



Ottawa, Canada K1A 0G5

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Ms. Suzanne Herman

Dear Ms. Herman:

On behalf of the Minister of Finance, the Honourable Bill Morneau, thank you for your further correspondence of January 3 and March 2, 2018 regarding the implications of U.S. tax reform on U.S. citizens living in Canada. Please excuse the delay in replying.

As we mentioned in our reply of December 15, 2017, Canada recognizes the sovereign right, and policy choice, of the U.S. to tax its residents and its citizens, including citizens who are resident abroad. The *Canada-United States Tax Convention* (the Convention) preserves this right. Although a purpose of a tax treaty is to alleviate double taxation, it does not align tax policies, nor harmonize the Canadian and U.S. tax treatment of certain types of income.

The transition tax on foreign earnings applies to U.S. citizens who are U.S. shareholders of controlled foreign corporations, regardless of their residency status *vis-à-vis* the U.S. As a result, residents of Canada who are U.S. citizens may be liable to pay this tax.

As you correctly point out, under the Convention, Canada will not provide assistance in collection to the U.S. regarding taxes and penalties owed by an individual who was a Canadian citizen at the time the U.S. tax liability arose. In addition, the Convention allows the exchange of information, including information exchanged under the Canada-U.S. intergovernmental agreement to implement the U.S. *Foreign Account Tax Compliance Act*, to be used only for tax purposes.

We understand your concern about the impact of the transition tax on your family and your business, and that the nature of the transition tax may complicate the availability of foreign tax credits in the U.S. Canadian officials will be speaking with U.S. officials to ensure that the U.S. is aware of the impact of this measure on U.S. citizens living in Canada. We would again encourage you to contact a qualified professional experienced in Canada-U.S. tax matters to discuss your options. Also, because the transition tax is a matter of U.S. policy, you may wish to bring your concerns to the attention of the U.S. government.

Finally, on the subject of the information exchanged under the intergovernmental agreement between Canada and the U.S., we are not in a position to answer your question as this falls under the competence of the Canada Revenue Agency. You may wish to contact the Minister of National Revenue, the Honourable Diane LeBouthillier, for that specific matter.

The Department of Finance Canada has a strong interest in being informed of situations where taxation by another country may affect residents of Canada. In that regard, your correspondence is welcomed and appreciated.

Thank you for writing.

Sincerely,



Allie Chalke  
Policy Advisor  
The Office of the Honourable Bill Morneau – Minister of Finance