RAYMOND JAMES®

The Impacts to Investors from the Proposed Increase to U.S. Withholding Taxes on U.S. Dividends

The United States (U.S.) House's narrow 215-214 passage of the "One Big, Beautiful Bill Act" marks a pivotal step in advancing President Trump's second-term agenda. Section 899, called Enforcement of Remedies Against Unfair Foreign Taxes, if enacted, would have a negative impact on Canadian investors. The draft bill proposes to apply an additional withholding tax on top of an already existing withholding tax on distributions of U.S. source income to non-resident aliens which could escalate the tax to a total of 50%. This retaliatory tax would be applicable to persons residing in countries deemed by the U.S. government to have "unfair foreign taxes" imposed on the U.S. For instance, the Digital Services Tax imposed by Canada on U.S. companies, is a tax that the U.S. considers "unfair."

Raymond James Ltd. currently has legal agreements in place with the Internal Revenue Service (IRS) to withhold U.S. taxes on distributions of U.S. source income to our clients, provided we comply with specific client documentation requirements and triannual audits. We are permitted to apply the favourable treaty withholding rate of 15% on U.S. dividends paid to Canadian resident clients instead of the statutory rate of 30%, as well as exempt dividends paid into most RRSP and RRIF accounts. At this point, the details of the interaction between the bill proposals and existing agreements are unclear. It is unlikely that the IRS has any direction from the government on this matter as well.

Section 899 raises several unresolved questions, including which entities will be responsible for administering the additional withholding tax and whether this tax will qualify as a foreign tax credit on Canadian tax returns. The bill is now set to move to the Senate for review once it reconvenes on June 2. Given the current political climate, we anticipate that Senate Republicans will push for revisions before advancing the legislation. Notably, the bill includes a provision that allows the U.S. to waive the additional tax if it determines that Canada is not levying unfair foreign taxes on American entities.

Clients with significant investment in U.S. dividend paying securities should review their portfolio with their financial advisor to determine the impact in the worst-case scenario and consider adjustments if relying on dividends for retirement cash flow. As a reminder, any Canadian investor holding more than $60,000 USD of U.S. securities at death could be at risk of U.S. estate tax under the current U.S. estate tax rules.

Our team of tax and financial planning professionals
are available to discuss your situation further.

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