



A Guide to U.S. Estate Tax for Canadians

By: Mark Ritchie and Kevyn Nightingale



Mark Ritchie
CA, CPA (WA, USA)
Senior Manager
MNP LLP

Many wealthy Canadians own significant assets in the United States. This makes sense for investment purposes, asset diversification and the many recreational opportunities available south of the border. However, ownership of U.S. assets can create an exposure to U.S. estate tax.

This article applies only to Canadian residents who are not U.S. citizens and are not domiciled in the United States. There are quite different rules for these individuals.



Kevyn Nightingale
CPA, CA (ON), CPA
(IL), TEP
Partner
MNP LLP

When an individual dies owning U.S. assets with a value greater than \$60,000 and has a total worldwide net worth over \$5.34 million, U.S. estate taxes will apply. When both the values of the U.S. assets and the worldwide estate significantly exceed these levels, a little planning can help avoid substantial U.S. estate taxes in the future.

What is U.S. estate tax?

Estate tax is a transfer tax levied against individuals by the U.S. government when one transfers property to one's heirs upon death. Canada has no equivalent tax. Instead, in Canada, there is a deemed disposition of most property at the time of one's passing that may result in tax depending on whether the value of the property has increased in value – the tax is levied on the gain, not the absolute value.

In the United States, estate tax is levied on the fair market value of the assets transferred without regard for the cost base of the property or its accrued gains or losses.

For U.S. citizens and domiciliaries, estate tax applies to the fair market value of all their (worldwide) assets. For non-U.S. citizens living outside of the United States, estate tax applies only to property situated in the United States, or U.S.- situs property.

What is U.S.-situs property?

U.S.-situs property for the purposes of estate tax includes tangible properties such as land, buildings, furniture, vehicles and other personal possessions located in the United States. It also includes intangible properties such as shares of U.S. corporations and units of U.S. mutual funds.

There are some notable exceptions to what intangible properties are considered to have U.S. situs. Cash deposits in U.S. banks are not included unless they are used to earn income effectively connected with a U.S. trade or business. Also excluded are most U.S. government and corporate debt obligations. It also does not include shares of Canadian corporations or interests in most Canadian mutual funds, even if those entities hold interests in U.S.-situs property.

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