

SADOVNICK MORGAN LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

IMPORTANT INFORMATION FOR YOUR 2020 UNITED STATES PERSONAL INCOME TAX RETURN(S)

IMPORTANT –A NEW TAX CALLED GILTI WILL APPLY ON PRIVATE CORPORATIONS NOT RESIDENT IN THE USA OWNED BY US PERSONS.

We are commencing preparation of 2020 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, 2021. However, all personal income tax balances owing are due on or before April 15, 2021. We are pleased to assist you with the preparation of your personal income tax return(s) for the 2020 tax year.

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 2020.
- Let us know of any new developments or changes in your personal circumstances.

Changes to US Taxes for Individuals in 2020

- **Did you receive a US COVID-19 Economic Impact Payment?** If not, please let us know so we can claim it on your tax return. If yes, great, it is also tax free in Canada.
- If, in 2020, you engaged in a transaction involving virtual currency you will need to file Schedule 1. Please let us know if this is the case.
- Previously, form 3520 / 3520-A were required to be filed for **RESP** and **RDSP** plans with penalties of \$10,000 for not filing. This was changed (retroactively!) in 2020. Income earned in these trusts are still taxable by the IRS.
- The standard deduction for a single taxpayer (or a Married filing separately taxpayer) is now \$12,400. A married filing jointly taxpayer has a deduction of \$24,800. As a result, for many taxpayers, itemized deductions are no longer necessary.
- The itemized deductions (if you choose not to use the standard deduction) include.
 - Medical expenses only need to exceed 7.5% of your income opposed to 10% previously.
 - State and property tax deductions are available up to \$10,000 (\$5,000 if Married filing separately)
 - Home Mortgage or HELOC interest is only deductible if the proceeds was used to purchase/renovate a home. Interest is only deductible on loans of up to \$750,000 (\$375,000 if married filing separately) that were entered in to after December 15, 2017. Previously it was \$1,000,000 (\$500,000).
 - Charitable contributions can now be deducted up to 60% of your income opposed 50%.
 - Various federal deductions have been eliminated including: job-related expenses, union dues, tax preparation fees, investment expenses and safe deposit box fees. However, if you are filing state returns these may still be relevant.
 - Moving expenses are no longer deductible for US taxes (except some specific exceptions). Reimbursements of moving expenses are now taxable.
- To claim the \$2,000 Child Tax Credit, a Social Security Number is required.
- Alimony payments are no longer deductible for agreements entered in to after December 31, 2018.

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, 2020 or \$300,000 at any time in 2020. US residents are required to file at lower thresholds.
 - 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 through the following site: <http://bsaeiling.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. **THIS FORM IS DUE APRIL 15th WITH AN AUTOMATIC 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:

- **Private Corporations** – Owning a non-US private corporation can have significant tax implications, make sure you consult with us prior to contemplating owning a non-US corporation or if you currently own one.
- **Gift Tax** – US filers are required file a gift tax return (and potentially pay a tax) on gifts made during the year that are greater than \$15,000 unless certain exemptions apply (i.e. gifts to US spouses are unlimited and up to \$155,000 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 are above the US Gift Exemption. A gift may include loaning funds to a child to help them purchase a home. **Gifts above the exemption reduce your Estate Tax Exemption which is currently at \$11,700,000. Consider making gifts before they are potentially decreased by the new Biden administration.**
- **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)** – A TFSA account is considered a foreign trust and is subject to extensive reporting, as well, transactions inside a TFSA is taxable for US tax purposes and are subject to onerous reporting and potential significant tax rates.
- **Mutual Funds and Exchange Traded Funds investments** – Due to significant reporting requirements by the IRS under their Passive Foreign Investment Corporation rules and punitive tax rates, we recommend that US clients 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 2019 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. Please also let us know the original amount of the loan.
- **Estate Tax** – US filers that passed away in 2020 with estates greater than \$11,580,000 (2021 – \$11,700,000) 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.
- **Alimony payments** are not deductible if the divorce/separate agreement was entered in to after December 31, 2018.
- **Child Tax Credit's** in the US require that the child have a US Social Security Number. Note that choosing not to register your child for a Social Security Number may not necessarily prevent them being considered a US taxpayer. Please ensure you perform proper consultations prior to taking a position that your child is not a US citizen.

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 is **\$600 plus GST** for 2020 for US filings.

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 2020 tax return or about our Privacy Policy, please do not hesitate to contact us.

Yours truly,

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