

# The U.S. TAXFAX

**TOPIC: MOVING TO THE UNITED STATES  
– NON INCOME TAX CONSIDERATIONS**

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This edition of the U.S.TAXFAX will discuss some of the non-income tax related issues an individual should take into consideration when contemplating a move to the United States. Please note that the income tax consequences of departing Canada were discussed in a previous U.S.TAXFAX.

We find that most people are somewhat aware of the income tax advantages of living in the U.S. relative to Canada such as lower tax rates, joint filing opportunities, deductibility of mortgage interest and property taxes. However, there are many non income tax factors that require consideration.

**Medical Costs:**

As the medical system in the U.S. is not publicly funded, the cost of purchasing and the availability of medical insurance should always be considered. Larger corporations usually have medical plans that cover their employees and immediate families, however, many smaller corporations do not. Medical insurance premiums vary for individuals and their families depending on a variety of factors including the age and prior health of the applicant. In our experience, premiums range from \$400.00 to \$1,000.00 per month.

Another problem to consider is that many insurance companies place limits on the amount they will pay out under a medical insurance policy. This could be a serious problem if the

insured becomes ill for any length of time and has medical bills exceeding the limit.

This is one of the reasons that we recommend eligible individuals apply for Canadian citizenship (provided the individual is not a citizen already) before leaving for the United States. This will allow a return to Canada if a problem with medical coverage arises.

**Miscellaneous Taxes:**

**Payroll Taxes:**

Social Security and Medicare taxes (FICA) are imposed on a U.S. resident employee's gross wages. Self-employed individuals must contribute the employee and employer's portion into the Social Security and Medicare system (self-employment taxes).

As the FICA and self-employment taxes are significantly more than Canada's equivalent (i.e. CPP), they must be considered when comparing the overall tax burden of each country. In our experience, the differences in these taxes are often so extreme that they can negate the **income tax** savings of moving to the United States - especially at the lower income levels.

For 2001, employees must pay FICA of 7.65% on gross wages up to \$80,400 and 1.45% thereafter. In comparison, a Canadian resident individual must pay CPP equal to 4.3% of his gross wages up to a maximum contribution of \$1,496.40. Furthermore, employee contributions are not eligible as a credit or deduction on the U.S. return as they are in Canada.

The difference is even greater at the self-employed level. For 2001, U.S. resident individuals must pay self-employment taxes of 15.3% on self-employment earnings up to \$80,400.00 and 2.9% thereafter. In comparison, Canadian residents pay CPP equal to 4.3% of self-employment income up to a maximum contribution amount of \$2,992.80.

From a planning perspective, it is often possible to obtain a five year exemption from FICA for an individual who is temporarily transferred by a Canadian employer to a related U.S. corporation. It is CCRA's current policy to not consider the transfer temporary if the employee applies for permanent resident status (e.g. green card) in the United States.

This exemption can be obtained by having the employer file a "Certificate of Coverage" with Revenue Canada on behalf of the employee. As part of the application, the employee and the employer must agree to continue contributing to CPP on wages earned by the employee while resident in the United States. As the savings to the employer and employee can be significant, it is usually in both parties' best interest to apply for this exemption.

### **Estate Taxes:**

U.S. estate taxes are applied on the gross value of an individual's worldwide estate at the time of death. Minimization of these taxes is essential as they can often exceed 50% of the gross estate. From a planning perspective, it may be beneficial to gift assets to family members before establishing U.S. residence.

### **State Property Taxes:**

Many states and municipalities use property taxes as a means of raising revenue as opposed to income taxes. For example, the property taxes in Washington are often double those in British Columbia. Keep in mind that the deductibility of property taxes for income tax purposes often reduces the net after tax cost of the taxes paid.

### **Family Considerations:**

Another issue often overlooked by individuals moving to the U.S. are the restrictions placed on family members (e.g. spouse and children). As family members usually enter the U.S. without a work visa, they are not able to work in the United States. This means that a spouse or child can not have a part time job or earn any income.

One solution to this problem is to apply for permanent resident status (i.e. a green card) which enables all family members to work. If an individual has a job offer from a U.S. company, it is often possible to have the company pay the costs associated with a green card application. As mentioned earlier, a downside to applying for permanent residency status is that an exemption from FICA will not be available under the Canada-U.S. Social Security Agreement.

### **U.S. Wills:**

It is important that an individual have a U.S. will drafted as soon as they establish U.S. residence. This is especially the case if the individual expects to live in the United States for an extended period of time. A U.S. will ensures that an individual's wishes are followed in the U.S. courts. It can also address some U.S. estate tax planning concerns that are not likely a part of the individual's current Canadian will.

Please remember, the information presented is general in nature and does not constitute professional advice. It is recommended that accounting, legal or other professional advice should be sought before acting upon any of the information contained.