



CESTNICK

TAX MATTERS

The big beautiful bill south of the border has ripple effects here at home

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I don't know if you've heard that the Trump administration has just introduced a tax on shredded cheese. It's part of the President's plan to Make America Grate Again. Okay, you have to admit that this is a pretty good bad dad joke. And although taxing shredded cheese is not a real thing, the One Big Beautiful Bill Act, which was signed into law on July 4, is definitely real and it introduces a number of tax changes that could affect Canadian and American citizens living in Canada. Let's walk through the highlights.

The requirements

You're required to file a tax return and pay taxes in the United States if you're a "U.S. person," a category which includes a U.S. citizen or green card holder living in Canada. In addition, Canadian citizens or residents may have to pay taxes in the U.S. if they earn U.S.-source income, own or dispose of U.S. assets (real estate, for example), carry on a trade or business in the U.S., or spend significant time in the U.S. and meet the "substantial presence test" without

claiming an exemption under the Canada-U.S. tax treaty.

The changes

Here are the key changes to the tax law in the U.S. provided for in the One Big Beautiful Bill Act, and what each could mean for you:

Permanently lowered tax rates:

The 2017 Tax Cuts and Jobs Act reduced tax rates in the U.S., and these cuts were made permanent by the July 4 act. So, if you're filing tax returns in the U.S., you could benefit from these reduced rates. As a Canadian taxpayer, you'll still be entitled to claim a foreign tax credit for any U.S. taxes paid on income also taxed in Canada.

Bigger standard deduction: In the U.S., taxpayers can claim a standard deduction or, alternatively, can claim a more detailed list of itemized deductions. The standard deduction was nearly doubled by the TCJA in 2017 and has been increased again in the OBBBA. It is now US\$15,750 for single taxpayers

(US\$31,500 for those married and filing jointly). Personal exemptions for each family member were also available prior to the TCJA but were eliminated in favour of a bigger standard deduction in 2017, and this change has been made permanent under the OBBBA. If you previously relied on exemptions, you won't be able to now, but the larger standard deduction may help.

Increased estate and gift tax

exclusion: U.S. citizens, green card holders, and folks domiciled in the U.S. can face U.S. estate and gift taxes on their worldwide assets. And Canadian residents could face the same taxes if they own "U.S. situs" property including real estate, tangible property in the U.S. (artwork, vehicles, jewellery, and more), shares of U.S. corporations (even in registered plans), U.S. bonds, U.S. exchange-traded funds or mutual funds, or assets used in a U.S. trade or business. Starting in 2026, the estate and lifetime gift tax exclusion will increase to US\$15-million per individual (from US\$13.99 million in 2025), with future increases indexed to inflation. This should help to reduce any U.S. estate or gift taxes you might otherwise pay.

Temporary increase to SALT

deductions: You might also be required to file one or more U.S. state tax returns. There's a deduction available federally in the U.S. for state and local taxes paid, to a certain cap, or maximum. The state and local tax – or SALT – deduction cap has been increased to US\$40,000 from US\$10,000 for those earning less than US\$500,000 from 2025 to 2029 (with a 1-per-cent annual increase). The cap reverts to US\$10,000 in 2030.

Charitable deductions for non-itemizers: Starting in 2026, taxpayers who claim the standard deduction can also deduct charitable contributions of up to US\$1,000 for individuals, and US\$2,000 for married joint filers. If you itemize your deductions instead, you can deduct more donations, but only for donations that exceed half a per cent of your adjusted gross income. You can deduct donations to registered Canadian charities as well, provided you have Canadian-source income that is taxed in the U.S., and the deduction will generally be capped at the level of that income.

Alternative minimum tax: As in Canada, the U.S. levies an AMT. The U.S. has an exemption amount which will reduce your taxable income subject to the AMT, but this exemption is now phased out at 50 per cent of income over US\$500,000 for a single taxpayer. The phase-out rate was 25 per cent prior to the OBBBA. So, if you're a high-income filer you're likely to face an increased AMT. You may not be able to claim a foreign tax credit in Canada for your U.S. AMT except in certain situations, so visit a Canadian tax professional to talk about it.

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