Southern exposure

Consider these factors before buying a U.S. property.

IF YOU'VE EVER BEEN STUCK SCRAPING ICE off your car when it's 20 below, you've probably dreamed about heading south to a sunnier spot. Little wonder that Canadians make up 14 per cent of international homebuyers in the United States.[1] One of the draws for Canadian buyers in the past few years has been price: in the wake of the subprime mortgage crisis, U.S. property prices plunged 60 per cent in some places.[2]

But low prices aren't the only thing that attracts Canadians to acquire property south of the border. The United States boasts some of the best beaches, vineyards and ski hills in the world. Having a place of your own to visit year after year, perhaps with room for family and friends, can be an alluring idea. You may even be able to turn your vacation home into a successful rental.

If you are thinking of buying real estate in the land of the free, there are a few things to consider.

Length of your stay

Residency laws may affect your plans to spend the greater part of the year at your new abode. The U.S. Internal Revenue Service (IRS) states that Canadians are allowed in the country for 182 days per year before they have to file a U.S. tax return. A better measure, however, is the IRS's "substantial presence" test, which is based on the number of days spent in the United States during the current year and the two years before that. The formula works out to about 120 allowable days per year over a three-year period.[3] Go over that and you risk paying U.S. tax on your income. Just as importantly, too much time outside of your home province can jeopardize your health care coverage. Carefully plan and keep track of how much time you spend in the States.

Paying for it

Thirty-nine per cent of Canadians buying U.S. property take out a mortgage, but dealing with a U.S. lender can be a bit tricky. For Canadian buyers, some low mortgage rates won't typically be available because U.S. banks don't recognize your credit history outside the country.[4]

[1] 2015 Profile of Home Buying Activity of International Clients. www.realtor.org/reports/profile-of-international-home-buying-activity [2] www.economist.com/news/united-states/21601296-lack-supply-means-americas-lofty-house-prices-are-unlikely-fall-far-buy-now-or [3] www.irs.gov/Individuals/International-Taxpayers/Substantial-Presence-Test [4] business.financialpost.com/personal-finance/mortgages-real-estate/want-to-buy-property-in-the-u-s-read-this-first

You may be able to obtain a mortgage through a Canadian financial institution. Alternatively, you could opt to purchase the property outright by taking out a line of credit or home equity line of credit on your primary residence in Canada. Speak with your bank or mortgage professional to determine your best financing option.

You'll also need to plan for all-in costs: title search and insurance, legal fees, real estate agent and transfer fees can add up. They vary from state to state, but these expenses can amount to anywhere between 1 and 2.5 per cent of the total purchase price.[5]

Taxes

Property taxes vary depending which state you're looking at – Florida, for example, has higher property tax rates for non-residents.[6]

If you're thinking of renting out your property, keep in mind that your rental income must be included on your Canadian tax return. You may also have to file a U.S. tax return or pay withholding taxes.

Should you decide to sell, you'll pay tax as well. If you turn a profit, your gain is taxable in Canada. This gain is also taxable in the United States; however, the U.S. tax paid generates a foreign tax credit that may partially offset the Canadian tax payable.[7]

Consult with a tax advisor who specializes in U.S. and cross-border tax issues for more information.[8]

Being protected

Home insurance is essential in case something happens to your property or to a tenant. Be sure to review the coverage details, keeping in mind location-specific risks such as hurricanes and termites. For further peace of mind, you may also want to hire a property management firm to maintain and check in on your home while you are away.

Also, don't forget travel medical insurance. U.S. health care can be costly, and your provincial or territorial plan will cover only a fraction of the expenses if you get sick or hurt while abroad.

Get advice

Speak with your advisor to see if a U.S. property purchase fits into your financial plan, and then enlist the help of a qualified real estate agent, lawyer and accountant. These professionals can help you navigate the ins and outs of buying property south of the border. With the right support, you can be on your way to purchasing your own piece of paradise stateside. ■

[5] www.globalpropertyguide.com/North-America/United-States/Buying-Guide [6] www.thestar.com/business/personal_finance/retirement/2011/12/06/thinking_about_us_property_buyer_beware.html [7] www.taxplanningguide.ca/tax-planning-guide/section-2-individuals/us-real-estate-owned-canadian-residents/ [8] Canadians who die owning U.S. property could be subject to U.S. estate tax depending on factors such as the size of their U.S. holdings and the size of their overall estate. A tax advisor who specializes in U.S. and cross-border tax issues can provide the appropriate advice.

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