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FREE GUIDE · Inheritance

What Follows It Home

Why receiving an inheritance is usually not taxable where you live, and why what happens next almost always is.

Inheriting property abroad: the tax that follows it home

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Inheriting property abroad: the tax that follows it home

In most cases the inheritance itself is not income where you live. What creates the tax is everything after it: the cost base you inherit, the income the asset produces, the reporting obligation it triggers, and the day you sell it.

Who this is for

- Canadian, US and Indian residents inheriting property, accounts or shares in another country.
- Beneficiaries of an estate abroad who have been asked for tax information by the executor.
- Anyone holding an inherited foreign property they may sell.

Receiving it: usually not income, always relevant

Canada does not tax the receipt of an inheritance in the beneficiary's hands; the tax, if any, arose in the estate. The United States likewise does not treat a bequest as income to the recipient, although it does impose reporting on large gifts and bequests received from foreign persons and on distributions from foreign trusts and estates. India does not tax inheritance as income either, but a resident who now owns a foreign asset has entered its foreign asset disclosure regime.

So the receipt is generally tax-free and never irrelevant. The reporting obligations that attach to it are information filings with substantial penalties and no tax attached, which puts them in the category people miss. Our page on aforeign inheritancesets out the Canadian position and the reporting.

The cost base you inherit is the number everything turns on

When you later sell, your gain is measured from a cost base, and what that base is depends on the country and the circumstances. Many systems give a beneficiary a base equal to the value at the date of death, which means the accrued gain during the deceased's lifetime does not fall on you. Others carry the deceased's original cost across in some circumstances, which means it does.

This is why the most valuable thing you can do in the first months is obtain and preserve a date-of-death valuation, in the local currency and converted at the rate on that date. It is cheap and easy while the estate is being administered, and it is expensive and sometimes impossible five years later — at which point the whole gain may be taxable for want of a number.

Holding it: income, reporting and the annual return

An inherited property that is let produces rental income taxable where the property is, usually by return there, and taxable again where you live with a credit for the foreign tax. Inherited accounts and shares produce interest and dividends with the same pattern. The credit mechanism prevents double tax; it does not always prevent a cash-flow mismatch, because the two countries' tax years and payment dates rarely align.

The reporting side is separate. Foreign property crossing a cost threshold goes on Canada's foreign property return. A US person's inherited foreign accounts fall into the foreign account and specified asset regimes. An Indian resident's inherited foreign asset goes on the foreign asset schedule. None of these depends on the asset producing income.

Selling it, from a country that is not its own

Selling as a non-resident of the country where the property sits generally brings that country's non-resident sale mechanics into play: withholding on the gross price, an advance certificate or clearance procedure, and a return to settle the actual gain. India withholds on the buyer's side when a non-resident sells property and allows an advance certificate for a lower deduction. Canada requires notification and a clearance certificate. The United States has its own withholding regime on dispositions of US real property by foreign persons.

In each case the advance route is better than the refund route, and in each case it takes time. Selling an inherited property is therefore a project with a lead time, not a transaction — and repatriating the proceeds afterwards may need its own certification.

Currency, and the gain nobody expected

Your gain is measured in your own currency. If you inherit a property valued at a date-of-death exchange rate and sell it years later at a different one, part of your taxable gain is currency movement, even if the local-currency price never moved. There are systems where a purely notional currency gain is taxable in exactly this way.

The reverse is also true, and a local-currency profit can be a home-currency loss. Either way, recording both the local amount and the rate applied at each event is what makes the return computable at all.

The first year of an inheritance, in order

The first two steps have a window measured in months, not years.

1. **Get the valuation and the paperwork** Date-of-death valuations, the deceased's original cost documents, and the distribution records — while the estate is still open and the executor is still engaged.
2. **Establish your cost base in your own country** Whether the base is the date-of-death value or the deceased's cost, and the exchange rate that applies. Write it down and keep it with the file.
3. **Test the reporting obligations** Foreign property, foreign account, specified asset and inheritance-receipt reporting, for the year of receipt and every year after.
4. **Set up the annual income position** Local filings where the asset is, home country reporting with a foreign tax credit, and a note of how the two tax years align.

5. **Decide keep or sell, on the tax facts** The sale mechanics in the property's own country, the withholding, the advance certificate lead time, and the repatriation route for the proceeds.
6. **Plan the repatriation** Some countries require certification before money leaves. Build that into the sale timetable rather than discovering it at completion.

Papers to gather

What an inheritance file should contain:

- Death certificate, will, and the distribution or transfer documents.
- Date-of-death valuation for each asset received, with its source.
- The deceased's purchase documents and improvement records where available.
- Title deeds, share registers or account statements now in your name.
- Any foreign tax paid by the estate, with evidence of payment.
- Exchange rates at the date of death and at any subsequent event.
- Local tax filings made in the property's country since you inherited.
- Your own returns showing how the asset and its income have been reported.

Where it goes wrong

- **Never obtaining a date-of-death valuation** It is the number your eventual gain is measured from. Without it the whole proceeds can end up taxed as gain, and it becomes very hard to establish years after the estate closed.
- **Leaving the inherited asset off the reporting forms** The receipt was not taxable, so nothing prompts a filing. The reporting obligations attach to holding it, and they carry penalties with no tax behind them.
- **Selling first and discovering the withholding at completion** Non-resident sale mechanics apply in most systems, with an advance certificate route that is much better than a refund claim and that takes time to obtain.

Questions this raises

Do I pay tax on money I inherit from abroad?

Generally not on the receipt itself in Canada, the United States or India. What can apply is reporting on large bequests from foreign persons or from foreign trusts and estates, and then ordinary taxation of the income the asset produces and the gain when you sell it.

What cost base do I use when I sell an inherited property?

It depends on the country. Many systems give the beneficiary a base equal to the value at the date of death; some carry the deceased's cost across. Either way you need the date-of-death valuation and the deceased's original cost documents to compute it.

Do I have to report an inherited foreign house if it earns nothing?

Quite possibly. Foreign property reporting regimes are driven by cost or value and by the type of property, not by whether income arises. Personal-use property is treated differently from investment property, so the classification matters.

How do I get the sale proceeds out of the country?

That is a separate exercise from the tax on the sale. Some countries require a remitter declaration and an accountant's certificate before a bank will move funds abroad, and the certification depends on the tax position being settled first.

What to do next

If the inheritance is recent, the priority is the valuation and the paperwork while the estate is open. If it happened years ago, the priority is establishing the base from what evidence still exists, and checking which reporting years are open.

We handle inherited-asset reporting, the local filings and non-resident sales as one fixed-fee engagement agreed before work starts. Seeinheriting property abroad,inheriting property in Indiaand theinheritance document pack.

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