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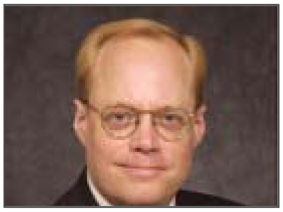

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Canada Defeats U.S. In Hockey & Gold Tally, But Not At FATCA

With gold medal wins in both men's and women's hockey, Canada is riding high. In fact, Canada ranked third in total golds, behind only Russia and Norway. And that put Canada ahead of the U.S. in the top category, 10 golds to 9. Beating the U.S. is big medicine since it's usually the other way around.

The two nations inked a tax-information sharing agreement, just one of 22 intergovernmental agreements (IGAs) the U.S. has collected so far to crack down on tax evasion. There will be many more nations signing on, for FATCA requires banks everywhere to pony up information on Americans or face serious sanctions.

The sanctions are so bad that banks and governments are scrambling to appease U.S. taxing authorities in ways that are not too intrusive. In Canada's case, the broad agreement calls for Canadian tax authorities in between the IRS and Canadian banks. That is one of the shrewder features of FATCA. Rather than mandating that Canadian banks hand over account data *directly* to the IRS, the Canadian institutions will give the date to their own Canada Revenue Agency.

That would mean data on accounts held by U.S. depositors holding more than $50,000. Once the Canada Revenue Agency has the dirt it can hand it over under the existing treaties between the two nations. There are said to be over 1 million U.S. persons in Canada, many of whom may not realize they are still American. Moreover, even if they do, they may not be doing the dual tax filings the IRS expects.

It's no secret that many dual Canadian and U.S. citizens feel caught in the crosshairs of the IRS war on offshore accounts. Many Canadians don't exactly consider Canada offshore. And given Canada's high tax rates, many dual citizens don't ever worry about taxes in the U.S.

But they must still file. And that generally means filing FBARs too. Canadians who remain U.S. citizens are supposed to be doing dual filings and many now worry that their U.S. pedigree will come out in the wash. Canadian officials tread a delicate line between service to their citizens and concern for the financial health and burdens placed on Canada's financial institutions.

Inevitably, though, cooperating with the U.S. characterizes the world response to FATCA. In that sense, some may see the newly minted U.S.-Canada agreement as a small victory for Canada, exempting some small institutions. Certain registered savings vehicles, long a bone of contention for many dual citizens, are also exempted.

Starting July 1, 2014, Canadian banks are to collect information to begin handing it over to the IRS in 2015. It is even causing some dual citizens to say goodbye to the south. Still, leaving America can have a special tax cost. To exit, you generally must prove 5 years of tax compliance in the U.S. Plus, if you have a net worth greater than $2 million or have average annual net income tax for the 5 previous years of $155,000 or more (that's tax, not income), you pay an exit tax.

The theory of the exit tax is that is the last chance the U.S. has of taxing you. It is a capital gain tax as if you sold your property when you left. At least there's an exemption of $668,000. Citizens aren't the only ones to suffer. Long-term residents giving up a Green Card can be required to pay the tax too. See High Cost To Go Green: Giving Up A Green Card.

In some ways, it does make the days of competing for medals seem like a simpler and nobler time.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.