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TAX MATTERS

The top five cross-border tax planning mistakes – and how to avoid them

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They say that a tax specialist is someone who tells you about a problem you didn't know you had, fixes it in a way you don't understand and charges you a fee for it. For thousands of folks around the country who have Canada-U.S. connections, they know exactly what I'm talking about. It can be complicated.

Today, I'd like to share the top five Canada-U.S. tax planning mistakes, with some practical tips to help you avoid them. Here we go.

Misunderstanding residency status

You'll generally have to file a tax return where you're a resident, but Canada and the U.S. don't define residency the same way. Canada looks at significant residential ties, including the location of your home, spouse and dependants – along with the purpose and length of your stay in Canada.

The U.S., on the other hand, focuses on citizenship (including green card holders) and the substantial presence test (SPT). Under the SPT, you'll be a

U.S. tax resident if you spend 183 days there in the current year or meet a three-year weighted formula.

If you're a Canadian snowbird who meets the SPT but spends fewer than 183 days down south in the current year, you can file Form 8840, Closer Connection Exception, to avoid filing a full-blown U.S. tax return. And if you're resident in both countries, the Canada-U.S. tax treaty "tie-breaker" rules can apply, and you can file Form 8833, Treaty-Based Return Position Disclosure, with a U.S. return to claim relief.

Are you a Canadian selling your U.S. property? Four tax tips to know in 2026

Falling into double taxation

A main goal of cross-border planning is to avoid double taxation – but it can happen. If you're a Canadian resident, you can use Form T2209 to claim a foreign tax credit for U.S. taxes paid, while U.S. residents use Form 1116 in the U.S. to claim a credit for foreign taxes paid. Sounds simple. But it's not.

Foreign tax credits are generally limited to tax paid on the same source of income, so mismatches can happen if income is taxed in only one country. Timing differences can also create problems. Suppose, for example, you pay Canadian tax in 2025 but U.S. tax in 2026 on the same income; you'll miss out on foreign tax credits. Exchange rate differences can further reduce your credit if income and taxes are converted at different rates.

There may be ways to fix these issues, but getting advice is smart.

Mishandling retirement plans

If you move between Canada and the U.S. and have registered plans, you'll need to plan carefully for how contributions, growth and withdrawals are taxed. Canadians moving to the U.S. will still face Canadian withholding tax on RRSP or RRIF withdrawals – typically 15 per cent for periodic or 25 per cent for lump sum withdrawals, while the U.S. generally taxes only the growth after arrival. Collapsing an RRSP before departure rarely makes sense, since it triggers full Canadian tax.

On the flip side, Americans moving to Canada with 401(k)s or IRAs will face tax in both countries on withdrawals. Converting these plans, on a taxable basis, to a Roth IRA (like a TFSA) before arriving in Canada may help avoid double taxation, and premove withdrawals might also be worth considering – but run the numbers first.

Four areas likely to attract tax audits as CRA scrutiny ramps up

Ignoring estate and gift taxes

If you're a U.S. citizen, green card holder or domiciled there, you're probably

familiar with the U.S. estate and gift tax regime. But it's a surprise for many Canadians to learn that simply owning U.S. assets can expose you to these taxes.

Now, there's a U.S. estate tax exemption which is currently US\$15-million per person for 2026 for U.S. citizens, green card holders and those domiciled in the U.S. But Canadian residents don't automatically get this full exemption. Instead, they receive a prorated exemption based on the ratio of U.S. assets to worldwide assets. This could leave part of their assets exposed to U.S. estate taxes of up to 40 per cent of the value.

There's also a U.S. gift tax to consider when transferring U.S. assets during your lifetime. Good planning can involve holding U.S. real estate or assets in a trust, among other ideas. So, speak to a tax pro.

Yes, AI can help you with your taxes – if you know how to use it

Foreign reporting failures

If you're living in Canada and have U.S. connections you've got to navigate reporting on both sides of the border. U.S. citizens and green card holders need to file annual U.S. tax returns (Form 1040) reporting worldwide income – no matter where you live – and should complete Form FinCEN 114, Foreign Bank Account Reporting (FBAR), for foreign accounts that had more than \$10,000 at any time in the year.

But that's not all. Form 8938, Statement of Specified Foreign Financial Assets, may have to be filed. This is required if your foreign assets exceed US\$200,000 for a single person, or \$400,000 for a

married couple. The penalties for failing to file these forms is steep, and you may have other filing requirements depending on your situation.

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