



# Wood LLP Tax Alert



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## Dear Son, Why You Should Leave America Now

*This letter was written by a Canadian businessman to his dual citizen U.S./Canadian son upon his high school graduation. It was originally posted on [The Isaac Brock Society](#), and appears here in edited form.*

Dear Son:

Words cannot express how proud I am to watch you receive your diploma. Today marks the end of one chapter in your life and the beginning of another. Seize the day, or as Spock from Star Trek would say, 'go forth and prosper.'

Last night was a celebration, with everybody talking about careers. Yet it will be your family, friends, and personal relationships that will be most important to you. Never confuse having a career with having a life.

On that note, I would like you to consider your citizenship. You are a Canadian but you were born in the U.S. and lived there until you were 4.



Canada and USA Flag (Photo credit: Wikipedia)

What does being born in the U.S. mean? It means the U.S. considers you a U.S. citizen. Given that you have lived your whole life in Canada, is your U.S. citizenship a benefit or burden?

Consider whether you want to go forth in life as a Canadian citizen or a dual citizen. This is a decision you must consider carefully. You do not need to decide today, but I urge you to decide before finishing your degree. Let me explain why.

**Opportunities/Benefits of U.S. Citizenship.** You have the right to live and work in the U.S. This may be a benefit and is something most of your classmates will not have. You may want to retain U.S. citizenship to keep that option open. Yet U.S. citizenship comes with liabilities, and you must ask whether retaining U.S. citizenship is worth the liabilities.

**Liabilities/Burdens of U.S. Citizenship.** You have the obligations to:

- register for the military service (the draft);
- pay taxes to the U.S. and pay those taxes under the same rules applying to U.S. residents;
- file U.S. tax returns every year regardless of where you live;
- file numerous information returns that may include private financial information of others; and
- pay estate and gift taxes.

You may say 'so what?' Let me explain why this might matter in your life. Registration for the draft is not likely to mean much. Your chances of being called for military service are slim. Yet some of the others matter a great deal.

**Filing Tax Returns Every Year.** You will have to file U.S. tax returns regardless of where you live in the world. The U.S. is the *only country in the world* to tax its citizens regardless of where they live. This can be financially and emotionally expensive. Although you will get some relief from double taxation, U.S. citizens are taxed twice—both in their country of residence and in the U.S. Furthermore, it is difficult to find professional help that is competent in this area.

**Being Taxed the Same as U.S. Residents.** It's one thing to be subject to U.S. tax. It's quite another to be taxed in *exactly the same way* U.S. residents are taxed. There are numerous instances in which the U.S. taxes income not been earned or received.

Furthermore, a number of ways of saving for retirement encouraged in Canada are punished under the laws of the United States. This can make financial planning difficult, expensive and in some ways, almost impossible. In this respect, U.S. citizenship (especially for those who do not live in the U.S.) is a liability.

**Filing Information Returns.** In addition to tax returns, the U.S. collects personal financial information about you and your family. Basically, any bank or financial account you have signing authority over (including joint accounts) must be reported to the IRS. This could make a future wife

or business partners who are not U.S. citizens very uncomfortable. To put it another way, there is *no* financial privacy for U.S. citizens.

The fines for non-compliance can be life-altering. Many U.S. citizens living outside the U.S. suffer mightily after learning about these requirements. These information returns can take hours to complete at great expense. Furthermore, they cannot be completed without the assistance of a qualified accountant or lawyer.

**Disabilities of U.S. Citizenship.** Let's consider your career, financial planning, family and community. I am sure that you will want a family of your own. Since you do not live in the U.S., the chances are high that your future wife will not be a U.S. citizen. If you have joint bank accounts (which is common) you will be required to report much of her financial information to the IRS.

I assure you that she will not be happy about this. Furthermore, should you predecease your wife, she will not be able to automatically receive all of the family estate in the same way that she could if she were a U.S. citizen. Is this fair to her?

**Future Children?** I am not completely sure of this, but the fact that you were born in the U.S. and are a U.S. citizen might make your children U.S. citizens too. Is this an opportunity for them or a problem? Remember, if they are U.S. citizens and do not live in the U.S., they will be subject to all the opportunities and liabilities I am describing.

**Future Business Relationships.** Your next four years will set the stage for your long-term business opportunities. These include partnerships and opportunities to own shares in Canadian companies. As a U.S. citizen, you will be required to disclose information about these partnerships and corporations to the IRS. Understandably, many non-U.S. citizens are unwilling to enter business relationships with U.S. citizens.

**Future Employment Opportunities.** Companies outside the U.S. are increasingly reluctant to employ U.S. citizens. The reasons include the high costs associated with U.S. taxation and the danger that the U.S. employee will be required by U.S. law to disclose financial data of non-U.S. companies to the IRS. Once again, this will include the obligation to report the private financial information of non-U.S. citizens to the IRS.

U.S. laws impose high financial and legal costs on non-U.S. banks who have U.S. citizen customers. Some countries will no longer allow U.S. citizens to have bank accounts or receive mortgage financing. It is unclear what the Canadian situation will be.

Enough on the possible problems. I remind you that U.S. citizenship does carry opportunities. You must consider whether the U.S. provides you with opportunities that outweigh these problems.

**To Renounce U.S. Citizenship or to Retain it?** This is the decision you must make. Let's explore what each option means. If you remain a U.S. citizen, you are subject to all of the

requirements I outlined. You will be disabled from saving and investing for retirement in the same way other Canadians can.

**Examples of some disabilities include:**

- you will not be able to invest in many non-U.S. investments;
- you will not be able to use a business corporation to hold investments;
- you will not be able to invest in a principal residence tax-free the way that others can
- you will be subject to the U.S. estate and gift taxes (making certain aspects of your life difficult)
- your (I assume) non-U.S. wife will be at a great financial disadvantage should she become a widow (is this fair to her)?

Should you decide to renounce your U.S. citizenship, you should realize that U.S. citizens with a net worth of two million dollars or more must pay the U.S. an Exit Tax. For those subject to this Exit Tax the financial penalty can be so great that they feel trapped. At this stage in your life, you might think that a net worth of two million dollars is a lot of money. The truth is that is not. Furthermore (given the realities of inflation), you are likely to achieve that level of net worth quite quickly. Our Toronto home, where you sleep every night, is probably worth two million dollars.

Therefore, if you decide to renounce your U.S. citizenship, you should do it now rather than later. This decision does not have to be made today, but should be made by the time you graduate. I am proud of you, love you and wish the best for you.

Seize the day!

Dad

*You can reach me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.*