Tax tips for Canadians working abroad

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Thinking about taking on a foreign work assignment? Make sure you understand the tax implications before you go.

The prospect of immersing yourself in a new location and culture by living and working abroad can be truly exciting.

But before you head out, don't forget to check up on your tax status as part of your trip preparations — the tax implications of a temporary foreign work opportunity can be considerable and far-reaching.

Here's what you need to know to avoid an unnecessary headache and be able to truly savour your time abroad:

What's my residency status?

According to the **Canada Revenue Agency (CRA)**, your residency status determines your income tax obligations to Canada.

Canadian residents are taxed on income they earn anywhere in the world, while non-residents are only taxed on income earned in Canada. If you spend time outside Canada but are still deemed a Canadian resident for tax purposes, you could owe federal and provincial/territorial tax on your global income.

Establishing Canadian residency in the eyes of the government is less arduous than you might imagine. The CRA determines status on a case-by-case basis and will consider many factors in evaluating your Canadian residential ties, including whether you have a Canadian home, spouse or common-law partner, dependants or personal property. The amount of time you spend in Canada and your intentions regarding future travel or permanent location, as well as whether you have Canadian bank accounts, a driver's licence, passport and provincial health insurance, can also affect the agency's decision.

Factual resident or deemed resident?

A factual resident is an individual who maintains "significant residential ties" to Canada, even while travelling abroad.

If, say, you travel to California for a 4-month work contract, but spend the rest of the year in Toronto, and keep your Canadian house and bank accounts, you could be considered a factual resident.

Deemed residency covers those who do not have "significant residential ties" but are still considered residents because:

a. They are a "government employee, member of the Canadian Forces including their overseas school staff, or working under a Canadian International Development Agency (CIDA) assistance program," or a family member of "an individual who is in one of these situations," or
b. They "sojourned in Canada for 183 days or more in the tax year, do not have significant ties with Canada, and are not considered a resident of another country under the terms of a tax treaty between Canada and that country."

For more information, visit the **CRA website**.

When do I become a non-resident for tax purposes?

In general, non-residents are those who don't maintain strong enough residential ties with Canada to be considered residents. If you spend fewer than 183 days in Canada during a calendar year, or if you've severed residential ties, you could fall into this category.

Non-residents still pay withholding tax on income from Canadian sources, such as Old Age Security and Canada Pension Plan payments, RRSP and RRIF withdrawals, company pension plans and investment income. Check out the **CRA's website about Non-Residents of Canada** for more information.

Labelled a non-resident? This could trigger a "departure tax" calculated at your marginal rate on the taxable capital gains you would earn if you sold off all your Canadian assets.

If you're a deemed or factual resident of Canada, but also considered a resident of another country that has a tax treaty with Canada, you fall into the category of deemed non-residents — you will follow the same tax rules as non-residents of Canada.

The U.S. resident formula

Canadians living and working in the U.S. for part of the year might owe U.S. taxes. The U.S. "substantial presence" test looks at how much time you've spent in the States over the past 3 years. Here's how it works:

- Each day spent in the States in the current calendar year counts as 1 day.
- Each day spent in the States in the previous calendar year counts as 1/3 of a day.
- Each day spent in the States the year before that counts as 1/6 of a day.

If the total is 183 days or more, and if you've spent at least 31 days in the U.S. this year, you'll be deemed a U.S. resident for tax purposes and have to pay U.S. taxes, too. You may be able to use foreign tax credits to reduce or eliminate double taxation. If your substantial presence calculation comes to 183 days or more, but your actual days for the current year are fewer than 183, you may be able to avoid U.S. tax obligations by filing a form 8840 with the IRS: Closer Connection Exception Statement for Aliens. You use the form to show the IRS that you have a "tax home" other than the U.S. notwithstanding the amount of time you've spent in the U.S.

Taking the time to research your tax liabilities before you head abroad can provide you with both an accurate understanding of your personal finances and a certain peace of mind. Determine your status, plan ahead to meet your obligations and then move onto the fun part of this journey of a lifetime