Sizing Up Your Next Move

By David M. Cieslowski

There's a long-standing romanticism associated with retiring to a warmer climate, whether it's closer to home in Victoria, B.C., a bit further afield in hotter US spots, or more exotic places like Costa Rica or Fiji.

You've likely heard about the host of questions that you should answer for yourself before making such a move. Questions ranging from cost, safety and security, to health care, language, how residents feel about foreign visitors, and the ability to develop and maintain a social network abroad.

One of your first decisions will have numerous and significant impacts upon many of these issues, particularly taxation. The question is: How long have you decided to be out of the country? Are you planning to leave permanently? Or, are you simply planning to spend the winter abroad? Now, let's look at some of the tax implications of your decision.

For instance, ceasing residency for Canadian tax purposes can be very complicated and has many implications requiring significant expertise from a qualified tax professional. In brief, you'll be deemed to have disposed of your Canadian property at fair market value and will need to pay the Canada Revenue Agency (CRA) for unrealized gains on your property (with some exceptions that allow for deferral). If you continue to receive Canadian pensions and withdrawals from your RRSP/RRIF, you'll have to pay tax to CRA using withholding measures. Don't assume you can go through the motions of ceasing tax residency, but then return frequently and maintain club memberships. CRA doesn't like that. Ceasing residency normally also means you lose entitlement to the Canadian health care system.

Following the Sun South

Alternatively, if you want to escape cold Canadian winters, there are still issues to consider. Be sure to check your provincial health care and supplemental plans to determine if you'll be covered and if you need to buy additional health insurance. Some pre-existing conditions can prevent you from obtaining appropriate coverage, or the costs can be so exorbitant that you may not deem the seasonal move worthwhile. Whatever you decide, know that a major medical issue abroad without proper coverage could cost hundreds of thousands of dollars and has led to the financial ruin of more than one family.

How many days will you be outside Canada? Looking at the United States as a destination example, many people feel that as long as they spend six months or less, or 180 days, outside Canada there will be no issues. Unfortunately, that's just not so. As we discussed in *Tracking Time in the United States*, if on average you spend more than four months in that country for three consecutive years, you might be caught by the "Substantial Presence Test," which has potentially serious financial implications.[1]

Or, let's say you decide to buy a US property and rent it part-time to cover expenses. Be aware you'll have to file an annual 1040-NR tax return and acquire a Taxpayer Identification number to register with the Internal Revenue Service. Some cities require you have an official licence to rent a property to the public, and if you're "out of state" you must hire a local professional property management firm.

If you spend more than six months in any other country during a calendar year, always check with your accountant for any sort of proactive steps or reactive actions to ensure you remain on track.

Don't be afraid to spend some, or all, of your retirement in another country; just be sure to do your homework before you leave.

1. David M. Cieslowski, "Tracking Time in the United States," *Perspective*, January 2017, www.fiduciarytrust.ca.