

"H-1B Professionals' Guide to Canada: Cross-Border Tax Planning, Compliance, and Strategic Insights"

Relocating from the United States to Canada on an H-1B visa can unlock significant career opportunities - but it also brings complex cross-border tax considerations. At **Bahl & Co., P.C.**, we specialize in U.S.- Canada cross-border taxation and have successfully guided numerous professionals, families, and business owners through the complexities of international relocation.

Beyond logistics, a successful move requires careful planning around **tax residency, reporting obligations, income sourcing, and treaty implications** in both countries. By understanding and addressing these factors, you can ensure compliance, minimize tax exposure, and optimize your overall financial position—giving you the freedom to focus on your new opportunities in Canada.

Below, we outline the key tax considerations to help you stay compliant, optimize your tax position, and plan your financial future with confidence.

1. Determining Tax Residency

U.S. Tax Residency

H-1B visa holders are generally treated as **U.S. tax residents** if they meet the **Substantial Presence Test (SPT)**, which requires:

- At least **31 days** of physical presence in the U.S. during the current year, and
- A total of **183 days** over a three-year period (counting all days in the current year, 1/3 of the days from the previous year, and 1/6 from the year before).

If you meet this test, the IRS considers you a **U.S. resident for tax purposes**, and your **worldwide income** is taxable in the U.S.

Canadian Tax Residency

Canada determines tax residency based on **residential ties**, not visa status. You'll generally become a **Canadian tax resident** once you:

- Establish a permanent home in Canada,

- Move your spouse or dependents there, or
- Transfer significant personal and social ties.

From that date forward, you'll be subject to **Canadian tax on your worldwide income**.

2. Dual Filing Obligations

If your move occurs mid-year, you may need to file tax returns in **both countries**.

U.S. Filing: Dual-Status Tax Return

You'll typically file a **dual-status return**, reporting:

- Worldwide income during your U.S. residency period, and
- Only U.S.-source income after leaving the U.S.

Apply for a Canadian ITN (Individual Tax Number)

U.S. residents moving to Canada for employment must obtain a **Social Insurance Number (SIN)** for payroll and tax reporting. If they are not eligible for a SIN, they must apply for a CRA **Individual Tax Number (ITN)** to meet Canadian tax filing obligations.

Canadian Filing: First-Year Return

In Canada, you'll file a **resident tax return** starting from the date you became a Canadian tax resident, reporting income earned after that point.

3. Coordinating Cross-Border Taxes

Foreign Tax Credits

Both the IRS and the Canada Revenue Agency (CRA) allow **foreign tax credits** to prevent double taxation. In most cases, you can claim credit in one country for taxes paid to the other.

U.S.- Canada Tax Treaty

The **U.S.- Canada Income Tax Treaty** provides guidance on how income (employment, dividends, pensions, etc.) is taxed and helps reduce withholding rates and avoid duplicate taxation.

4. Departure Tax and Exit Considerations

If you are a **U.S. tax resident** at the time of departure, you may be subject to an **exit tax** on the deemed sale of certain assets. This rule typically applies to long-term residents and green card holders, but it's vital to understand your potential exposure before leaving.

5. Foreign Asset Reporting

Moving abroad often triggers **additional U.S. reporting requirements**, including:

- FBAR (FinCEN Form 114): Required if your total foreign account balances exceed \$10,000 at any time during the year.
- Form 8938 (FATCA): Required if you own foreign financial assets exceeding specific thresholds.

These forms are **separate from your tax return**, and non-compliance carries **severe penalties**.

6. Investments and Capital Income

Capital Gains

Both countries tax capital gains, but their rules differ. Document the **fair market value (FMV)** of your investments on the date you move—this becomes your **cost base in Canada** for future gains.

Dividend Income

If you retain U.S. investments, dividends are usually subject to **U.S. withholding tax** (commonly **15% under the treaty**) and must also be reported in Canada. Claiming the **foreign tax credit** prevents double taxation.

7. Cross-Border Rental Income: U.S. and Canadian Considerations

Canadian residents are taxed on **worldwide income**, including rental income from U.S. properties **such as a Florida rental home**. The Canada Revenue Agency (CRA) has specific rules for reporting and deducting rental income and expenses. Key considerations are summarized below.

Reporting Requirements

In the U.S.:

Rental income from U.S. properties may have U.S. tax implications depending on the ownership structure, and Canadian residents will generally be required to file ongoing U.S. tax returns and also consider the following:

- As applicable, tax withholding requirements for U.S. non-residents.
- As applicable, special elections on U.S. tax returns to optimize tax outcomes and prevent double taxation.

In Canada:

Rental income and expenses from U.S. properties must be reported on Form T776 – Statement of Real Estate Rentals for CRA purposes.

**** The following categories of expenses are presented with a focus on Canadian taxation rules; distinct rules may apply for U.S. tax purposes.**

1. Deductible Expenses

- Deduction rules are conceptually similar to the U.S. but not identical.
- Only reasonable, rental-related expenses are permitted.

2. Capital Cost Allowance (CCA) – Depreciation Expense

- Buildings acquired after 1987: CCA rate 5%.
- Buildings acquired before 1988: CCA rate 4%.
- Half-year rule applies in the year of purchase or when the property begins to be used as a rental.
- CCA not claimed in a year, can be carried forward.
- CCA cannot create or increase a rental loss.
- If a building's cost exceeds \$50,000, it must be placed in a separate CCA class.
- Land is not depreciable.

3. Interest and Financing Expenses

- Only interest is deductible, not principal.
- Mortgage statements separating interest vs. principal are required for tax reporting.

4. Operating Expenses

Common deductible expenses include:

- Repairs and maintenance
- Utilities
- Advertising, property management, insurance, etc.

Not deductible:

- Home office expenses
- Personal or non-rental expenses

5. Personal Use of the Rental Property

- CRA has strict rules regarding mixed personal and rental use.
- Only expenses directly tied to the rental period or portion are allowable.

6. Renovations & Capital Improvements

- Routine repairs are generally deductible.
- Renovations that extend the building's useful life or enhance its value are capital in nature and must be depreciated through CCA.

7. Co-Ownership: Each co-owner must report:

- Their share of rental income.
- Their share of related expenses in proportion to ownership.

8. Disposition of the Rental Property: On sale, the following may apply:

- Capital gains or losses based on CRA rules for proceeds of disposition and adjusted cost base (ACB).
- Recapture of previously claimed CCA.
- Terminal losses, if applicable.

Recordkeeping

Maintaining accurate records and receipts for all rental income and expenses is critical, as it directly affects the preparation of both U.S. and Canadian income tax returns. **RCTAX**, can assist by providing comprehensive bookkeeping services, including preparation of profit and loss

statements, generation of balance sheets for internal tracking, and support for tax return preparation and compliance. Proper recordkeeping helps ensure all allowable deductions are captured, reporting is accurate, and potential audit issues are minimized.

7. Retirement Accounts and Cross-Border Planning

U.S. Accounts (401(k), IRA)

You can retain your U.S. retirement accounts after moving to Canada. Withdrawals may be taxed in both countries, but the **tax treaty** may provide coordination and relief.

Early **withdrawal penalties** may apply if you take distributions from your 401(k) or IRA when moving.

Canadian Accounts (RRSP, TFSA)

After becoming a Canadian resident, you can contribute to **RRSPs** and **TFSAs**, which offer valuable tax benefits. However, cross-border planning is essential to ensure your savings remain tax-efficient under both systems.

8. Estate and Inheritance Planning

U.S. Estate & Gift Tax

If you retain U.S. property or investments, those assets may remain **subject to U.S. estate or gift tax** even after you move.

Canadian Estate Rules

Canada has no estate tax, but it imposes **capital gains tax on death**, treating assets as if sold immediately before death. Coordinated planning is crucial to minimize cross-border tax exposure for your heirs.

9. Credits, Deductions, and Planning Opportunities

Cross-border professionals may qualify for:

- Foreign tax credits for income taxed in both countries
- Charitable donation deductions
- Certain moving expense claims

A well-structured cross-border tax plan can help you **reduce your global tax burden** while maintaining **full compliance** with both the IRS and CRA.

Final Thoughts

Relocating from the U.S. to Canada on an H-1B visa presents exciting opportunities—but also significant tax complexity. Every move is unique, and without a smart plan, cross-border costs can spiral into the thousands of dollars. Success depends on timing, income sources, and your long-term residency goals.

At **Bahl & Co., P.C.**, our cross-border tax specialists' partner with professionals, families, and business owners to **navigate the complexities of the U.S.- Canada tax landscape** with precision and confidence. Whether you are planning a move or already residing in Canada, we provide strategic guidance to ensure compliance, optimize efficiency, and safeguard your financial peace of mind.

📞 Contact **Bahl & Co., P.C. today** at **Himanshu@smarttaxcpa.com** to schedule a consultation and discover how our cross-border tax specialists' can help you navigate your U.S. - Canada tax obligations with confidence and precision.