mid 1990s, it was common to carry on business in the U.S. either through a corporation or a partnership, including a limited partnership. Because U.S. persons could elect for a corporation to be a flow-through entity for tax purposes (subchapter S election), the income could be taxed at the shareholder level, rather than in the corporation, thereby preventing the double taxation for which the U.S. tax system is infamous. Such arrangements had a number of drawbacks, however, and limited partnerships had disadvantages also.

Against this background, a new type of entity grew in popularity – the limited liability company ("LLC"). Depending on how the LLC was legally constituted, for tax purposes it could be either a corporation or a partnership (a disregarded entity if it had only one owner). Finally, the IRS gave up on classification based on subtle legal distinctions, and decided to allow taxpayers to designate whether an LLC was to be taxed as a corporation or as a disregarded entity, the latter resulting in taxation at the owner level.

Tax planning schemes evolved around the use of LLCs, particularly in combinations, whereby U.S. tax could be avoided or substantially reduced. These schemes, which normally involved non-residents of the U.S. in combination with U.S. businesses, were finally stopped by denying tax treaty benefits in respect of passive income of LLCs. Faced with a 30% withholding tax, the schemes quickly collapsed.

Now the question that remains is whether U.S. LLCs are still attractive to Canadians. The answer is a cautious yes.

A U.S. LLC will be treated as a corporation for Canadian tax purposes, regardless of how it is treated for U.S. tax purposes. This can lead to a curious result. Suppose that the LLC is treated as a flow-through entity for U.S. purposes. If so, then the Canadian owner will pay tax on the U.S. business income, and will file a U.S. income tax return. However, for Canadian tax purposes, no income will result until funds are withdrawn in some fashion from the LLC.

Without careful planning, this can result in double taxation, once for U.S. purposes when the income is earned, and then again for Canadian purposes when the income is withdrawn. However, if the income is withdrawn in the same year as it is earned, then the U.S. tax can be matched against the Canadian tax, potentially resulting in less tax overall than what would occur if a U.S. corporation had been used instead. The tax savings can be 10% or more, which is meaningful on larger amounts of income.

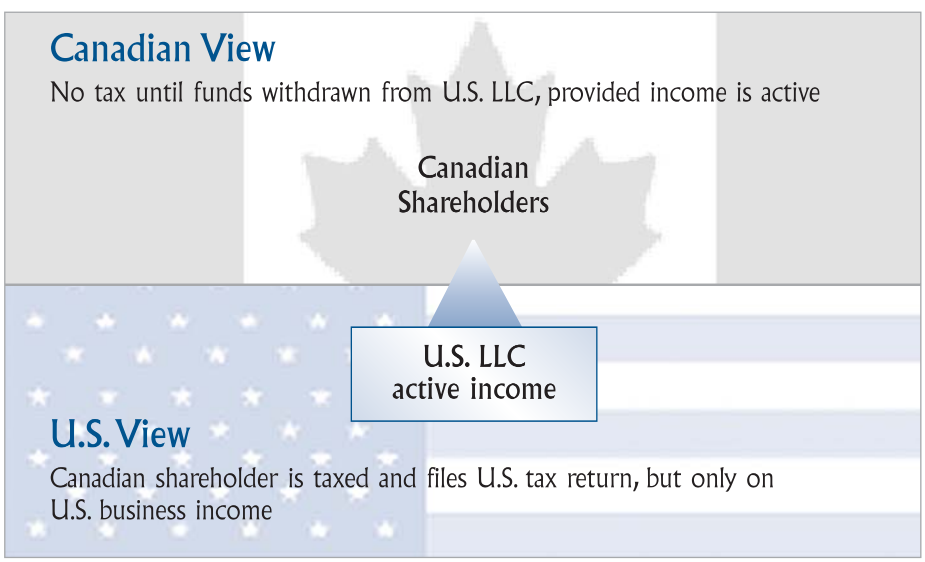
The U.S. LLC has several potential disadvantages, the most significant being, that under the current version of the Canada-U.S. treaty (a revision is being considered), it does not obtain treaty benefits. Therefore, it may be considered Canadian resident if its mind and management is in Canada, and may be taxable in Canada if it carries on business in Canada, even if it does not have a permanent establishment. Secondly, if the LLC has related party transactions involving Canada, transfer pricing may become an issue, and recourse may not be available to the arbitration provisions of the Canada-U.S. treaty.

Having said this, if the tax affairs of the LLC are closely monitored, these problems should not arise.

The owner of a U.S. LLC is taxable in the U.S. only on U.S. source income, and not on income from outside the U.S. In addition, capital gains will not be subject to U.S. tax, unless they arise from the sale of U.S. business assets or U.S. real property interests. Therefore, a U.S. LLC can be used as a holding company, without it being subject to tax by either Canada or the U.S. In some ways, the U.S. LLC could be the ultimate tax haven vehicle.

If a U.S. corporation is already in existence in a corporate structure, it can be reconfigured into an LLC on a tax-free basis. While certain formalities need to be observed, it is likely that substantial amounts of income can be earned directly by the Canadian owners, commencing immediately after the LLC has been put in place. Therefore, instant tax benefits can be derived.

If you currently own a U.S. corporation, and would like an evaluation as to whether a U.S. LLC is appropriate in your circumstances, please contact us.



IN BRIEF

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ID Numbers for U.S. Real Estate

The IRS recently issued regulations stating that the foreign seller of U.S. real property must have a taxpayer identification number on all returns and documents for all closings occurring after November 3, 2003. The identification number is also needed to claim back tax withheld, normally being 10% of the gross proceeds.

This requirement will have immediate impact on any foreign owner of U.S. real property. Obtaining a taxpayer identification number is not a quick and simple procedure. Therefore, if foreign residents wait until immediately before the closing day to apply for a taxpayer identification number, the closing date may have to be delayed.

For those who anticipate selling their U.S. real estate within the foreseeable future, it is recommended that they apply for a taxpayer identification number now. In order to apply, Form W7, available on our website, must be completed and filed with the IRS.

Section 160 Amendments – Accrued Interest

Section 160 applies in situations where an individual has an unpaid tax liability and transfers assets to a related individual. This related individual is liable for any taxes that the first individual does not pay, up to the value of the property transferred. Now the new rule applies to both taxes and interest. Note that the interest on a tax assessment can grow and actually exceed the tax itself after seven or eight years.

"interest on a tax assessment can grow and actually exceed the tax itself after seven or eights years."

Refund of Instalments

What happens if you pay tax instalments based on the prior year, and then suffer a major loss? Soon you will be able to get a refund of instalments paid, if it would cause undue hardship not to issue a refund. In order to receive a refund of instalments, you must meet the following conditions:

- It is reasonable to conclude that the instalments exceed the taxes for the year (i.e., you have definitely overpaid).
- The Minister is satisfied that the instalments have caused or will cause undue hardship.

There is no clear guidance as to the meaning of undue hardship, but based on past experience, the criteria should not be too stringent. These rules are not yet in effect and will be applicable after the legislation receives Royal Assent.

Pre-judgement Interest

In general, pre-judgement interest (interest computed for the period prior to a court order or settlement) is taxable as interest income. However, it had been CRA's administrative policy not to tax pre-judgement interest on awards in respect of personal injury or death or awards for wrongful dismissal. The policy with regard to wrongful dismissal has been changed. Beginning in 2004, it is CRA's policy that pre-judgement interest on wrongful dismissal settlements will be taxable. The CRA policy will not change for pre-judgement interest on payments for personal injury or death.

"GAAR cannot be used to fix what the drafter of the law missed."

Foreign Tax Credits & Social Security

In the past, CRA allowed a foreign tax credit for German and French social security taxes. However, effective for 2004 and subsequent years, only U.S. social security taxes will be available as a foreign tax credit. The U.S. social security taxes are treated differently because of the Canada-U.S. Treaty.

GAAR and the Foreseeable Loophole

The case of Imperial Oil Ltd. [2004 FCA 36] was heard by the Federal Court of Appeal, with judgment issued on January 26, 2004. In that case, a simple plan of loans and repayments defeated the much-disliked federal capital tax. The plan was blatant and had no business purpose. Its only purpose was to save capital tax.

The Federal Court of Appeal refused to allow application of the General Anti-Avoidance Rule ("GAAR"). It held that the plan was not an abuse of the Income Tax Act. It was easy to foresee that such a plan would be used and the legislation was deficient since it did not address such a possibility. GAAR cannot be used to fix what the drafter of the law missed. Parliament must be given credit for enacting what it intended to enact.

Thus, we now enter a new era in the GAAR saga: the Foreseeable Loophole defence. If you can demonstrate that a loophole was reasonably foreseeable, GAAR cannot be used as a backstop to deny you the benefits of the loophole.

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If you expect that your income at retirement will be low because you do not have a company pension or significant other assets, an RCA will allow you to take the money out of the plan at retirement and pay tax at lower rates.

An RCA is beneficial to someone who may become a non-resident of Canada in the future. If the funds from an RCA are paid to a non-resident, the RCA will withhold and remit tax of 25% (lower if reduced by international tax treaty).

An RCA is particularly beneficial to U.S. citizens living and working in Canada. It is an excellent tool to equalize the Canadian tax rate to that of the U.S. over, say, a five-year work term in Canada.

TAX PERSPECTIVES

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