DOLLARS & $ENSE NEWSLETTER

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Care should be taken to minimize withholding taxes and currency conversion costs...

Buying U.S Stocks- top 10 things you should know:

1. In a non-registered investment account the IRS withholds a minimum of 15% of dividends paid by US companies to Canadian residents.

2. US dividends do not qualify for the dividend tax credit. They are classified as foreign income and taxed in the same manner as interest income.

3. Dividends paid by US stocks in a registered retirement account (RRSP or RRIF) are not subject to withholding since the IRS recognizes the tax-exempt nature of these plans. However, Canadian mutual funds and ETFs that invest in US stocks are subject to withholding.

4. Whenever a US stock is traded in a Canadian dollar account there is a currency conversion typically involving an embedded fee. For example: when you purchase a US stock there is a conversion to US dollars. Should you decide at a future date to sell the stock and buy a different US stock, there would 2 more conversions: from US to Canadian on the sale, and from Canadian back to US on the subsequent purchase.

5. The same thing applies to Exchange-Traded funds that trade on US exchanges, but not to ETFs that trade on Canadian exchanges.

6. Every time a dividend is paid there is a conversion to Canadian dollars. Should you decide to use the proceeds of dividends to purchase more US stocks there is yet another conversion back to US dollars.

7. Embedded fees apply every time there is a conversion.

8. The IRS does not recognize the TFSA or the RESP. Withholding taxes apply. In addition, onerous disclosure requirements apply to Canadian resident US citizens as these plans are seen as foreign trusts.

9. Dividends paid by US stocks within corporate class mutual funds are subject to tax. They cannot be sheltered within a corporate class structure.

10. A Canadian who dies with greater than $5.25 million in worldwide assets can be subject to US estate tax on US securities held inside and outside of registered plans. The taxpayer technically has to file a US estate tax return if the total US asset value at death is over $60,000 – regardless of being under the $5.25 million threshold.

With the US market looking more attractive these days there are good reasons to want to own US equities in your portfolio. And it can be done. The trick is to do it as effectively and efficiently as possible.

For more on this or other topics feel free to visit www.ds-online.ca.

Jim Grant, CFP (Certified Financial Planner) is a Financial Advisor with Raymond James Ltd (RJL). The views of the author do not necessarily reflect those of RJL. This article is for information only. Securities are offered through Raymond James Ltd., member-Canadian Investor Protection Fund. For more information feel free to call Jim at 250-594-1100, or email at jim.grant@raymondjames.ca. and/or visit www.jimgrant.ca