TAX INFORMATION FOR NON RESIDENTS

LEAVING CANADA:

A Guide To The Tax Implications of Emigrating

Prepared by Real File CPA | February 2025

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About

This guide explores the **tax implications** of **emigrating from Canada**, with a focus on the **departure tax**, **changes to residency status**, and the **ongoing tax obligations faced by non-residents.** We'll go over considerations for business owners, real estate investors, and high-net-worth individuals, offering strategies to **mitigate tax liabilities** and **comply** with Canada Revenue Agency (CRA) **requirements.**

1. Tax System

Canada's tax system is **residency-based**, meaning tax obligations are determined by **an individual's residential ties to the country.** As emigration rates increase, understanding the tax rules surrounding departure has become essential for those leaving Canada permanently. This research investigates key elements of the tax framework, including deemed dispositions, non-resident withholding taxes, and the treatment of registered accounts, with an emphasis on minimizing tax burdens.

2. Key Considerations When Leaving Canada

A. Residency for Tax Purposes

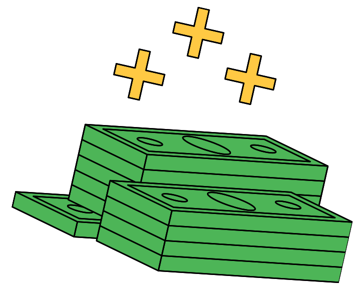
The CRA uses residential ties to determine whether an individual is a tax resident. **Primary ties** include **owning or leasing a home in Canada**, having a **spouse or dependents** residing in Canada, and personal property or social ties in the country.

Tax residency status directly impacts an individual's **tax obligations** post-departure (Canada Revenue Agency, 2023). Individuals deemed non-residents for tax purposes are taxed only on Canadian-source income, while **residents** are taxed on **worldwide income**.

B. Departure Tax (Deemed Disposition)

The departure tax, formally known as a **"deemed disposition,"** applies when an individual **ceases to be a Canadian resident.** Under this rule, most assets are treated as if they were sold at **fair market value** immediately prior to departure, triggering potential **capital gains tax** (Department of Finance Canada, 2022).

Examples of **taxable assets** include:



- Investment portfolios (stocks, ETFs, mutual funds).
- Private company shares.
- Cryptocurrency holdings.

Excluded **assets** include:

- Canadian real estate (capital gains apply only upon actual sale).
- Business property with a permanent establishment in Canada
- Registered accounts such as RRSPs and TFSAs.

Example: An individual holding $1M in shares that appreciated by $300K during their time in Canada would pay capital gains tax on the $300K upon leaving the country.

Reporting Requirements for Property Dispositions

Individuals leaving Canada must report deemed dispositions to the Canada Revenue Agency (CRA) using the following forms:

- Form T1243 – To report capital gains or losses from deemed dispositions (Canada Revenue Agency, 2024).
- Form T1161 – Required if the total fair market value of properties exceeds $25,000 at the time of departure (Canada Revenue Agency, 2024).

Unwinding Deemed Dispositions (If Returning to Canada)

If an individual **returns to Canada and re-establishes tax residency**, they may elect to "unwind" the previous deemed dispositions. This could potentially **reduce or eliminate** the tax owed from the original departure. The election must be filed **by the due date** for the tax year in which residency is re-established (Canada Revenue Agency, 2024).

C. Ongoing Tax Obligations for Non-Residents

Non-residents are subject to **withholding taxes** on certain types of **Canadian income**, including:

- Dividends (typically 25%, reduced under tax treaties).
- Rental income from Canadian properties (subject to 25% withholding unless an election is filed to pay tax on net income instead).

Canada's network of **tax treaties** with other countries can mitigate **double taxation**. For example, the Canada-U.S. Tax Treaty reduces withholding tax rates on dividends and interest to 15% and 10%, respectively (Government of Canada, 2023).

D. Treatment of Registered Accounts

Special rules apply to RRSPs, TFSAs, and pensions when leaving Canada:

- **RRSPs**: Withdrawals are subject to a 25% withholding tax for non-residents.
- **TFSAs**: While not subject to Canadian tax upon withdrawal, contributions may no longer grow tax-free in the new country of residence (Canada Revenue Agency, 2023).
- **Pensions**: CPP and OAS payments continue for non-residents, but OAS may be subject to a recovery tax if income exceeds certain thresholds.

3. Strategic Tax Planning Before Departure

1. Sell or Restructure Assets:

Selling assets before leaving may reduce or eliminate departure tax on future gains (Ernst & Young, 2022).

2. Review Residential Ties:

Severing significant residential ties can clarify tax residency status and reduce the risk of dual taxation (PWC Canada, 2023).

3. Utilize Tax Treaties:

Tax treaties can be leveraged to reduce withholding taxes on passive income post-departure. For example, electing under Section 216 for rental income can reduce the effective tax rate (KPMG, 2023).

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4. Conclusion

Emigrating from Canada involves **complex tax considerations**, particularly for **business owners and investors.** By understanding the rules governing **residency**, **deemed dispositions**, and **non-resident taxation**, individuals can mitigate tax liabilities and ensure **compliance** with **CRA regulations**. **Professional guidance** is recommended to navigate these issues effectively.

References

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- **Canada Revenue Agency. (2024).** Dispositions of property by emigrants.
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