

Why Canadian snowbirds face more U.S. scrutiny this year — and how to avoid running afoul of rules

NP

REUTERS | February 11, 2015 | Last Updated: Feb 11 2:33 PM ET

[More from Reuters](#)



If Canadians overstay their welcome, they risk creating a U.S. claim on their worldwide income, getting barred from the country for five years and losing prized free healthcare.

NEW YORK — Canadians who normally head south of their border for warmer weather are keeping closer track of their time in the United States because if they stay too long, they could lose their Canadian health benefits and might owe U.S. income tax.

Just last year, the two countries implemented an agreement to scan passports and share the information, meaning that — unlike past years — America's tax authorities now

know exactly how long snowbirds are spending in warmer climes like Florida, California and Arizona.

And that has many worried Canadians monitoring their stay on American soil.

People like 74-year-old former TV producer Richard Simpson, who stays in Fort Myers, Florida, from the end of October through April, then heads back to Toronto.

“People have this fear in the back of their heads about playing it too loose, and spending too much time down here,” he said. “Whenever there’s a ‘Canada Night’ gathering, it’s the No.1 topic of conversation.”

The magic number is 182 days in a single year. More than that, and Canadians risk being considered a U.S. resident for tax purposes.

If Canadians overstay their welcome, they risk creating a U.S. claim on their worldwide income, getting barred from the country for five years and losing prized free healthcare, according to Dale Walters, the Phoenix-based chief executive officer of KeatsConnelly, a financial planning firm that specializes in cross-border issues.

Even less than 182 days, though, and they still might meet what the U.S. Internal Revenue Service calls its “substantial presence” test. It is a complicated formula, but if snowbirds spend more than roughly 120 days per year in the United States over a three-year period, the IRS starts getting interested in them.

“The technology has finally gotten to the point where they can track border crossings easily,” said Walters. “Snowbirds are very aware of this. Some of them have become pretty paranoid about it.”

But the lure of a warmer climate can be very powerful indeed. Canadians purchased U.S. properties worth \$13.8 billion in the 12 months leading up to March 2014, according to a report from the National Association of Realtors.

That makes for 15% of all international sales. Canadians’ favourite spots, perhaps not surprisingly: Florida, Arizona and California, making for almost three-quarters of all their purchases.

More than 500,000 Canadians own real estate in Florida alone, according to BMO Financial Group, whose Annual Snowbird Outlook — issued last October — predicts continued gains for snowbird homeowners.

CURRENCY BETS

The pace of those home purchases will likely slow, thanks to a falling Canadian dollar that has seen the loonie sink to around 80 U.S. cents. For those who have already purchased in the United States, the combination of rising real-estate prices and a U.S. dollar-denominated asset has proved to be a clever hedge indeed.

“For Canadians who bought a couple of years ago, they have already gained 20% on the rising U.S. dollar alone,” says Sal Guatieri, senior economist at BMO Capital Markets. “At the same time, home prices in many areas also rose double digits. So it was an excellent time to buy.”

Compared to record-high Canadian real estate in hot markets like Toronto and Vancouver, housing in the American sunbelt is still attractively priced, the BMO report notes.

So how can snowbirds avoid running afoul of the authorities, and not jeopardize their Canadian status or attract the scrutiny of the IRS?

Many have been tweaking their calendars already, says KeatsConnelly’s Walters. While typical snowbirds used to return to Canada in April, he says, many have now shifted earlier to March.

Some, like Simpson, throw some cruising into the mix to pad their schedules. Since a March or April return to Canada can still be on the chilly side, Simpson sometimes leaves Florida to keep under the 182-day limit, but then takes an international cruise until things warm up.

Also, know the letter of the law. Even if snowbirds meet the IRS’ “substantial presence” test, for instance, they can still fill out the agency’s Form 8840. It asserts closer connections to Canada, and should stave off any potential problems.

Finally, when crossing the border, Walters advises that snowbirds come equipped with a “border kit” that proves Canadian residency in multiple ways — things like utility bills and property-tax statements.

As for Richard Simpson, he does not regret leaving his homeland behind, at least for the coldest parts of the year. “Whenever I see the Canadian weather on TV, I think, ‘Thank God I’m here in Florida — and thank God I’m wearing shorts.’”

Chris Taylor is a Reuters contributor. The opinions expressed are his own.

© Thomson Reuters 2015