



H&R BLOCK

BUYING A U.S. PROPERTY? MAKE SURE YOU KEEP THE IRS HAPPY

U.S. real estate prices may be tempting but Canadians purchasing property south of the border may trigger tax implications in both countries.

- **Do I file a return for a personal property?** – If you are using your U.S. property solely for personal use, it depends on how many days you are in the country. You should complete a substantial presence test calculation and determine if you need to file an 8840 Closer Connection Statement or 1040 return.
- **Do I report my rental income?** - If you are renting the property, you must report the income in both Canada and the U.S.
- **How do I report rental income in the U.S.?** – You are required to complete a 1040NR every year to report your rental income. Under the U.S. Canada Tax Treaty, rental income in the U.S. is subject to a 30% withholding of the gross rent in the U.S. But you can make a one-time election which would allow you to pay tax on only the profit.
- **Do I have to report the rental income in Canada?** – Yes. Canadian residents are required to report their world wide income on their tax returns. You can claim a foreign tax credit for the tax paid in the U.S.
- **What rental expenses can I claim?** – There are different rules in each country and your rental statements may not match. Expenses such as mortgage interest, property taxes, utilities, normal maintenance, insurance and accounting fees are eligible. In Canada, you do not have to claim the capital cost allowance but under U.S. law, depreciation is mandatory. Rental property is determined to have a 27.5 year life span or you can choose a 40 year life span.
- **Can I do my own renovations?** If the property is personal use, yes. If it generates rental income, you do not have the right to operate a business or rental in the U.S. So you need to retain a property management company to collect rent, look after the property or handle renovations. If you want to do your own renovations, you will need the appropriate work visa.
- **How do I file a return?** – You will need to apply for an ITIN – Individual Taxpayer Identification Number which is similar to a Social Security Number. You can apply for the ITIN when you file your first tax return.

- **What about capital gains?** – If the U.S. property is not considered your principal residence, you will need to report your capital gains in both countries. The U.S. requires the full capital gain be reported on the 1040NR but they are generally taxed at a lower rate. Canada only taxes 50% of a capital gain.
- **What exchange rate do I use?** – You will need to report your income in Canadian dollars on your Canadian return. You can use the average annual rate as determined by the Canada Revenue Agency or Bank of Canada.
- **Do I file state taxes?** – This will depend on your location. Some states like Arizona and California have state tax while others like Texas and Nevada do not. A state tax return is completely separate from the federal return and the state tax paid can be claimed as a foreign tax credit in Canada.
- **Does the CRA need to know?** - If the property is a rental and the cost is more than \$100,000, you must file Form T1135 Foreign Income Verification Statement with the CRA. This form is not required if you are using the property for personal use only.