LEGALQUOTIENT
USA · INDIA · CANADA · UAE

FREE GUIDE · US / CA

Two Returns, One Income

How a US citizen or green card holder resident in Canada files both returns so the same income is taxed once, not twice.

US citizens in Canada: two returns, one income

The United States taxes its citizens wherever they live, and Canada taxes its residents on worldwide income. If you are both, you file in both places every year. Done in the right order, the tax is paid once. Done in the wrong order, it is paid twice and reclaimed slowly.

Who this is for

- US citizens and green card holders who live in Canada, whether they moved last year or thirty years ago.
- Dual citizens who have always filed in Canada and have just discovered the US filing obligation.
- Canadians who acquired US citizenship or a green card and now hold registered or corporate accounts the US reads differently.

Two systems, one set of income

Both countries want the same income reported, in their own currency, on their own timetable, under their own rules about what income even is. Neither return is a translation of the other. Investment income that is tax-free in one system may be fully taxable in the other; a deduction available in one has no counterpart in the other; and the two tax years, filing deadlines and instalment regimes do not line up.

Relief comes from two directions. The domestic foreign tax credit rules in each country give credit for tax paid to the other on the same income, and the Canada–US treaty allocates certain items to one country and limits what the other may take. The treaty also carries an exclusion mechanism for earned income that some filers use instead of a credit. Which route is better is an arithmetic question that changes with your income mix, and it is worth re-testing rather than assuming.

The order of preparation is what makes the credits work. The return that is credited must be computed before the return that claims the credit, so in most Canada-resident cases the Canadian numbers are settled first and the US return then claims credit for Canadian tax — but not always, and never on autopilot. Our page onhow to avoid double taxationwalks through the mechanics.

The accounts that cause the trouble

Most of the difficulty in this filing pattern is not income; it is the wrappers. Canadian tax-preferred and registered accounts were designed for the Canadian system, and the US does not automatically recognise a shelter that Canada grants. Some plans are addressed by the treaty and some are not, and the ones that are not can generate US tax and US reporting on growth that Canada treats as exempt.

Canadian mutual funds and exchange-traded funds held by a US person raise a separate issue: pooled foreign investment vehicles are subject to a punitive and separately reported US regime unless an election is made in time, and the election is only available for a fund that publishes the information you need. Holding the same market exposure through a different instrument often solves the problem entirely — but only prospectively.

A Canadian corporation owned by a US person is not a neutral container either. The US reads a foreign corporation controlled by US persons through its own rules and can attribute income to the shareholder before a dollar is distributed, with an information return attached whether or not there is tax to pay.

Reporting is separate from tax, and separately penalised

Both countries require information about foreign holdings independently of any tax on them. On the US side that means an annual report of foreign financial accounts and, above other thresholds, a specified foreign asset statement filed with the return. On the Canadian side it means a foreign property information return where the cost of foreign property crosses a threshold.

These are the filings people miss, because nothing is owed and nothing prompts them. They also carry the heaviest penalties in the whole pattern, and the penalties are per form and per year. Where several years are missing, the fix is a disclosure route rather than a quiet catch-up. Ourcatch-up filings and disclosurespages set out the options and when each is available.

What good looks like after the first year

A US citizen in Canada with a properly built file has a stable annual pattern: a fixed order of preparation, a consistent foreign tax credit position, elections in place where they help, no pooled foreign funds held directly, and a reporting checklist that runs whether or not anything changed. The first year is the work. After that it is maintenance.

The other half of a stable file is the currency and record discipline. Both returns need amounts in their own currency, converted on a defensible basis, and both need the same underlying facts. A single spreadsheet that carries accounts, balances, income and conversion rates for the year is worth more than any software.

How a dual-filing year runs

The same six steps every year, which is what turns two returns into one exercise.

1. **Collect both countries' slips and statements** Canadian information slips, US information returns, brokerage statements from both sides, and year-end balances for every foreign account in either direction.
2. **Settle residency and treaty position** Confirm Canadian residence for the year, confirm US status, and note any treaty article being relied on. This decides which return is prepared first.
3. **Prepare the credited return** Usually the Canadian return, computed in full so the tax actually paid to Canada is known and can be carried into the US credit calculation.
4. **Prepare the crediting return** The US return, with the credit or exclusion chosen on the arithmetic rather than by habit, and with any treaty position disclosed where a disclosure is required.

5. **File the information returns** Foreign account and specified asset reporting on the US side, foreign property reporting on the Canadian side. These are driven by balances and cost, not by income.
6. **Set next year up** Fix anything structural while there is time: pooled foreign funds held directly, an election not yet made, instalments in the wrong country, or a plan that should be restructured.

Papers to gather

The annual document pack for a dual filer:

- All Canadian information slips for the year, including registered plan activity.
- All US information returns, including brokerage and retirement plan statements.
- Year-end and maximum balances for every non-US financial account, in local currency.
- Cost and market value of foreign property, for the Canadian foreign property return.
- Details of any Canadian corporation, trust or partnership you hold an interest in.
- Prior-year returns from both countries, with foreign tax credit carry-forward balances.
- Records of any election already made, and the year it was made.
- Exchange rates used, and the basis on which they were chosen.

Where it goes wrong

- **Assuming the Canadian shelter is a US shelter** The most expensive assumption in this pattern. A tax-free account in Canada can be taxable and separately reportable in the United States, and the reporting failure usually costs more than the tax.
- **Holding Canadian pooled funds directly** Pooled foreign investment vehicles are the single most common cause of an unexpectedly punitive US calculation for a Canada-resident US person. The alternative is a portfolio change, and it only works going forward.
- **Filing the two returns independently** Two correct returns prepared by two people who never spoke produce double tax and mismatched credits. The credit on one side is computed from a final number on the other, so the order is part of the answer.

Questions this raises

Do I really have to file a US return if I live and pay tax in Canada?

Yes. US citizens and green card holders file on worldwide income regardless of where they live. Relief from double tax comes from credits, exclusions and the treaty, all of which are claimed on a filed return — not from being resident elsewhere.

Which return should be prepared first?

Whichever return is being credited. In most Canada-resident cases the Canadian return is computed first so the Canadian tax is known and can be credited on the US return, but the mix of income can reverse that, so it is decided each year rather than assumed.

Is a TFSA a problem for a US citizen in Canada?

It is not automatically catastrophic, but the Canadian exemption does not travel, and depending on how the account is characterised there can be US tax on the growth and separate reporting attached. It is worth deciding deliberately whether to hold one at all.

What if I have never filed the US side?

There are established routes back into compliance, and they are materially better than being found. The right route depends on how many years are open, whether tax is owed, and whether the failure was non-wilful. This is a routine engagement, quoted before anything is prepared.

What to do next

If you have been filing only in Canada, the first question is how many US years are open and which disclosure route fits. If you have been filing both but separately, the first question is whether the credit position has been left on the table. Both start with a review of the last two years of returns from both countries.

We prepare both returns as one engagement, at a fixed fee agreed in writing before any work starts. Thedual filing fee pageshows the scope, and theUS citizens living in Canadapage covers the position in more depth.

Legal Quotient Consultants

Cross-border and international tax. Fixed fees agreed in writing before work starts, quoted from your own documents.

United States: 5243 Strathmore Ave, Kensington MD 20895
Canada: 381 Front St W, Toronto ON M5V 3R8
India: A-1/2, Shakti Nagar Extension, Ashok Vihar, Delhi DL 110052

contact@lqconsultants.com · +1-416-619-0068 · +91-989-909-9030