



## Tax Consequences of Canadians Working in the United States

### Reporting US Wages

Residents of Canada report their world income on their tax returns. Any US wages must be converted to Canadian dollars and reported on line 104 as other employment income. There is no minimum exemption. All foreign earned income no matter how small or where earned must be reported. Wages reported on a US form W2 Wage and Tax Statement must still be reported on your Canadian tax return.

### Taxation of US Wages

There are two exceptions eliminating US taxes on US wages earned by Canadians:

1. Minimal wages (less than \$10,000) do not have to be taxed in the US, **or**
2. You are in the US less than 183 days **and** your employer is not resident in the US or has a permanent establishment in the US

If you do not meet one of these two exemptions, your US wages will be taxed in the US. Your employer will deduct income tax, social security tax, and Medicare tax at source and remit this to the Internal Revenue Service (IRS) on your behalf. You may be eligible for an income tax refund from the IRS on your US return. You may also be eligible for a foreign tax credit for the amount of US tax that is not refundable.

### Filing US Income Tax Returns

You should file US income tax returns if:

1. If you have US source income of more than \$12,000 USD, or
2. You expect a refund of some or all of the US tax withheld, or
3. CRA is requesting a copy of the US tax return before they allow the foreign tax credit on your Cdn income tax return.

You will file a US 1040NR Non-Resident income tax return reporting only your US sourced income. You may have to also file a US state income tax return for each state where you had US source income.

### Foreign Tax Credits

Fortunately, the US-Canada tax treaty (<https://www.fin.gc.ca/treaties-conventions/unitedstates-etatunis-eng.asp>) allows a foreign tax credit on your Cdn income tax return for US tax paid a US return. Most Canadians working in the US will find that the Cdn tax is about 10% higher than the US tax. Therefore, the foreign tax credit will exempt most but not all of the Cdn tax payable on the US wages. They will pay a "top-up" tax on the Cdn return even after the foreign tax credit is considered.

### Cdn Tax Withheld on US Wages

Canadians working in the US may find that their Cdn employer is withholding Cdn tax from the US wages and remitting this to Canada Revenue Agency (CRA). If you do not meet one of the two exemptions mentioned above, you will still have to pay US tax on your wages. Although you could get a refund on your Cdn return by utilizing the foreign tax credit, there could be cash flow problems by having to pay US tax while waiting for your Cdn refund. You can get your Cdn employer to reduce the Cdn tax remitted to CRA on your US wages by completing form T1213 Request to Reduce Tax Deductions at Source.