

U.S. cross border Portfolio Makeover Case

Jim, a U.S. citizen, is an oil and gas executive and is married to Susan, a Canadian citizen and stay at home mother. They have lived in Calgary for several years and are looking to sell their home and upgrade to accommodate their growing family. Jim's marginal tax rates in Canada and the U.S. are 45% and 35%, respectively. All of the assets are held in Jim's name. For the purpose of this exercise the Canadian and US dollars are valued at par and interest income\capital gains are 5%. The house has an unrealized gain of \$500000. An illustration of his present portfolio and tax liability is as follows:

Present Portfolio

Asset	Amount	5%	Canadian Taxes	US Taxes	Comments
RRSP	\$250000	\$12500	N/A	N/A	Income and\or capital gains in the RRSP Treaty exempt until withdrawn. No filing requirement hence no accounting fees
TFSA	\$50000	\$2500 (interest)	\$1125 saved	\$875 owed	Accounting fees outweigh savings.
RESP	\$100000	\$5000 (interest)	\$2250 saved	\$1750 owed	Accounting fees and taxes on Canada Education Savings Grant outweigh savings.
Taxable Account (PFIC Canadian mutual funds)	\$100000	\$5000 (capital gain)	\$1125 owed	\$1750 owed	Accounting fees and taxes outweigh ownership of CDN mutual funds in taxable account.
House Sale (Primary Residence)	\$500000	N/A	\$0 on \$500000 gain	\$50000 owed	Primary residence subject to U.S. tax. Estimated \$250000 capital gains over \$250000 exemption (estimated gains over \$250000 X 20% tax).
Total taxes owed			\$1125	\$54375	
Net Taxes after FTC			\$1125	\$53250	A foreign tax credit can be applied to U.S. taxes owed on CDN taxes paid on gains of CDN mutual funds.

As result of Jim's portfolio makeover the following recommendations can be made:

Makeover Portfolio

Asset	Amount	5%	Canadian Taxes	US Taxes	Comments
RRSP	\$250000	\$12500	N/A	N/A	Retain given tax treaty status.
TFSA	\$50000	\$2500 (interest)	\$1125 saved	N/A	Collapsed; Susan holds one.
RESP	\$100000	\$5000 (interest)	\$2250 saved	N/A	Susan becomes the sole subscriber.
Taxable Account (PFIC Canadian mutual funds)	\$100000				Transfer the CDN mutual funds into Jim's RRSP if there is sufficient room. CDN capital gains tax may apply on in-kind contribution; if no contribution room collapse the funds.
House Sale (Primary Residence)	\$500000	N/A	\$0	\$0	Jim should have the home co-owned as a joint tenant with Jim subjecting himself to \$250000 capital gains within exemption thresholds. Alternatively he can make annual gifts of title to his non-American spouse of \$148000 (i.e. 2016 maximum). It's best to stay off title.
Total taxes owed			\$0	\$0	

If the courses of action are taken taxes owing can be reduced or eliminated.