

Tax Implications of Immigrating to Canada

There are numerous income tax implications of immigrating to Canada. We briefly address, below, some of the most significant issues that arise.

Residency for Tax Purposes

An individual is either a resident or a non-resident for Canadian income tax purposes. If you have a physical presence in Canada for 183 days in one taxation year you are considered to be a resident of Canada for that year. Aside from this, there is no exhaustive definition in the Income Tax Act of who is and who is not a resident of Canada. Generally, as an immigrant, you become a resident of Canada for income tax purposes when you establish significant residential ties in Canada – usually on the date you arrive.

Taxation of Non-Residents

Non-residents of Canada are taxed only on certain Canadian source income including Canadian employment income, Canadian business income, and gains from the disposition of “taxable Canadian property”. Certain other types of Canadian source income including interest, dividends, rents, royalties, management fees, and estate or trust income are taxed at a rate of 25% of gross income, unless a lower treaty rate applies.

Becoming a Resident in Canada

The year of immigration is, in effect, divided into two parts: the part during which the individual was a non-resident, and the part during which the individual was a Canadian resident. When an individual becomes a resident of Canada, most of their property is deemed to be acquired at fair market value at the time of immigration. As a result, Canada will only tax the economic gain that accrues during Canadian residency.

Taxation of Canadian Residents

The federal and provincial governments impose income taxes on corporations, individuals and trusts. An individual resident in Canada is required to pay tax on his or her worldwide income. For 2010, the maximum personal tax rate in the province of British Columbia is 43.7%. There is a foreign tax credit system to provide relief from double taxation on non-Canadian income. There are no inheritance or gift taxes, however probate fees may apply. In addition, there are a number of sales and excise taxes.



Immigration Trust

The Income Tax Act provides an immigrant with the opportunity to transfer non-Canadian investment assets into a foreign trust exempt from Canadian tax for up to five years. Professional advice should be sought prior to immigration.

Tax Treaties

Canada has comprehensive income tax treaties with many other countries (including China, but excluding Hong Kong). Foreign source income may be subject to tax in Canada and the other country if no tax treaty exists between Canada and the other country. In this case the amount of tax payable in Canada may be reduced by claiming a foreign tax credit.

Filing of Tax Returns

For each taxation year, a taxpayer must file a tax return that reports all taxable income and allowable deductions. There are no joint returns or filings for spouses or families. Personal income tax returns are generally due to be filed by April 30. Individuals earning business income as a proprietor or partner and their spouses are required to file their returns by June 15, however any balance of taxes is still payable by April 30.

Foreign Property Reporting

The Canada Revenue Agency requires annual reporting of certain foreign assets and transactions including investment assets, foreign affiliates and non-resident trusts. There is an exception for the year when a person first becomes resident in Canada.

Other Issues

Families receive a \$100 Universal Child Care Benefit per month for each child under six years of age. Individuals who are primarily responsible for the care and upbringing of a child who is under 18 years of age may be eligible for a monthly Canada Child Tax Benefit.

Contact Us

As you can see, careful planning should be considered before becoming resident in Canada for income tax purposes. We encourage you to contact your Manning Elliott representative or a member of our tax group to plan your immigration in the most tax effective manner.

