



NEWSLETTER Q4

IN THIS ISSUE

Market Insights

Owning U.S. Real Estate2

In the Community

Getting to Know
Stack Capital Group.....4

TD Wealth Private Investment Advice

Tel: 519-253-1028
TF: 1-800-287-1898
156 Ouellette Avenue, Suite 300
Windsor, ON N9A 1A4
www.brazierdupuiswealth.com

What Drives Us

Fall 2022

We've officially marked the end of another summer. Although we're continuing to navigate our 'new normal', it was satisfying to enjoy our first summer in over 2 years without widespread COVID restrictions.

Just as we've been adjusting, so too have financial markets. Inflation and interest rates are continuing to dominate the headlines. We've seen a doubling of mortgage interest rates while consumer prices increased and stayed persistently high. As a result, real-estate markets are slowing and businesses are looking closely at their costs and carefully evaluating new investments.

What is important to remember is that businesses and our financial system are resilient. Since the turn of the century we've witnessed a dot-com bust, terrorist attacks, multiple wars, the great financial crisis, a U.S. bank collapse, political uncertainty, debt ceiling debates, a U.S. housing collapse and, of course, a global pandemic that brought the world to a screeching halt. Throughout all of this, businesses and our economy have adapted and, despite high volatility and uncertainty at times, many investors were rewarded for owning a balanced and diversified portfolio of investments.

In this edition, we've included an excerpt from a TD Wealth article titled Owning U.S. Real Estate, that discusses some important considerations for Canadians who are considering owning U.S. real-estate, a topic that our clients often bring up. We've also included an update from a Canadian company with ambitious plans to 'democratize private equity' for investors.

Stay Well,

P.J. Dupuis
Senior Portfolio Manager
TD Wealth Private Investment Advice



Brad Brazier
Senior Portfolio Manager



P.J. Dupuis
Senior Portfolio Manager



Nicole Slatford
Client Service Associate



Samuel Lau
Associate Investment Advisor



Boraba Sordachanh
Administrative Associate



Brian Porter
Associate Investment Advisor



Owning U.S. Real Estate

Owning real estate in the U.S. may be appealing to Canadians for many reasons. Some own a vacation property to escape the winter months, while others purchase a home or condo for a child pursuing post-secondary education in the U.S. Whether you are buying, selling, or earning rental income from a U.S. property, there are a myriad of planning and compliance issues to consider on both sides of the border.

This article is intended for Canadian residents who are not U.S. citizens or green card holders and are not U.S. residents (collectively referred to as a 'U.S. person'). The tax considerations discussed in this article may not be applicable for Canadian residents who are U.S. persons.

Financing Considerations

When considering a mortgage for the purchase of real estate in the U.S., please note that not all Canadian lenders offer mortgages on U.S. properties. In addition, there are a number of key differences between the Canadian and U.S. market that you should consider when looking to secure a U.S. mortgage;

- In the U.S., a mortgage application may take longer than a typical mortgage application process in Canada.
- Securing a U.S. mortgage may require additional documentation.
- There may be higher costs involved in obtaining a U.S. mortgage. Buyers can expect to pay higher third-party expenses such as property appraisal, title and other insurance requirements.
- U.S. fixed-rate mortgages are typically compounded monthly, while in Canada they may be compounded semi-annually on fixed-rate mortgages.

U.S. Tax Considerations

The U.S. tax implications will depend on whether a property was purchased for personal use or for investment/rental purposes. This choice may affect how many days someone chooses to spend in the U.S., which in turn may result in a U.S. tax filing obligation.

Depending on how many days an individual spends in the U.S., residency for U.S. tax purposes could change. If an individual is not a U.S. citizen, for U.S. tax purposes, he or she is considered either a resident alien or a nonresident alien. Resident aliens are subject to U.S. tax on worldwide income from all sources and are generally required to file an annual U.S. income tax return. In contrast, nonresident aliens are generally only taxed on income from U.S. sources.

A resident alien is an individual who is either a green card holder or has satisfied the "substantial presence test". Factors for the substantial presence test are as follows:

- If someone spends 183 days or more in the U.S. during the current year, the substantial presence test has been met and that individual would be considered a resident alien.
- If someone spends between 31 and 183 days in the U.S. during the current year, they will need to determine the number of days spent in the U.S. over a rolling three-year period (the current and the two previous years) using the "183-day test". The test is calculated by adding the sum of: (i) all of the days of physical presence in the U.S. in the current year, (ii) one-third of the days of physical presence in the first preceding year and (iii) one-sixth of the days of physical presence in the second preceding year. If the total equals 183 days or more, then the substantial presence test has been met, and that individual may be considered a resident alien.
- If someone spends less than 31 days in the U.S. during the current year, they are considered a nonresident alien.

If the substantial presence test is satisfied, an individual may still be treated as a nonresident alien if they meet the “closer connection” exception:

- They spend less than 183 days in the U.S. in the year;
- They maintain a “tax home” in Canada during the year; and
- They have a closer connection, such as maintaining more significant ties, to Canada than to the U.S.

In order to claim the closer connection exception, Form 8840 Closer Connection Exception Statement for Aliens would need to be filed with the Internal Revenue Service (IRS) by April 15th of the following year.

If the closer connection exception cannot be claimed, U.S. income taxes may be avoided under the residency tie-breaker rules in the Canada-United States Tax Convention (the Treaty). Where someone relies on the residency tie-breaker rules of the Treaty to maintain Canadian residency, U.S. income taxes may not be payable. However, a U.S. tax filing would still be required to claim the Treaty benefit. In addition, any applicable foreign reporting required under U.S. tax laws may still be necessary.

If you spend a significant amount of time in the U.S., you should speak with a cross-border tax advisor to ensure you understand the tax implications to prevent any unintended consequences.

Canadian Tax Considerations

Canadian residents who own foreign investment property (called “specified foreign property”) at any time during the year costing more than \$100,000 are required to file Form T1135 - Foreign Income Verification Statement.

“Specified foreign property” includes real estate situated outside of Canada but does not include personal-use property used primarily for personal use and enjoyment purposes. The Canada Revenue Agency (CRA) takes the view that “primarily”

means more than 50%. For example, if Mr. Jones owns a condominium in Florida that costs over \$100,000 but it is maintained exclusively for personal use, he would not need to report it on Form T1135. However, if Mr. Jones occupies the condominium for personal use for only four months of the year and rents it out for the remaining eight months of the year, it would likely be considered an income-earning investment property. As a result, Mr. Jones would likely be required to report the property on a Form T1135.

There are substantial penalties for failing to complete and file Form T1135 accurately and on time.

Renting Out U.S. Real Estate

For Canadians owning U.S. real estate, rental income from such U.S. properties will generally be treated as gross rental income in the U.S. and would be subject to a 30% U.S. withholding tax. However, for Canadian tax purposes it is the net rental income that is reported on a Canadian tax return. To mitigate double taxation, a foreign tax credit may be available under the Income Tax Act (Canada) for U.S. withholding taxes paid.

Alternatively, to avoid the 30% U.S. withholding tax, an election may be made by filing a U.S. nonresident alien tax return. The election would generally apply to all subsequent tax years. Where the election is made, Form W-8ECI Certificate of Foreign Person’s Claim That Income Is Effectively Connected with the Conduct of a Trade of Business in the United States would need to be provided to a withholding agent or payer of the rental income to avoid the U.S. withholding tax. To determine whether this option is appropriate for your particular circumstances, please consult with your cross-border tax advisor.

For the unabridged version of this report, please visit TD Knowledge Centre: <https://bit.ly/3xEO5OV>

Getting to know Stack Capital Group

Jeff Parks and Jason Meiers, the founders of Stack Capital Group, recently joined us in Windsor to share business updates. Founded in June 2021, they are an investment holding company whose objective is to invest in equity, debt, and/or other securities of growth-to-late-stage private businesses. By virtue of being a public entity, Stack Capital has 'democratized' access into the private equity asset class by eliminating two of the traditional 'barriers to entry' specifically: eligibility (anyone can own shares) and liquidity (buying / selling on demand). Through ownership of their common shares, investors have access to a diversified portfolio of innovative and disruptive companies operating across a number of sectors: SpaceX (incl Starlink Communications), Hopper and Omio (travel / leisure), Prove Identity (cyber-security), Newfront (insurance & benefits), Bolt Financial (e-commerce), and Varo (neo-bank). The Stack portfolio also includes a sizable cash position, leaving the company in a great position to take advantage of opportunities stemming from recent market volatility.



From left to right: CEO Jeff Parks, Brian Porter, P.J. Dupuis, Brad Brazier, CIO Jason Meiers

This article provides a general overview of some of the U.S. and Canadian tax considerations for Canadian residents around certain types of U.S. assets. It does not address additional considerations applicable to persons who are U.S. citizens, green card holders or individuals who are otherwise treated as residents of the United States for U.S. tax purposes. The U.S. and Canadian tax rules are complex, and tax consequences can vary depending on your individual circumstances. Be sure to speak with your tax specialist before taking an action with respect to any retirement accounts. The information contained herein has been provided by Brazier Dupuis Wealth Management and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc., TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company). Brazier Dupuis Wealth Management is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. which is a subsidiary of The Toronto-Dominion Bank. All trademarks are the property of their respective owners. ®The TD logo and other trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.