



Flying South for the Winter— A Guide for Snowbirds



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TAPPING INTO HOME EQUITY IN RETIREMENT

Every year, thousands of Canadian “snowbirds” escape our winter for a few weeks or months by taking an extended vacation in warmer places. For most, their destination is the southern or south-western United States, often Florida or Arizona. Others venture further afield, to places like Mexico, the Caribbean, and even as far as Spain or Portugal. And, while the value of Canada’s currency relative to that of other jurisdictions is not as high as it once was, the Canadian dollar is still strong enough to make such sojourns an affordable luxury for many Canadians, especially retirees.

The thoughts of those who are going south are typically on enjoying the sunshine and warm



weather and making plans for golf or tennis, and not on the tax or financial issues which may arise from taking a long winter vacation. However, leaving behind the Canadian winter doesn’t mean leaving behind the Canadian tax system. The reach of our tax system is a long one, and there are tax consequences which can result from spending an extended period of time outside the country.

While tax matters aren’t usually top of mind, what snowbirds do often concern themselves with are the practical details of managing day-to-day life in another country for an extended period of time. Will it be possible to continue receiving regular monthly payments of Canada Pension Plan (CPP) and Old Age Security (OAS) benefits while outside of Canada, and how will those payments be delivered? Will payments made out-of-country be in Canadian dollars or in the currency of the country in which they are vacationing—and at what exchange rate? Will the Canadian public health care coverage system cover them for medical expenses incurred outside Canada, and to what extent? If not, will it be possible to obtain

travel medical insurance privately? If it’s necessary to pay out-of-pocket for medical care in another country, or to pay for private medical insurance coverage, are those costs deductible for Canadian tax purposes? There’s a lot to consider when planning an extended out-of-country stay, and this article reviews some of the more common questions and issues which can arise.

Maintaining income sources while outside of Canada

For many, if not most, Canadian retirees, CPP and OAS benefits form the base of their retirement income, supplemented by private savings held in an RRSP or RRIF, or perhaps, payments from an employer pension plan. The good news is that being outside Canada for several weeks or months doesn’t have any effect at all on eligibility for CPP and OAS pensions and benefits. In the vast majority of cases (and certainly for anyone who has lived in Canada for 20 years or more after turning 18) receiving monthly payments of those pensions and benefits while outside Canada also doesn’t pose a problem.

CPP and OAS cheques, denominated in Canadian dollars, can be mailed to recipients anywhere in the world. In many cases, however, payment of both CPP retirement pensions and OAS benefits can be made by direct deposit to a local bank account of recipients who are staying (or even living) outside of Canada. While it’s not possible to receive such direct deposits in all countries, many typical snowbird destinations—including the United States, Mexico, Spain, and Portugal—are on the list of eligible countries. However, CPP and OAS payments cannot currently be made by direct deposit to any banks located in the Caribbean.

Where the option of direct deposit to a local bank account is possible, it’s likely a better choice than receiving payments by cheques mailed from Canada. Funds which are direct-deposited will be received more quickly and safely where the transfer is electronic, and there will be no need to depend on Canadian or foreign postal systems.

Where CPP and OAS payments to a recipient in a foreign country are made by direct deposit, the payment will be made in the currency of the country in which the bank account is located. There’s no change in the amount receivable, as the usual Canadian dollar payment amount is simply converted into the applicable foreign currency. The recipient will receive an information slip which lists the payment amount in Canadian dollars and in the local currency. The additional advantage of receiving CPP and OAS

amounts by direct deposit in the local currency is that the exchange rate used by the Canadian government will likely be better than most which can be obtained locally, and there will be no delay in accessing the funds such as would occur while waiting for the conversion to local funds to take place.

Snowbirds who are wintering in a location for which direct deposit of CPP and OAS amounts is not possible are likely best advised to have such amounts deposited directly to their Canadian bank account(s). Although it is possible to receive CPP and OAS payments by cheque in Canadian dollars anywhere in the world, and it's also possible to receive payment by cheque denominated in the local currency in many jurisdictions, both options involve delays as the payments are sent by mail, through both the Canadian and a foreign postal system. The availability of online and ATM banking means that it shouldn't be difficult for snowbirds who have their CPP and OAS amounts deposited to their Canadian bank accounts to access the funds, but any necessary conversion to local currency will have to be done locally.

A listing of countries for which direct deposit (in the local currency) can be done can be found on the federal government website at www.tpsgc-pwgsc.gc.ca/recgen/dd/etranger-abroad-eng.html, and a similar list of countries to which OAS and CPP cheques denominated in the local currency can be sent is available at www.servicecanada.gc.ca/eng/services/pensions/international/localcurrency.shtml.

While the rules governing offshore payment of CPP and OAS amounts are the same for everyone, it's not possible to provide general rules when it comes to payments from employer

pension plans, or from RRIF or RRSP accounts, as each such plan or financial institution will have their own rules and practices. Anyone contemplating an extended out-of-country stay is best advised to contact his or her financial adviser, or bank or pension administrator, well in advance, in order to determine what options are available and to make any necessary changes in payment arrangements for the

time period during which they will be staying outside Canada.

The tax consequences of going south—determining residence status

For most Canadians who go south for a few weeks or even a few months during the winter, not much is likely to change from an income tax perspective. Canada, unlike the United States, imposes income taxes on the basis of residency, meaning that anyone who is defined under our tax laws as a resident of Canada is subject to Canadian income tax. Even Canadian residents who are outside the country for an extended period of time each year can continue to be “residents” of Canada for income tax purposes. Such vacationers are termed, in tax parlance, “factual residents of Canada”. In practical terms, the income of such taxpayers is treated, for Canadian tax purposes, as though they had never left Canada.

There is no single test for whether an individual is a factual resident of Canada. Rather, the determination is made based on a number of factors which measure the extent that the individual has continued to maintain “residential ties” to Canada.

In determining a person's residence status for Canadian income tax purposes, the Canada Revenue Agency (CRA) considers two types of ties—what it terms “significant residential ties” and “secondary residential ties”. The first category includes keeping a residence (whether owned or rented) in Canada, and having a spouse or dependants here. Each of those factors is considered a significant residential tie to Canada, and the existence of any one of them is usually enough for the CRA to conclude that the individual remains a factual resident of Canada. Put another way, unless an individual severs all three significant residential ties to Canada, by no longer having a home, spouse or dependants here, he or she will very likely continue to be a factual resident.

Where an assessment of significant residential ties doesn't provide a conclusive answer with respect to an individual's residence status, the CRA will consider whether there are any secondary residential ties to Canada, and those would include the following:

- personal property in Canada (such as furniture, clothing, automobiles, and recreational vehicles);
- social ties with Canada (such as memberships in Canadian recreational or religious organizations);
- economic ties with Canada (such as employment with a Canadian employer and active involvement in a Canadian business, and Canadian bank accounts, retirement savings plans, credit cards, and securities accounts);





- landed immigrant status or appropriate work permits in Canada;
- hospitalization and medical insurance coverage from a province or territory of Canada;
- a driver's license from a province or territory of Canada;
- a vehicle registered in a province or territory of Canada;
- a seasonal dwelling place in Canada or a leased dwelling place;
- a Canadian passport; and
- memberships in Canadian unions or professional organizations.

While the presence of a single significant residential tie (like maintaining a home in Canada) is a sufficient basis on which to characterize an individual as a factual resident of Canada, secondary residential ties must be looked at collectively in order to evaluate the significance of any one tie. It's not usually the case that the existence of a single secondary residential tie will be sufficient on its own to lead to a determination that an individual is factually resident in Canada while abroad.

Finally, there are some minor factors which can be considered, including the retention of a Canadian mailing address, post office box or safe deposit box, personal stationery (including business cards) showing a Canadian address, telephone listings in Canada, and local (Canadian) newspaper and magazine subscriptions.

The vast majority of snowbirds who winter out of the country do maintain sufficient residential ties to Canada to be considered factual residents. Consequently, when they file their tax returns for the year, they follow all the same rules as year-round Canadian residents. They report all income received during the year from both inside and outside Canada and claim all available deductions and credits. Income tax is paid to the federal government and to the province with which their residential ties are kept. Finally, snowbirds who remain factual residents of Canada remain eligible for the harmonized sales tax/goods and services (HST/GST) tax credit which, like OAS and CPP benefits, may be paid to recipients outside of Canada. And, although snowbirds are not typically in an age group which would be receiving such benefits, the Canada child tax benefit and the Universal Child Care Benefit can also be paid to recipients who are outside Canada.

Tax withholdings on payments from Canada

Most snowbirds remain factual residents of Canada, and most sources of income received by snowbirds constitute taxable income which must be reported on the annual income return. Where such income is received by those who are outside Canada, however, there is one additional tax "wrinkle" which must sometimes be considered—that of cross-border tax withholding.

Most Canadians are familiar with the practice of tax withholding from their years as employees, during which income tax amounts were withheld from their gross pay and remitted to the federal government on their behalf. The amount withheld represented the best estimate possible of the tax which would be payable on that income for the year, and having it withheld throughout the year meant that the employee didn't face a large tax bill when filing his or her return the following spring.

Cross-border tax withholding operates on the same principle, but the major difference is that the percentage of income withheld for taxes is a fixed one, set by tax treaty, without regard to the particular tax situation of the recipient. Where Canada does not have a tax treaty with a particular country, the withholding percentage is 25%, meaning that for every \$100 paid, \$25 is withheld for income tax.

The majority of snowbirds who winter outside of Canada for a period of a few weeks or months and who maintain their residential ties to Canada are not likely to have to worry about cross-border tax withholding. However, in some circumstances, such as where the stay outside Canada lasts for more than six months and there are fewer (or no) significant residential ties to Canada maintained, it's possible that withholding tax issues will arise. Those who may be affected can find more information on the subject on the CRA website at www.cra-arc.gc.ca/tx/nrrsdnts/ndvdl/nrrs-eng.html#rsdncstts. In such circumstances, it is also advisable to seek professional tax advice.

Acquiring travel medical insurance

Most Canadian snowbirds spend the winter months in the United States and, as everyone knows, one of the biggest differences between Canada and the United States is the fact that Canadians enjoy the benefits of a publicly funded health care system while Americans do not. Consequently, one of the biggest concerns for any Canadian who plans to spend time south of the border is the need to have some kind of

travel medical insurance coverage to pay for the costs of any regular or unexpected medical expenses. Where premiums are paid for such travel medical insurance, or where out-of-country medical expenses are paid for by an individual without reimbursement from an insurer, both types of costs are treated as eligible medical expenses for which a credit can be claimed on the individual's Canadian tax return for the year.

Virtually all Canadians are covered, of course, by the public health care plan of the province or territory in which they reside, and there is a somewhat common misconception that such coverage will follow Canadians wherever they go. Most provincial and territorial plans do make some provision for the payment of out-of-country medical expenses (with the extent of coverage differing by province or territory), but such coverage, where it exists, is usually limited to emergency care in the case of life-threatening illness or accident. The coverage provided by provincial and territorial health care plans can never be relied upon to provide payment of most out-of-country medical expenses and must always be supplemented by additional travel medical insurance coverage arranged (and paid for) by the individual.

Arranging that additional coverage usually comes down to one of two options. The fortunate minority of retirees who are still covered by an extended health care plan provided by their former employer may find that they already have sufficient travel medical insurance in place as part of that plan. Most snowbirds will, however, have to make their own arrangements for travel medical insurance. While such insurance is widely available, terms and conditions vary a lot, both from insurer to insurer and from year to year. It is critical that an individual purchasing such coverage is absolutely clear on the extent and, particularly, on the limitations of any coverage purchased. At a minimum, the following questions need to be answered:

- Does the policy cover medical expenses which are incurred as the result of a pre-existing condition? Where there are coverage exclusions in a travel medical insurance policy, they are most likely to relate to medical conditions from which the applicant already suffers—and those, of course, are also the ones which are most likely to mean incurring out-of-country medical expenses.
- For what period of time does the coverage

extend? All travel medical insurance policies are stated to be effective for a specified number of days with the cost, of course, increasing with the length of the coverage period. As an individual grows older, they may find that the period of time for which their insurer will provide out-of-country medical insurance coverage becomes shorter and shorter. It's critical to make sure that the insurer will provide coverage for the entire length of the out-of-country stay. If coverage for the whole period can't be obtained, or obtained at an affordable rate, the period of travel might have to be shortened.

- If the individual requires medical care within the policy coverage period, but the need for that care extends past the end of that period, will the coverage continue? For instance, if an individual is insured for a 60-day period, but has an accident or illness on day 58 of that period and care is required past the 60-day expiry date of the policy, will the insurer continue to cover consequential medical costs incurred—and for how long?
- What kind of medical history is required on the policy application form? At one time, applicants were required to provide information about any medical tests, diagnoses, or treatments which had taken place within a realistic, relatively short timeframe—typically 90, 120, or 180 days—prior to the application date. More recently, however, some applications for travel medical insurance ask the applicant to provide their entire lifetime medical history—something which would be difficult for most people and is virtually impossible for anyone over the age of 50. And it seems that insurers will examine that medical history requirement to determine whether claims will be paid. There have been instances reported in the media in which coverage was denied on the basis that an individual's application was incomplete or inaccurate, because some detail of his or her medical history was omitted, even where that detail was unknown to the applicant and unrelated to the medical event for which a claim was made.
- Where it's necessary to incur out-of-country costs for medical care, will the insurer pay such costs directly to the provider at the time care is provided, or is the insured required to pay those costs upfront and

then seek reimbursement from the insurer? Where costs are small (e.g., a visit to a walk-in clinic for a minor matter), having to pay those costs out of pocket and receive reimbursement later isn't usually a problem. Where, however, the medical event is a serious one (e.g., a heart attack or stroke), costs can quickly run to the tens of thousands of dollars for specialized hospital care. Many retirees would find it difficult, if not impossible, to come up with that amount of money out of pocket on short notice.

It may seem that obtaining affordable travel medical insurance for which the underwriting requirements are realistic and which can be relied upon to provide coverage when needed is all but impossible. It is true that the requirements imposed on applicants for such insurance are becoming more and more difficult to fulfill, and it seems as well that insurers are scrutinizing claims much more stringently than they have in the past. In the circumstances, the best advice for those seeking to obtain travel medical insurance would be to start early, shop around, and read and complete the application forms and any other documentation provided by the insurer very thoroughly. It wouldn't even be out of place to obtain professional advice from an independent insurance broker or a lawyer, to ensure that one's understanding of the requirements of the application form and the terms of coverage provided by the travel

medical insurance policy is correct. Taking such a step might seem extreme, but Canadians who have incurred unexpected out-of-country medical expenses for which coverage has been denied by their insurer can face medical bills amounting to more than \$100,000 in some cases. For most retirees, such an occurrence would be a financial disaster, at a time of life when they can least afford it.

Conclusion

It may seem from the forgoing that taking an extended warm weather vacation during our winter is more trouble than it's worth. That's not really the case, but what is true is that taking such an out-of-country vacation without first looking after any tax and financial issues can result in real problems. Where the inevitable tax and financial questions have been considered carefully prior to making such vacation plans, and dealt with appropriately, there's no reason not to enjoy an escape from the Canadian winter.

The best advice for those whose plans include an extended stay out of the country, particularly if they are contemplating repeat visits on an annual basis or even the purchase of a vacation property in another country, is to obtain professional advice well in advance on the tax and financial implications or consequences. Doing so can ensure that what was intended to be a relaxing annual vacation doesn't end up causing a major tax or financial headache.

