SADOVNICK MORGAN LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

IMPORTANT INFORMATION FOR YOUR

2016 UNITED STATES PERSONAL INCOME TAX RETURN(S)

We are commencing preparation of 2016 United States Personal Income Tax Returns. Personal income tax returns, for US filers who live outside of the US, are due at the Internal Revenue Service on or before June 15, 2017. However, all personal income tax balances owing are due on or before April 18, 2017. We are pleased to assist you with the preparation of your personal income tax return(s) for the 2016 tax year.

To assist you in gathering and organizing your information we have enclosed a Tax Organizer in this package. It is your sole responsibility for gathering the necessary information for your tax return and ensuring it is complete.

- We recommend that you review your prior year tax return to ensure that you have received and are providing to us all the required documents.
- Please include a copy of any IRS Letters, Notices, or Assessments that you may have received in 2016.
- Let us know of any new developments or changes in your personal circumstances.

You may also be required to file one or more of the following information returns. Failure to file any of the required information returns may result in penalties of $10,000 USD per form. Please refer to the following website links for forms and instructions if these forms may apply to you:

- **Statement of Specified Foreign Financial Assets** - Form 8938 is required if you have certain foreign (non-US resident) financial assets including stocks, bank accounts, and interests in foreign financial contracts or instruments. Non-resident individuals are required to file if their aggregate foreign investments are over $200,000 as of December 31, 2016. US residents are required to file if their aggregate foreign investments are over $50,000 as of December 31, 2016.
    - Form 8938: https://www.irs.gov/pub/irs-pdf/f8938.pdf
    - Instructions to Form 8938: https://www.irs.gov/pub/irs-pdf/i8938.pdf
- **Report of Foreign Bank and Financial Accounts** – Form FinCEN 114 is required if a US person has a financial interest in or signature authority over at least one financial account located outside the United States; **and** the aggregate value of all foreign financial accounts exceeded $10,000 at any time during the calendar year to be reported. Please note that these forms must be filed electronically though the following site: http://bsaefiling.fincen.treas.gov/main.html. We recommend our clients prepare and submit these forms themselves. If you would like our office to prepare these forms on your behalf, please advise us in a timely manner. For your convenience, we have enclosed an excel sheet outlining the information we will require to prepare and file this form on your behalf. **IMPORTANT! THIS FORM IS NOW DUE APRIL 18th WITH AN EXTENSION AVAILABLE TO OCTOBER 15th.**
- **Information Return of US Persons with Respect to Certain Foreign Corporations** – Form 5471 is required by a US person who is an officer, director or greater than 10% shareholder in certain non-US corporations. A separate form must be completed for each company.
    - Form 5471: https://www.irs.gov/pub/irs-pdf/f5471.pdf
    - Instructions to Form 5471: https://www.irs.gov/pub/irs-pdf/i5471.pdf

We wish to bring to your attention common and important differences between Canadian and US taxes:

- **Capital Dividends –** Under US tax law the concept of capital dividends does not exist; these dividends are taxable just like any other dividend received. Please let us know if you received any capital dividends during the year.

- **Tax Free Savings Accounts (TFSA)** & **Registered Education Savings Plan (RESP)** – These accounts are considered foreign trusts and are subject to extensive reporting, as well, transactions inside a TFSA and RESP account are taxable for US tax purposes. Please provide us with records for any TFSA and RESP accounts you held during the year.
- **Mutual Funds and Exchange Traded Funds investments –** Due to significant reporting requirements by the IRS under their Passive Foreign Investment Corporation rules, we recommend that US clients generally avoid investments in non-US based Mutual Funds or ETF investments. If you hold any mutual funds with Canadian financial institutions, please provide us with copies of the Qualified Electing Fund (QEF) statements issued.
- **Principal Residence Exemption** – US tax rules limit the amount of a tax exemption on proceeds from the sale of your home. Please provide all information related to any 2016 sale of your principal residence.
- **Mortgage Interest Deductibility** – US filers may be able to deduct interest incurred on a qualified home mortgage. Please provide us your annual mortgage statement and/or any tax slips received indicating the amount of interest payments you will be claiming, if any.
- **Gift Tax** – US filers are required pay a gift tax on gifts made during the year that are greater than $14,000 unless certain exemptions apply (i.e. gifts to US spouses are unlimited and up to $147,000 in gifts to non-US spouses are exempt from tax). Please let us know if you have made, or are planning to make, gifts that may attract US Gift Tax.
- **Estate Tax –** US filers that passed away in 2016 with estates greater than $5,450,000 are liable for estate taxes on the fair market value of the estate. Please let us know if you require assistance with estate returns or would like help planning for estate tax consequences.
- **Lifetime Capital Gains Deduction** – The US does not recognize the lifetime capital gains exemption available to Canadians who sell shares Qualified Small Business Corporations.
- **Lottery and Gambling Winnings –** Lottery and gambling winnings are fully taxable as ordinary income in the US. However, gambling losses may be able to offset winnings. Please provide us any relevant information.
- **Healthcare Initiative –** In 2014, minimum healthcare coverage has been mandated for U.S. citizens, U.S. nationals, & lawful permanent residents, unless a certain healthcare coverage exemption has been met, including U.S. citizens living abroad. Please advise whether you have an exemption from this requirement or you have purchased minimum healthcare insurance for 2016.

Our fee for the preparation of tax return(s) is based on time spent calculated at our hourly rate. In order to minimize your costs, we suggest that the information provided be organized and complete. Our minimum fee per tax return has now increased to **$500 plus GST** for 2016 due to increased costs and complexities related to US filings.

Your records may be dropped off between Monday to Friday from 8:30 am to 5:15 pm. Weekend and after-hours meetings may be arranged by appointment.

We are enclosing an engagement letter for you (and your family). Please review the engagement letter thoroughly and return the signed and dated original letter to us with your information. We will not be preparing the return(s) until we receive a signed document.

We look forward to being of service to you. If you have any questions about what is needed for your 2016 tax return or about our Privacy Policy, please do not hesitate to contact us.

Yours truly,

SADOVNICK MORGAN LLP
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