IMPACT OF TCJA ON US REAL ESTATE INVESTING:

For Canadian investors, the U.S. real estate market offers attractive opportunities: from consistent rental income to long-term capital growth. However, after the passage of the U.S. **Tax Cuts and Jobs Act (TCJA)** in 2017, the playing field changed — especially for foreign investors.

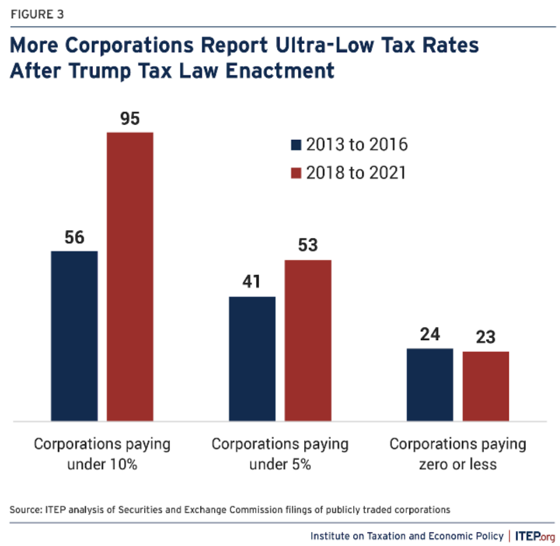
If you're considering (or already engaged in) U.S. property investments, this article is your roadmap to understanding how tax reform has shifted the landscape, and what strategies you can use to make informed, tax-efficient decisions.

What Changed with the TCJA?

The **Tax Cuts and Jobs Act** (effective from January 1, 2018) brought about major tax code revisions, many of which still impact Canadian investors today.

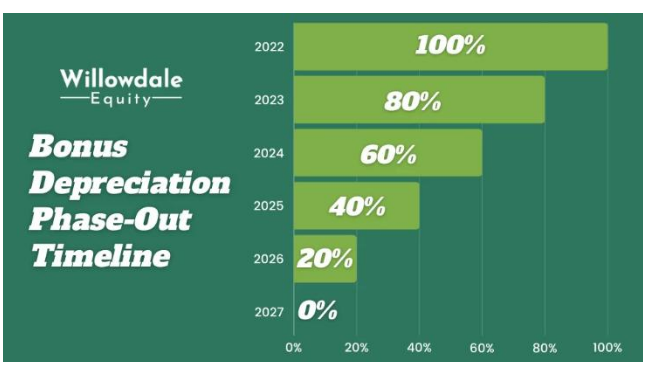
1. Corporate Tax Rate Dropped to 21%

Previously, U.S. corporations were taxed at up to 35%. The TCJA reduced this to a **flat 21%**, making **corporate ownership** of U.S. property more appealing for Canadian investors looking to reinvest profits and scale portfolios.



2. Bonus Depreciation Increased to 100%

The reform allows investors to **immediately deduct 100% of the cost of certain property improvements or assets**, which can significantly reduce taxable income.



This accelerated depreciation applies to:

- Furniture
- Fixtures
- Qualified improvements
- Some components of real estate

However, this benefit begins to **phase out after 2022**, decreasing by 20% each year until it's gone by 2027 (unless extended).

3. Estate Tax Exemption Doubled (Temporarily)

The TCJA **doubled the U.S. federal estate tax exemption** to approximately **$11.18 million per person** (now indexed and higher). However, this is **scheduled to revert back** to pre-TCJA levels in 2026 unless Congress acts to extend it.

Canadian investors should remember: owning U.S. real estate can **trigger U.S. estate tax** upon death, even if the rest of your estate is in Canada. Proper planning is crucial.
Side-by-side table showing U.S. estate tax exemptions (2017 vs. post-TCJA and 2026 projection).

Structuring U.S. Property Investments Wisely

Perhaps the most critical decision for Canadian investors is **how to structure their U.S. real estate ownership**. The structure impacts not only **tax efficiency**, but also **liability protection**, **compliance**, and **repatriation of funds**.

Tip: Avoid U.S. LLCs

While U.S. LLCs are popular domestically, Canada **does not recognize them as flow-through entities**, meaning income may be taxed **twice** — once in the U.S., and again in Canada without credit relief. For this reason, **LLCs are rarely advisable** for Canadians.

Better Options for Canadians:

1. **Canadian Corporation with U.S. C-Corp Subsidiary**
   - Good for scaling, limiting liability, and reinvesting profits
   - Takes advantage of 21% U.S. corporate tax rate
   - More complex setup but strategic for long-term investors
2. **Personal Ownership (in some cases)**
   - Simpler setup for small investments
   - Income taxed personally in both countries, but foreign tax credits can offset some liability
   - Higher personal liability exposure
3. **Cross-Border Trusts or Limited Partnerships**
   - Useful for estate planning and asset protection

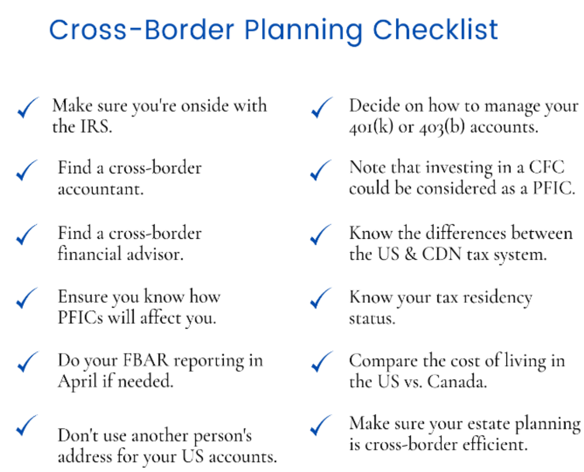
- Requires legal and tax expertise
- May be best for larger portfolios

Filing Requirements & Common Mistakes to Avoid

Cross-border investments come with **unique compliance challenges**. Missing a filing can lead to heavy penalties, even if you owe no tax.

Common Errors Include:

- Failing to file **IRS Form 5471** when owning U.S. corporations
- Forgetting to file **T1135 (Foreign Income Verification Statement)** in Canada
- Not reporting rental income in both countries
- Using U.S. LLCs without understanding Canadian tax consequences



Key Strategies for Canadian Investors

- **Work with cross-border tax experts**: Don't rely solely on U.S. or Canadian accountants — use professionals who understand both sides.
- **Plan for estate tax**: Even if your estate is below the U.S. exemption now, future value appreciation could change that.
- **Use the right structure from the beginning**: It's much harder (and more expensive) to restructure later.
- **Keep meticulous records**: For depreciation, expenses, and cross-border reporting.

Final Thoughts

Investing in U.S. real estate remains a smart move for many Canadians — but only when approached strategically. Tax reform has opened doors in some areas while creating new traps in others. By choosing the right structure, staying compliant, and seeking expert guidance, Canadian investors can still make the most of U.S. opportunities without facing unexpected tax consequences.

Ready to Take the Next Step?

If you're thinking of investing across the border or already own U.S. property, contact our qualified **cross-border tax specialist** who can tailor a strategy for your portfolio, risk tolerance, and long-term goals.