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Research the finer points

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As U.S. home prices tumbled earlier this year - and the loonie soared, Canadians were looking for property bargains south of the border.

According to a National Realtors Association survey, between May, 2007, and May, 2008, nearly a quarter of foreign buyers of U.S. property were from Canada - double the percentage from a year earlier.

Prices, particularly in the south and west - traditional snowbird country - continue their decline. But the loonie has weakened and this week the Canadian economy was declared to be entering a recession. Nevertheless, there will still be some buyers following the geese.

Before making a decision to purchase anywhere in the United States, it is essential to consider all the financial ramifications.

"One of the first things we do financially when people say they want to buy property in the U.S.," says Tannis Dawson, a tax and financial planning expert with Investors Group, "is ask them two questions: 'Is that what they really want?' and 'Does renting maybe make more sense?'"

It's particularly important now to weigh the options of selloff prices versus a sub-80¢ dollar. While bloated inventories of unsold homes, along with the continued agonies in the U.S. economy, suggest that home prices have further to fall, it may still not make a purchase the right thing to do, while it may be perfect timing for others.

"The bottom hasn't been reached," says Millan Mulraine, economics strategist at TD Securities. "I think it will be some time in the middle of next year that you will see some formation of a bottom of any sort."

"There's still a justification and some benefits from buying a house, simply because the prices at the moment are [near] rock bottom," Mr. Mulraine says. "Prices at some point will rise."

Once the decision to buy is made, the next question is how to finance. Buyers with enough cash can dive right in, but those who need to borrow can either extend the mortgage on a Canadian property, take out a loan such as a line of credit or look to a U.S. bank for a mortgage.

But Ms. Dawson is cautious. "It's really hard for Canadians to get mortgages. We've seen more people get turned down."

An alternative is to work with a U.S. subsidiary of a Canadian bank.

"At an RBC bank in the U.S. with our program ... we can finance up to 75% of the value of the property," says Alain Forget, director of cross-border banking at RBC. "We recognize a credit history from Canada, so they can get a loan from us here."

However, even if the loan is fixed in U.S. dollars, purchasers may still rely on a Canadian income to make the payments. "They need to be aware of the exchange rate," Mr. Forget says. "We were at 95¢ a month and a half ago and now it's around 80¢."

Many buyers are bargain hunting and will purchase a property that has been foreclosed.

However, cautions David Altro of David A. Altro & Associates, a member of the Florida bar and a Quebec notary, buyers "have to watch out for condo fee liens on the property and construction liens." Having a lien could mean there are "unpaid contractors or condo fees ... so a buyer must make sure he has a good attorney to keep title for him."

There are many homeowners in the U.S. facing negative equity - where there's a mortgage larger than the value of the home; in order to purchase such a property, buyers must get the approval of the bank holding the seller's mortgage.

Purchasing and selling a property in the U.S. will have income tax, capital gains tax and inheritance issues, says Catherine Jolicoeur of Canada Revenue Agency.

"It can affect taxes in Canada. For example, if it is a personal use property," Ms. Jolicoeur says, "the province of Quebec administers its own income tax act and therefore you should contact Revenu Quebec."

If you are in the U.S. for more than 183 days a year you are considered a resident for tax purposes. Unless you can qualify for an exemption, you must file a U.S. return stating your worldwide income. And there's a withholding tax on resale.

If that's not complicated enough, individual states and also some cities levy their own taxes, such as property tax.

Floridians cannot have their property taxes increased by more than a certain percentage. But for non-residents "taxes have been increasing by quite a large amount lately," says Ms. Dawson. "There are a lot of other costs, like hurricane insurance and termite insurance, and the cost of maintenance when you're not there."

Ms. Dawson also notes that the U.S. government's disaster-relief payment program in the event of occurrences such as Hurricane Katrina does not apply to non-residents.

As well, buyers should think twice before renting out a property. Any Canadian looking to rent out a U.S. property is expected to pay a 30% withholding tax from that rental income each month (they must also file a U.S. tax return annually).

In order to leave the property in your will, planning ahead can help reduce the tax burden.

"The rule is if the value of the property is over \$60,000 and the value of the worldwide estate is over \$2-million, there may be U.S. estate tax on death," Mr. Altro says. "There are ways to avoid that, depending on various issues, but often the solution is the cross-border trust."

A cross-border trust can also help to mitigate probate expenses, Mr. Altro says.

Both Ms. Dawson and Mr. Altro suggest it is best to do estate planning before a U.S. property is purchased. "Numerous Canadians add their children on to the title years after they already own it," Mr. Altro says. "This is a very bad plan, as it triggers the U.S. gift tax."

Gift programs, which take advantage of the \$12,000 limit for kids and the \$128,000 for gifts to your spouse, can reduce this burden.