



## **U.S. Estate Tax – Should You be Concerned?**

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We have all heard the saying that there are two things in life that are certain: death and taxes. For tax and estate professionals, both are always concerns but especially so for clients owning U.S. properties or assets. This is due to the U.S. estate tax.

Canada does not impose an estate tax upon the death of an individual. In fact, when Canadians die they are deemed to dispose of all their capital property at fair market value.

The U.S. system works differently: upon the death of a U.S. citizen, a tax is levied on the fair market value of the deceased's world-wide property. Furthermore, the U.S. estate tax applies to all property situated in the U.S. including property owned by non-residents of the U.S. (often referred to as "Canadian Snowbirds"). Consequently, upon death, a Canadian resident who owns U.S. real property or U.S. stocks may be regarded to have a large "deemed" capital gain with respect to such property in addition to a possible U.S. estate tax liability depending on the value of their U.S. properties or assets.

The first \$3.5 million USD of a U.S. citizens' estate is exempt from tax. However, non-residents, including Canadians, are only entitled to a pro-rated exemption under the Canada-U.S. Tax Treaty. This exemption is equal to \$3.5 million USD multiplied by the ratio of U.S. property to your worldwide estate. Essentially, if your worldwide estate is worth less than \$3.5 million, you need not worry about paying U.S. estate tax ... at least for now.

In June 2001, the U.S. passed a law that commenced the phasing-out of the estate tax over the following decade. Essentially, the estate tax rate has been gradually reduced and the exemption amount increased and, based on the legislation, the estate tax will be repealed for the 2010 tax year. However, this may not be permanent as the legislation contains a "sunset clause" whereby, unless further steps are taken by Congress, the repeal of the estate tax will only last for one year, being 2010. In 2011, the estate tax rules will revert back to the rules applied before 2001 resulting in the effective exemption of only \$1 million USD (compared to \$3.5 million USD in 2009) and a maximum estate tax rate of 55% (compared to 45% in 2009).

Many U.S. tax experts expect this issue to be addressed by Congress in the near future. The Senate has already proposed legislation that would cap the top estate tax rate at 35% and maintain the personal exemption at \$3.5 million USD. Nonetheless, Canadians who own U.S. property or assets should consult their tax professionals until Congress legislates on this issue.

Until Congress acts on this issue, Canadian Snowbirds should review the U.S. estate tax with their estate planning advisor. Canadians who have an estate worth more than \$1 million USD may be at risk of having to pay U.S. estate tax.



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