

Americans in Canada told not to fear IRS

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Uncle Sam will likely show some leniency for U.S. citizens living in Canada who were not aware they were supposed to file returns south of the border, Washington's ambassador to Canada said Tuesday.

"My message on this one is to sit tight. We are not unreasonable. We are not unsympathetic. We are not irresponsible," David Jacobson said during a speech to the Canadian Club in Ottawa.

The U.S. is one of only a handful of countries that requires citizens to file their worldwide income in the United States regardless of where they live or where they earn their livings.

The rule applies to American citizens living in any other country.



David Jacobson, U.S. ambassador to Canada, says Washington will likely show some leniency for Americans living in Canada who were not aware they were supposed to file returns. Sean Kilpatrick/Canadian Press

"There are two particular problems with the operation of these rules here in Canada," he said.

"First, there are so many dual citizens, typically by birth, probably more than a million. So this issue is much more common here than in any other country in the world. Second, the penalties — at least in a theoretical sense — can be quite severe."

Most dual and U.S. citizens do not end up having to pay any tax, as the U.S. grants credits for taxes paid in a foreign country, and rates in Canada are typically higher than those in the United States.

However, U.S. citizens still have to file a return even if they don't owe tax.

Finance Minister Jim Flaherty said the majority of Canadians affected by the rule have dutifully paid their Canadian taxes and their only transgression has been in failing to file IRS paperwork they were unaware they were required to file.

"We called on the U.S. government to look upon these individuals with leniency, and we are encouraged they appear to be moving in that direction," Flaherty said.

The ambassador said Canada is not the main concern, but Americans living in countries considered tax havens, places with little or no income tax like the Cayman Islands. Americans living there will likely owe taxes to the U.S.

U.S. President Barack Obama has made it clear combating tax evasion is one of his priorities as the indebted country seeks ways to shore up revenue.

"Given our budgetary problems, the United States wants to make sure we are paid all the taxes we are owed. American citizens shouldn't be able to avoid their tax obligations by establishing a residence in a tax haven," Jacobson said.

He used the example of a 70-year-old "grandma" born in the U.S., but moved back to Canada as a young child, never earned any money in the U.S. and dutifully paid all of her taxes in Canada.

"She didn't file a U.S. return because she didn't think she had to. And because she didn't owe any U.S. taxes. Nonetheless, Grandma could be theoretically subject to serious penalties. To my knowledge we have never gone after a Grandma in those circumstances."

Jacobson said he became concerned about the issue after seeing media coverage and hearing that people are worried the U.S. Internal Revenue Service will come after them.

He and the Commissioner of the IRS decided to work to see if they can accommodate people like the grandmother and those in similar scenarios in Canada.

"But we have to figure out a way to do it without letting the person who is trying to evade taxes in the Cayman Islands off the hook."

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